RBC Global Asset Management

RBC UNDERLYING FUNDS

Simplified Prospectus

December 21, 2011

Series O units

Fixed-Income Funds

Phillips, Hager & North Total Return Bond LP

RBC High Yield Bond LP

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

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Introduction

In this document, *we*, *us* and *our* refer to RBC Global Asset Management Inc. (*RBC GAM*). We refer to both of the RBC Underlying Funds listed on the front cover of this simplified prospectus as the *funds* and each individual RBC Underlying Fund as a *fund*. Each fund is a mutual fund organized as a limited partnership.

This simplified prospectus contains selected important information about the funds listed on the front cover, to help you make an informed investment decision and understand your rights as an investor.

This simplified prospectus is divided into three parts. Pages 2 to 7 of this simplified prospectus explain general information regarding mutual funds and their risks and tell you who manages the funds. Pages 8 to 13 contain specific information about each of the funds, and pages 14 to 22 contain general information about the funds.

You will find more information about each fund in the following documents:

› the fund's annual information form;

› the fund's most recently filed fund facts;

› the fund's most recently filed annual financial statements;

› any interim financial statements filed after those annual financial statements;

› the fund's most recently filed annual management report of fund performance; and

› any interim management report of fund performance filed after that annual management report of fund performance.

These documents are incorporated by reference into this simplified prospectus. That means they legally form part of this simplified prospectus just as if they were printed in it. For a copy of these documents, at no cost, call us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French), email us at funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French) or ask your dealer.

You can also obtain these documents and other information about the funds at www.sedar.com.

What is a mutual fund and what are the risks of investing in a mutual fund?

A mutual fund is a pool of investments made on behalf of people with a similar investment objective. When you invest in a mutual fund, your money is working together with that of many other investors. A professional investment manager invests this money on behalf of the whole group.

Investors share a mutual fund's income, expenses, gains and losses in proportion to their interest in the mutual fund. Mutual funds can give individuals the advantages of a simpler, more accessible, less expensive and less time-consuming method of investing in a portfolio of securities.

Mutual funds own different kinds of investments, depending on their objectives. These include equities like stocks, fixed-income securities like bonds and cash or cash equivalents like treasury bills, or units of other mutual funds. The value of these investments will change from day to day, reflecting changes in interest rates, economic conditions, financial markets and company news.

When you invest in a mutual fund limited partnership, you are buying a portion of that fund called a unit (a *unit*). Mutual funds keep track of all the individual investments by recording how many units each investor owns. The more money you put into a mutual fund, the more units you get. The price of a unit changes every day, depending on how the investments are performing. When the investments rise in value, the price of a unit goes up. When the investments drop in value, the price of the unit goes down.

Your investment in any mutual fund is not guaranteed. Unlike bank accounts or guaranteed investment certificates (*GICs*), mutual fund units are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

Under exceptional circumstances, you may not be able to redeem your units. See *Purchases, switches and redemptions – When you may not be allowed to redeem your units* on page 15 for more information.

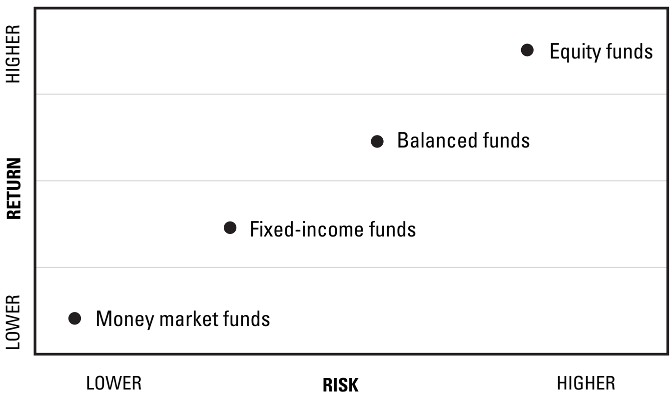
Risk and return

As an investor, there is always a risk you could lose money. Mutual funds are no exception, but the degree of risk varies considerably from one mutual fund to the next. As a general rule, investments with the greatest risk have the greatest potential for gains, but also have the greatest potential for losses. The key is to recognize the risk involved with your investment, understand it, and decide whether it is a risk you are comfortable accepting.

Although the value of your investments may drop in the short term, a longer investment horizon will help to lessen the effects of short-term market volatility. A shorter investment horizon may result in you having to sell your investments in adverse conditions. Ideally, investors in equity funds should have a minimum five- to nine-year investment horizon, which generally provides enough time for the investments to overcome any short-term volatility and grow.

The following chart shows the relationship between risk and potential return. As you can see, money market funds are the least volatile and generally have the lowest returns. At the other end of the scale, equity funds are usually the most risky, but also tend to have the highest potential return

RETURN VS. RISK



At any given time, however, one mutual fund may outperform another. The key is to have a diversified portfolio of mutual funds to try to ensure that a decline in one mutual fund is offset by growth in another, helping to reduce risk and smooth out returns. Your advisor can help you build a portfolio that's right for you.

General investment risks

The value of mutual funds can change from day to day because the value of the securities in which they invest can be affected by changes in interest rates, the economy, financial markets or company news. As a result, when you redeem your mutual fund units, they may be worth more or less than when you bought them. The performance and ability of each fund to meet its investment objectives may be directly related to the investment performance and the objectives of its reference fund. Please see in particular *Reference fund forward risk*, below.

Here are some of the specific risks, listed in alphabetical order, that can affect the value of your investment in a fund. Turn to the fund descriptions starting on page 10 to find out which risks apply to each fund and reference fund (each of which is referred to as a *fund* in the descriptions below).

Credit risk

Credit risk is the possibility that a borrower, or the counterparty to a derivatives contract, repurchase agreement or reverse repurchase agreement, is unable or unwilling to repay the loan or obligation, either on time or at all. Companies, governments and special purpose vehicles (such as vehicles that issue asset-backed securities or mortgage-backed securities) that borrow money, and the debt securities they issue, are rated by specialized rating agencies. Debt securities issued by companies or governments in emerging markets often have higher credit risk (lower rated debt), while debt securities issued by well-established companies or by governments of developed countries tend to have lower credit risk (higher rated debt). A downgrade in an issuer's credit rating or other adverse news regarding an issuer can influence a debt security's market value. Other factors can also influence a debt security's market value such as the level of liquidity of the security, a change in the market perception of the creditworthiness of the security, the parties involved in structuring the security and the underlying assets, if any. Lower rated and unrated debt instruments generally offer a better return than higher grade debt instruments but have the potential for substantial loss. Funds that invest in companies or markets with higher credit risk tend to be more volatile in the short term. However, they may offer the potential of higher returns over the long term.

Currency risk

Most funds are valued in Canadian dollars. However, funds that purchase foreign securities may be required to pay for such securities using a foreign currency and receive a foreign currency when they sell them. Such funds may also purchase foreign currencies as investments. As a result, changes in the value of the Canadian dollar compared to foreign currencies will affect the value, in Canadian dollars, of any foreign securities or foreign currencies in a fund. For example, if the Canadian dollar rises relative to the U.S. dollar, a fund's U.S. holdings will be worth fewer Canadian dollars. This decline in value may reduce, or even eliminate, any return the fund has earned. Currency exposure may increase the volatility of foreign investments relative to Canadian investments. Some funds may hedge (protect against) the risk of changes in foreign currency exchange rates of the underlying assets of the fund.

Derivative risk

A derivative is a type of investment whose value is derived from the performance of other investments or from the movement of interest rates, exchange rates or market indices.

The funds may use derivatives as permitted by the Canadian Securities Administrators (*CSA*) as long as their use is consistent with the individual fund's investment objectives. **A fund cannot use derivatives for speculative trading or to create a portfolio with excess leverage.** If a fund uses derivatives, securities regulations require that the fund hold enough assets or cash to cover its commitments in the derivative contracts. This limits the amount of losses that could result from the use of derivatives.

There are many different types of derivatives – they usually take the form of a contract to buy or sell a specific commodity, currency, stock or market index. The most common types of derivatives are:

- a futures or forward contract – these are agreements made today to buy or sell a particular currency, security or market index on a specific day in the future at a specified price;
- an option contract – these are agreements that give the buyer the right, but not the obligation, to buy or sell certain securities within a certain time period, at a specified price; and
- a swap agreement – these are negotiated contracts between parties agreeing to exchange payments based on returns of different investments. The most common type is an interest rate swap. Party A agrees to pay Party B a fixed amount based on a pre-set interest rate. In return, Party B agrees to pay Party A a floating amount based on a reference rate such as bankers acceptances or the London Inter-Bank Offered Rate (*LIBOR*).

Derivatives can help a mutual fund achieve its investment objectives and may be used in three different ways:

- to protect against or limit the changes in the value of an investment that may result from changes in interest rates, foreign exchange rates, commodity prices, and stock prices;
- as a substitute to investing directly in a particular security or market. A mutual fund may use derivatives instead of buying the actual security because it may be cheaper or more efficient; or
- as a substitute for investing directly in a foreign currency as part of the overall investment strategy of a mutual fund which invests in foreign securities. A portfolio manager may take the view that a currency will underperform or overperform another currency over a period of time and use currency forwards to take on currency exposure on a short- or long-term basis.

Derivatives have their own special risks. Here are some of the common ones:

- Using derivatives for hedging may not always work and it could limit a mutual fund's potential to make a gain.
- Using derivatives for non-hedging does not protect a mutual fund from a decline in the value of the underlying security, currency or market for which the derivative is a substitute.
- The price of a derivative may not accurately reflect the value of the underlying currency or security.
- There is no guarantee that a mutual fund can close out a derivative contract when it wants to. If, for example, a stock exchange imposes trading limits, it could affect the ability of a mutual fund to close out its position in derivatives. This type of event could prevent a mutual fund from making a profit or limiting its losses.
- Derivatives traded on foreign markets may be harder to trade and may have higher credit risks than derivatives traded in North America.
- The other party to a derivative contract may not be able to meet its obligation to complete the transaction.

Foreign investment risk

Foreign investments are affected by global economic factors. There is often less information available about foreign companies and many countries have less stringent accounting, auditing and reporting standards than we do in Canada. Some foreign stock markets have less trading volume, which may make it more difficult to sell an investment or make prices more volatile. Certain countries may also have foreign investment or exchange laws that make it difficult to sell an investment or may impose withholding or other taxes that could reduce the return on the investment. Different financial, political and social factors could hurt the value of foreign investments. As a result, mutual funds that specialize in foreign investments may experience larger and more frequent price changes in the short term.

Pursuant to new U.S. tax rules, unitholders of the funds may be required to provide identity and residency information to the funds, which may be provided by the funds to U.S. tax authorities in order to avoid a U.S. withholding tax being imposed, beginning on January 1, 2014, on U.S. and certain non-U.S. source income and proceeds of disposition received by the funds or on certain amounts (including distributions) paid by the funds to certain unitholders.

Interest rate risk

If a fund invests primarily in bonds and other fixed-income securities, the biggest influence on the fund's value will be changes in the general level of interest rates. If interest rates fall, the value of the fund's units will tend to rise. If interest rates rise, the value of the fund's units will tend to fall. Depending on a fund's holdings, short-term interest rates can have a different influence on a mutual fund's value than long-term interest rates. If a mutual fund invests primarily in bonds and other fixed-income securities with longer-term maturities, the biggest influence on the mutual fund's value will be changes in the general level of long-term interest rates. If a mutual fund invests primarily in bonds and other fixed-income securities with shorter-term maturities, the biggest influence on the mutual fund's value will be changes in the general level of shorter-term interest rates.

Large investor risk

The securities of a fund are expected to be held in significant percentages by other mutual funds. In order to meet purchase and redemption requests by the other mutual funds, the fund may have to alter its holdings significantly and purchase or sell investments or partially settle a reference fund forward (as defined under *Reference fund forward risk* below) at unfavourable prices. This can reduce the returns of the fund.

Limited partner liability risk

When you invest in a fund, you are buying units in the limited partnership and becoming a limited partner thereof. Limited partners may lose their limited liability in certain circumstances, including by taking part in the control or management of the business of a limited partnership. To reduce the risk of limited partners taking part in the control or management of the business of a limited partnership, RBC GAM will clarify in its relationships on behalf of a limited partnership that it is not acting on behalf of any of the limited partners when acting as investment fund manager or portfolio manager of the limited partnerships.

If limited liability is lost, there is a risk that limited partners may be liable beyond their contribution of capital and share of undistributed net income of the limited partnership in the event of judgment on a claim in an amount exceeding the sum of the net assets of the General Partner and the net assets of the limited partnership. While the General Partner has agreed to indemnify the limited partners in certain circumstances, the General Partner has only nominal assets, and it is unlikely that the General Partner will have sufficient assets to satisfy any claims pursuant to such indemnity.

A limited partner who has received the return of all or part of the limited partner's contribution is liable to repay, with interest, such amount that is necessary to discharge the liabilities of the limited partnership to all creditors who extended credit or whose claims otherwise arose before the return of such contribution.

Liquidity risk

Liquidity refers to the speed and ease with which an asset can be sold and converted into cash. Most securities owned by mutual funds can be sold easily and at a fair price. In highly volatile markets, such as in periods of sudden interest rate changes, certain securities may become less liquid, which means they cannot be sold as quickly or easily. Some securities may be illiquid because of legal restrictions, the nature of the investment, certain features, like guarantees or a lack of buyers interested in the particular security or market. Difficulty in selling securities may result in a loss or reduced return for a fund.

Reference fund forward risk

Each fund may enter into forward contracts or other derivative instruments to provide an economic return similar to that which would be achieved by an investment in units of another fund managed by RBC GAM (the *reference fund*). The reference fund invests directly in fixed-income securities. These securities may be affected by credit risk and interest rate risk and may therefore fluctuate in value, which will affect the value of units of the fund.

If a fund gains exposure to a reference fund through a forward contract (a *reference fund forward*) or other derivatives, the return of the fund will be lower than that of its reference fund because the fund bears its own fees and expenses, including the costs of the reference fund forward or other derivatives it uses to achieve its investment objectives. The costs of the reference fund forward and other derivatives may change over time. There may also be a delay between the date of an investor's investment in a fund and the date on which the fund links this investment to the performance of the reference fund. Finally, a fund may hold cash balances, instead of linking its performance to the performance of its reference fund, to satisfy anticipated redemption requests. Each of these factors may cause a fund's return to differ from that of its reference fund.

Each fund faces the same risks of using derivatives as described above under *Derivative risk*, including the risk that the counterparty might not fulfill its obligations. The ability of a fund to achieve its investment objectives may depend partly on its ability to enter into suitable derivative arrangements. If a fund is not able to find enough suitable counterparties with whom to enter into derivative arrangements, the fund may be unable to track the performance of its reference fund.

Under a reference fund forward, a fund will agree to sell to its counterparty, on a specified date, a portfolio of Canadian securities in exchange for an amount determined by reference to the value of a notional investment in units of its reference fund.

In computing the income of an investor for tax purposes, the investor may be entitled to elect under the *Income Tax Act* (Canada) to treat an investor's gains or losses realized on all Canadian securities held by the investor as capital gains and capital losses, including the investor's share of gains or losses realized by the fund on the disposition of its Canadian securities under a reference fund forward at the time of settlement under the reference fund forward. No advance income tax ruling has been requested or received from the Canada Revenue Agency (*CRA*) regarding the timing or characterization of such gains or losses. If the CRA were to take a position contrary to the foregoing, the tax treatment of an investor could be materially different. Each investor should consult its own advisor regarding its ability to make the tax election.

If a fund is not able to find enough suitable counterparties or if there is a change in tax laws or the interpretation thereof that affects the tax treatment of a fund or its investors in a material adverse way, we may, subject to complying with any applicable notice requirements and obtaining any required approvals, terminate the fund, change its investment objectives or take some other course of action in the best interests of the fund and its investors.

Securities lending, repurchase and reverse repurchase transaction risks

The funds may enter into securities lending arrangements and repurchase and reverse repurchase transactions in accordance with the rules of the CSA, subject to the exemptions therefrom described in the annual information form of the funds under *Investment practices and restrictions – Investment restrictions – Securities lending transactions*. Securities lending, repurchase and reverse repurchase transactions may be entered into to generate additional income or as a short-term cash management tool to enhance the net asset value of a fund.

In a securities lending transaction, a fund lends its securities to a borrower in exchange for a fee. A repurchase agreement takes place when a fund sells a security at one price and agrees to buy it back later from the same party at a higher price. The difference between the higher price and the original price is like the interest payment on a loan. A reverse repurchase agreement is the opposite of a repurchase agreement and occurs when the fund buys a security at one price and agrees to sell it back to the same party at a higher price. The other party to a securities lending transaction, repurchase agreement or reverse repurchase agreement delivers collateral to the fund in order to secure the transaction.

Securities lending, repurchase and reverse repurchase transactions come with certain risks. If the other party to the transaction cannot complete the transaction, the mutual fund may be left holding the collateral delivered by the other party to secure the transaction. In a securities lending or repurchase transaction, the fund could lose money if the value of collateral held and cash received does not increase as much as the securities loaned or agreed to be repurchased. In a reverse repurchase transaction, the fund could lose money if the value of the securities purchased drops relative to the cash and collateral delivered. To minimize these risks, the other party must provide collateral that is worth at least 102 per cent of the value of the mutual fund's securities or cash and of the type permitted by the CSA. The value of the transactions and the collateral are monitored daily and the collateral adjusted appropriately by the securities lending agent of the funds.

The funds, when entering into repurchase transactions, may not commit more than 50 per cent of their total assets to repurchase transactions at any time. Securities lending transactions may be ended at any time and all repurchase transactions and reverse repurchase transactions must be completed within 30 days.

Organization and management of the funds

This section tells you about the companies that are involved in managing or providing services to the funds. 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*. RBC Dexia Investor Services Trust (*RBC Dexia*) is a joint venture equally owned by Royal Bank and Dexia Banque Internationale à Luxembourg.

Manager, Portfolio Advisor and Principal Distributor RBC Global Asset Management Inc. 155 Wellington Street West Suite 2200 Toronto, Ontario M5V 3K7	RBC GAM is the manager of, portfolio advisor to, and principal distributor of, the funds. RBC GAM manages the day-to-day business of the funds, provides investment advice and portfolio management services to the funds and is the principal distributor of Series O units of the funds. RBC GAM is the primary investment manager for the RBC® businesses serving the needs of private clients, including the funds, RBC Funds and PH&N Funds.
General Partner RBC Corporate Class GP Inc. 155 Wellington Street West Suite 2200 Toronto, Ontario M5V 3K7	RBC Corporate Class GP Inc. is the general partner of the funds.
Custodian RBC Dexia Investor Services Trust Toronto, Ontario	The custodian holds the assets of the funds.
Registrar Royal Bank of Canada, RBC Dexia Investor Services Trust and RBC GAM Montreal, Quebec, Toronto, Ontario and Vancouver, British Columbia	Royal Bank, RBC Dexia and RBC GAM keep a record of who owns all fund units. Royal Bank is an affiliate of RBC GAM.
Auditor Deloitte & Touche LLP Toronto, Ontario	The auditor performs the required examination of the annual financial statements of the funds.
Independent Review Committee (Board of Governors)	The Board of Governors acts as the independent review committee that the funds are 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. The Board of Governors is composed of nine members and each is independent from RBC GAM, the funds and entities related to RBC GAM. The Board of Governors prepares, at least annually, a report for unitholders of its activities as the independent review committee. This report will be available, at no cost, on the RBC GAM website at www.rbcgam.com or by contacting RBC GAM by email at funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French). Additional information about the Board of Governors, including the names of the members, is available in the funds' annual information form.

Specific information about each of the mutual funds described in this document

How to read these fund descriptions

Fund details

This table gives you a brief summary of each fund. It describes what type of mutual fund it is, when it was established and the series of units that the fund offers. The table also highlights that units of the fund are not a qualified investment for registered plans or tax-free savings accounts (*TFSAs*). It also tells you the management fee and administration fee for the Series O units offered by the fund.

What does the fund invest in?

Investment objectives

This section outlines the investment objectives of each fund and the type of securities in which the fund may invest to achieve those investment objectives.

Investment strategies

This section describes the principal investment strategies that the portfolio advisor uses to achieve the fund's investment objectives. It gives you a better understanding of how your money is being managed. The format also allows you to compare more easily how different mutual funds are managed.

This section also highlights:

› any significant investment restrictions adopted by the fund; and

› the potential use of derivatives and a description of how they will be used.

Regulatory relief from investment restrictions

RBC GAM has received relief from applicable securities legislation for the funds and the reference funds (any of which is referred to as a *fund* in the descriptions below) to engage in certain derivatives, related issuer and related party transactions as described below. Such transactions must be consistent with the investment objectives of a fund and related issuer and related dealer transactions must be carried out in accordance with any instructions of the Board of Governors of the fund.

Additional information about the relief described below, as well as certain other relief, is contained in the annual information form.

Use of derivatives

A fund is permitted to:

› enter into interest rate swaps, credit default swaps or currency forwards with a remaining term to maturity of greater than three years;

› use additional portfolio assets to those contemplated under National Instrument 81-102 – Mutual Funds as cash cover in respect of derivative transactions; and

› use a right or obligation in respect of the underlying interest as cover in respect of derivative transactions, in addition to cash cover.

A fund which invests in foreign securities may use derivatives for non-hedging purposes in order to gain exposure to foreign currencies. The fund's exposure to non-hedging currency transactions will not exceed 7.5 per cent of the assets of the fund, unless otherwise indicated under the *Investment strategies* section of a fund. See *What is a mutual fund and what are the risks of investing in a mutual fund? – Derivative risk* on page 4 for more information about derivative risk.

Purchase of debt securities

A fund is permitted to:

› purchase debt securities of a related issuer which are not traded on an exchange if the purchase is made in the secondary market;

› purchase debt securities from and sell debt securities to related dealers that are principal dealers in the Canadian debt securities market; and

› purchase and hold debt securities issued by a related party in a primary offering (other than asset-backed commercial paper securities) with a term to maturity of 365 days or more.

What are the risks of investing in the fund?

Understanding risk and your comfort with risk is an important part of investing. This section highlights the specific risks of each fund. We have listed the risks in the order of relevance for each fund. You will find general information about the risks of investing and descriptions of each specific risk in *What is a mutual fund and what are the risks of investing in a mutual fund?* on page 2.

Who should invest in this fund?

This section explains the type of investor for whom the fund may be suitable. As an investor, the most important part of your financial plan is understanding:

- your objectives – what are you expecting from your investments – income, growth, or a balance of the two;
- your investment time horizon – how long are you planning to invest; and
- your risk tolerance – how much volatility in your investment are you able to accept.

When looking at each fund, you should also consider how the fund will work with your other investment holdings. For instance, if you are considering a mutual fund with a high investment risk rating, it may be too risky if it is your only investment. If you plan on holding it as a portion of your overall portfolio, it may be a good way to increase your potential portfolio returns while limiting the overall risk of the portfolio – benefiting from diversification.

Investment risk classification methodology

We assign fund risk ratings to each fund as an additional guide to help you decide whether a fund is right for you. Our determination of the risk rating for each fund is guided by the methodology recommended by the Fund Risk Classification Task Force of The Investment Funds Institute of Canada (*Task Force*). The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, also exist. Additionally, just as historical performance may not be indicative of future returns, a fund's historical volatility may not be indicative of its future volatility. The Task Force guidelines suggest that managers refer to standard deviation bands associated with fund categories as a point of reference where historical performance does not exist. Consistent with the Task Force guidelines, qualitative factors are also considered before making a final determination of the appropriate risk ratings.

Using this methodology, we have assigned a risk rating to each fund as either low or low to medium. In certain instances, we may classify a fund either higher or lower than the risk rating indicated by the Task Force's methodology. We may do so where qualitative factors, such as style and sector concentration, may contribute to the fund's overall volatility and therefore the risk rating of the fund. We review the risk rating for each fund on an annual basis.

A copy of the methodology used by RBC GAM to identify the investment risk levels of the funds 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 GAM at the address on the back cover of this simplified prospectus.

Distribution policy

This section explains when the funds will make distributions, if any, out of income earned and capital gains, if any, realized on their underlying investments.

Fund expenses indirectly borne by investors

We cannot provide information regarding fund expenses indirectly borne by investors in respect of the funds because they were created on December 21, 2011.

Additional information

Past performance and financial highlights

You can find more information, including past performance and financial highlights, in the annual and interim management reports of fund performance for each fund, when available. For a copy of these documents, at no cost, call us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French), send an email to funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French) or ask your dealer.

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 which require the fund's voting rights to be exercised in accordance with the best interests of the fund. Additional information about the policies and procedures regarding proxy voting, including how to obtain a copy of such policies, is available in the annual information form of the funds.

Phillips, Hager & North Total Return Bond LP

Fund details	
Type of fund	Canadian bond fund
Date started	December 21, 2011
Securities offered	Limited partnership units – Series O units
Registered plan eligibility	Not eligible for registered plans or TFSAs.
Fees and expenses	No management fees are payable by the fund in respect of Series O units. Unitholders pay a negotiated fee directly to RBC GAM which will not exceed 2.00%. Fees and expenses payable by the fund consist of an administration fee of 0.02%, taxes and other fund costs. See *Fees and expenses* on page 16 for details. The net income of the fund will be allocated as to 0.01% (up to a maximum of $3,000 per year) and the net loss of the fund will be allocated as to 0.01% to the general partner of the fund and the balance of the net income of the fund and of the net loss of the fund will be allocated to the limited partners of the fund pro rata in accordance with the number of Series O units held.

What does the fund invest in?

Investment objectives

- To generate income and provide stability of capital through exposure primarily to a well-diversified portfolio of fixed-income securities issued by Canadian governments and corporations.

The fund will obtain such exposure in one or more of the following ways:

- by entering into one or more forward contracts (each, a *reference fund forward*), swaps or other derivatives with one or more counterparties (each, a *counterparty*). As described below under *Reference fund forward*, by virtue of a reference fund forward, unitholders of the fund will gain exposure to the return of Phillips, Hager & North Total Return Bond Trust (the *reference fund*); or
- by investing directly in units of the reference fund or in fixed-income securities in order to provide a return similar to that of the reference fund.

We will not change the fundamental investment objectives of the fund unless we have the consent of a majority of the voting unitholders of the fund to do so.

Investment strategies

If, as is initially expected, the fund enters into one or more reference fund forwards, or if the fund purchases units of the reference fund, the return of the fund in respect of such investment will be dependent upon the return of the reference fund. RBC GAM, as the portfolio manager of the reference fund:

- invests primarily in medium- to high-quality corporate and government bonds of Canadian issuers. In addition, the portfolio manager may invest in Canadian asset-backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, typically between seven and 12 years;
- may invest a portion of the reference fund's assets in non-Canadian securities where such an investment is compatible with the investment objectives of the reference fund. Although there is no specific limitation on the percentage of the assets of the reference fund that may be invested in non-Canadian securities, as of the date of this simplified prospectus we do not expect that the reference fund will invest more than 30 per cent of its assets in non-Canadian securities;
- may invest up to 10 per cent of the reference fund's assets in units of other mutual funds managed by RBC GAM or an affiliate;
- may use derivatives for hedging purposes to protect against losses or reduce volatility resulting from changes in interest rates, market indices or foreign exchange rates and to reduce the reference fund's exposure to changes in the value of foreign currencies relative to the Canadian dollar;
- may also use derivatives such as options, futures, forward contracts and swaps as a substitute for direct investment, to generate income or to extend or reduce the duration of fixed-income investments;
- may use derivatives in accordance with relief obtained from applicable securities legislation; and
- may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income and/or as a short-term cash management tool.

Phillips, Hager & North Total Return Bond LP

Reference fund forward

It is expected that the fund will enter into one or more reference fund forwards. If so, it will use the net proceeds received from purchases of its units to acquire a portfolio of Canadian securities. The fund will then enter into a reference fund forward or forwards, pursuant to which the fund will agree to sell to its counterparty or counterparties, on a specified date (the *scheduled termination date*), the portfolio of Canadian securities in exchange for an amount determined by reference to the value of a notional investment in units of the reference fund.

Each party will receive collateral as security for the obligations of the other under each reference fund forward.

During the term of the reference fund forward, the fund may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income and/or as a short-term cash management tool.

The fund will have the right to settle a reference fund forward in whole or in part to pay distributions, redemptions, expenses and other liabilities. A reference fund forward may be terminated prior to its scheduled termination date in certain circumstances, including by the counterparty if it is unable to hedge its exposure thereunder. If a reference fund forward is settled in whole or in part or is terminated prior to its scheduled termination date, RBC GAM may, subject to complying with any applicable notice requirements or obtaining any required approvals, on behalf of the fund, enter into a replacement reference fund forward on terms satisfactory to it, terminate the fund or take such other action as it considers to be in the best interests of the fund and its investors.

Where the fund obtains exposure to fixed-income securities through the use of a reference fund forward, the fund expects that the investment return derived from the exposure will be treated as gains from the sale of Canadian securities and will be allocated by the fund to its unitholders as such. If a unitholder is entitled to make, and does make, an election under the *Income Tax Act* (Canada) to treat all gains and losses on the disposition of Canadian securities as capital gains or capital losses, it is expected that the unitholder's share of such gains will be treated as capital gains for tax purposes.

Additional information about the reference fund is available at www.rbcgam.com and in the simplified prospectus and annual information form of that mutual fund.

What are the risks of investing in the fund?

The fund's ability to achieve its investment objectives may be directly related to the ability of the reference fund to achieve its objectives.

The risks of investing in this fund are similar to the risks of investing in the reference fund. The fund may be exposed to these risks directly or indirectly by investing in units of the reference fund or through a reference fund forward. These risks include:

› reference fund forward risk;
› interest rate risk;
› credit risk;
› currency risk;
› foreign market risk;
› derivative risk;
› securities lending, repurchase and reverse repurchase transaction risks;
› large investor risk; and
› limited partner liability risk.

Who should invest in this fund?

This fund may be right for you if:

› you want exposure to a well-diversified portfolio of Canadian fixed-income securities; or
› you are planning to hold your investment for the medium-to-long term and can tolerate low investment risk (i.e. you can accept fluctuations in the value of your investment).

Distribution policy

The fund will make distributions at such times and in such amounts as may be determined in the discretion of RBC GAM.

RBC High Yield Bond LP

Fund details	
Type of fund	High yield bond fund
Date started	December 21, 2011
Securities offered	Limited partnership units – Series O units
Registered plan eligibility	Not eligible for registered plans or TFSAs.
Fees and expenses	No management fees are payable by the fund in respect of Series O units. Unitholders pay a negotiated fee directly to RBC GAM which will not exceed 2.00%. Fees and expenses payable by the fund consist of an administration fee of 0.02%, taxes and other fund costs. See *Fees and expenses* on page 16 for details. The net income of the fund will be allocated as to 0.01% (up to a maximum of $3,000 per year) and the net loss of the fund will be allocated as to 0.01% to the general partner of the fund and the balance of the net income of the fund and of the net loss of the fund will be allocated to the limited partners of the fund pro rata in accordance with the number of Series O units held.

What does the fund invest in?

Investment objectives

› To provide a high level of income with the potential for modest capital growth through exposure primarily to higher yielding corporate debt securities issued by Canadian and U.S. corporations.

The fund will obtain such exposure in one or more of the following ways:

› by entering into one or more forward contracts (each, a *reference fund forward*), swaps or other derivatives with one or more counterparties (each, a *counterparty*). As described below under *Reference fund forward*, by virtue of a reference fund forward, unitholders of the fund will gain exposure to the return of RBC High Yield Bond Trust (the *reference fund*); or

› by investing directly in units of the reference fund or in debt securities in order to provide a return similar to that of the reference fund.

We will not change the fundamental investment objectives of the fund unless we have the consent of a majority of the voting unitholders of the fund to do so.

Investment strategies

If, as is initially expected, the fund enters into one or more reference fund forwards, or if the fund purchases units of the reference fund, the return of the fund in respect of such investment will be dependent upon the return of the reference fund. RBC GAM, as the portfolio manager of the reference fund:

› invests primarily in higher yielding debt securities rated from BBB to B (by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. or its equivalent), issued by Canadian and U.S. corporations;

› employs a value-focused philosophy for corporate bonds, striving to invest in quality companies having stable to improving credit profiles which are considered to be undervalued;

› conducts detailed company credit and industry analysis to identify investment opportunities offering high probabilities of superior rates of return while simultaneously minimizing default prospects;

› diversifies the portfolio so as not to be concentrated in any one issuer, industry, or credit rating, with the goal of balancing volatility with portfolio return optimization;

› may invest up to 10 per cent of the reference fund's assets in units of other mutual funds managed by RBC GAM or an affiliate;

› may use derivatives for hedging purposes to protect against losses or reduce volatility resulting from changes in interest rates, market indices or foreign exchange rates and to reduce the reference fund's exposure to changes in the value of foreign currencies relative to the Canadian dollar. The portfolio manager will determine the level of currency exposure based on its current view of currency markets. The reference fund's foreign currency exposure is typically fully hedged;

› may also use derivatives such as options, futures, forward contracts and swaps as a substitute for direct investment;

› may use derivatives in accordance with relief obtained from applicable securities legislation; and

› may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income and/or as a short-term cash management tool.

RBC High Yield Bond LP

Reference fund forward

It is expected that the fund will enter into one or more reference fund forwards. If so, it will use the net proceeds received from purchases of its units to acquire a portfolio of Canadian securities. The fund will then enter into a reference fund forward or forwards, pursuant to which the fund will agree to sell to its counterparty or counterparties, on a specified date (the *scheduled termination date*), the portfolio of Canadian securities in exchange for an amount determined by reference to the value of a notional investment in units of the reference fund.

Each party will receive collateral as security for the obligations of the other under each reference fund forward.

During the term of the reference fund forward, the fund may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income and/or as a short-term cash management tool.

The fund will have the right to settle a reference fund forward in whole or in part to pay distributions, redemptions, expenses and other liabilities. A reference fund forward may be terminated prior to its scheduled termination date in certain circumstances, including by the counterparty if it is unable to hedge its exposure thereunder. If a reference fund forward is settled in whole or in part or is terminated prior to its scheduled termination date, RBC GAM may, subject to complying with any applicable notice requirements or obtaining any required approvals, on behalf of the fund, enter into a replacement reference fund forward on terms satisfactory to it, terminate the fund or take such other action as it considers to be in the best interests of the fund and its investors.

Where the fund obtains exposure to fixed-income securities through the use of a reference fund forward, the fund expects that the investment return derived from the exposure will be treated as gains from the sale of Canadian securities and will be allocated by the fund to its unitholders as such. If a unitholder is entitled to make, and does make, an election under the *Income Tax Act* (Canada) to treat all gains and losses on the disposition of Canadian securities as capital gains or capital losses, it is expected that the unitholder's share of such gains will be treated as capital gains for tax purposes.

Additional information about the reference fund is available at www.rbcgam.com and in the simplified prospectus and annual information form of that mutual fund.

What are the risks of investing in the fund?

The fund's ability to achieve its investment objectives may be directly related to the ability of the reference fund to achieve its objectives.

The risks of investing in this fund are similar to the risks of investing in the reference fund. The fund may be exposed to these risks directly or indirectly by investing in units of the reference fund or through a reference fund forward. These risks include:

› reference fund forward risk;

› interest rate risk;

› credit risk;

› currency risk;

› liquidity risk;

› derivative risk;

› foreign investment risk;

› securities lending, repurchase and reverse repurchase transaction risks;

› large investor risk; and

› limited partner liability risk.

Who should invest in this fund?

This fund may be right for you if:

› you want exposure to higher yield debt securities to diversify the fixed-income portion of your overall portfolio; or

› you are planning to hold your investment for the medium-to-long term and can tolerate low to medium investment risk (i.e. you can accept fluctuations in the value of your investment).

Distribution policy

The fund will make distributions at such times and in such amounts as may be determined in the discretion of RBC GAM.

Purchases, switches and redemptions

How the units are valued

The interests of the limited partners of each fund are represented by units. Currently, the funds offer only Series O units. Each fund's Series O units are of equal value.

All transactions are based on the series net asset value per unit (*unit value*). We usually calculate the unit value for each fund on each business day after the Toronto Stock Exchange (*TSX*) closes, but in some circumstances, we may calculate it at another time. A business day is any day when RBC GAM's office in Toronto is open for business. The unit values can change daily.

The unit value is the price used for all purchases and redemptions of units of that series (including purchases made on the reinvestment of distributions). The price at which units are issued, switched or redeemed is based on the next applicable unit value determined after the receipt of the purchase, switch or redemption order.

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 then subtract the liabilities allocated to that 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 of units you own by the number of units you own.

Unit values are available by calling our toll-free Customer Service line at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French).

How to buy, redeem and switch

It is up to you or your investment professional, if applicable, to determine if Series O units are appropriate for you.

Series O units are available to institutional investors who have entered into an agreement directly with RBC GAM to purchase Series O units. No management fees are payable by a fund in respect of Series O units. Unitholders of Series O units pay a negotiated management fee directly to RBC GAM, which will not exceed 2.00 per cent.

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. 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. You will find more information about buying, redeeming and switching units of the funds in the annual information form of the funds. A dealer may establish earlier cut-off times. Check with your dealer for details.

You have to pay for your units when you buy them. If we do not receive payment in full, we will cancel your order and redeem the units, including any units you bought through a switch. If we redeem the units for more than the value for which they were issued, the difference will go to the fund. If we redeem the units for less than the value for which they were issued, we will pay the difference to the fund and collect this amount, plus the cost of doing so, from your dealer. Your dealer may require you to reimburse the amount paid if it suffers a loss as a result.

We have the right to refuse any order to buy or switch units. We must do so within one business day from the time we receive the order. If we refuse your order to buy or switch, we will immediately return any monies we received with your order.

Each fund is a limited partnership. When you invest in a fund, you are buying units in the limited partnership and becoming a limited partner thereof. Your rights and obligations as a limited partner and unitholder will be governed by the limited partnership agreement of the fund and the laws of the Province of Ontario. In acquiring units, you become a party to such limited partnership agreement and, among other things: (i) acknowledge that you are bound by the terms of such limited partnership agreement and are liable for all obligations of a limited partner; (ii) make certain representations and warranties; and (iii) irrevocably appoint us and the general partner as your true and lawful attorney with the full power and authority set out in the limited partnership agreement. You should carefully review the limited partnership agreement of the applicable fund for complete details of its provisions. For a copy of this document, at no cost, call us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French), email us at funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French) or ask your dealer.

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.

Purchases

Series O units are no load, which means you can buy, redeem or switch Series O units of a fund through certain dealers without paying a commission. See *Fees and expenses* and *Dealer compensation* for more information.

We may limit or "cap" the size of a fund by restricting new purchases, including units bought through switches. We will continue redemptions and the calculation of the fund's unit value for each series. We may subsequently decide to start accepting new purchases or switches to that fund at any time.

Switches

You can switch units from one fund to another mutual fund managed by us as long as you:

› maintain the relevant minimum balance in each mutual fund; and

› switch for securities purchased under the same sales charge option.

You can only switch between securities denominated in the same currency.

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

Switching to or from a fund is considered a disposition and may result in a gain or loss for tax purposes. **You are responsible for tracking and reporting to the CRA any gain or loss that you realize.**

Redemptions

You can instruct your dealer to sell some or all of your units at any time. This is called a redemption. Redemptions will only be permitted in certain minimum amounts. See *How to buy, redeem and switch* on page 14 for details. Your dealer must send your redemption request on the same day it is received. The dealer must assume all associated costs. Redemption requests for a fund are processed in the order in which they are received. We will not process redemption requests specifying a forward date or specific price.

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 within 10 business days of the date your redemption order is processed. If not, we will repurchase the units for your account. If the cost of repurchasing the units is less than the redemption proceeds, the fund will keep the difference. If the cost of repurchasing the units is more than the redemption 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.

If you redeem units of a fund, you can tell us to mail you a cheque or transfer the proceeds to your bank account with any financial institution. **You are responsible for tracking and reporting to the CRA any gains or losses that you realize from redeeming or switching units of a fund.**

When you may not be allowed to redeem your units

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

› normal trading is suspended on any stock exchange or market where more than 50 per cent of the assets to which a fund provides exposure are listed or traded; or

› we get permission from the CSA to allow us to temporarily suspend the redemption of units.

Fees and expenses

This section outlines the fees and expenses you may pay directly or indirectly when you invest in the funds. The funds pay some fees and expenses which you pay indirectly because they reduce the value of your investment.

FEES AND EXPENSES PAYABLE BY THE FUNDS

Management fees	RBC GAM, as manager of the funds, is not entitled to a management fee payable by a fund in respect of Series O units. Unitholders of Series O units pay a negotiated management fee directly to RBC GAM, which will not exceed 2.00%. No management fees or incentive fees are payable by a fund that, to a reasonable person, would duplicate a fee payable by its reference fund for the same service. In addition, the fund will not pay any sales fees or redemption fees upon a purchase or redemption of securities of any reference fund that is managed by us or one of our affiliates or associates.
General partner allocation	The net income of a fund will be allocated as to 0.01% (up to a maximum of $3,000 per year) and the net loss of a fund will be allocated as to 0.01% to the general partner of the fund and the balance of the net income of a fund and of the net loss of a fund will be allocated to the limited partners of the fund pro rata in accordance with the number of Series O units held.
Operating expenses	RBC GAM pays certain operating expenses of the funds. These expenses include regulatory filing fees and other day-to-day operating expenses including, but not limited to, recordkeeping, accounting and fund valuation costs, custody fees, audit and legal fees, the costs of preparing and distributing annual and semi-annual reports, prospectuses, fund facts and statements and investor communications. In return, each fund pays a fixed administration fee to RBC GAM. The administration fee may vary by fund. See the *Fees and expenses* information in the *Fund details* table for each fund in this simplified prospectus. Each fund also pays certain operating expenses directly, including the costs and expenses related to the Board of Governors of the RBC Underlying Funds, the cost of any new government or regulatory requirements and any borrowing costs (collectively, *other fund costs*), and taxes (including, but not limited to, GST or HST, as applicable). Other fund costs will be allocated among funds in a fair and equitable manner in accordance with the services used. RBC GAM may, in some years and in certain cases, pay a portion of the administration fee or other fund costs. The decision to absorb the administration fee or other fund costs is reviewed annually and determined at the discretion of RBC GAM, without notice to unitholders. The administration fee and other fund costs are included in the management expense ratio (*MER*) of a fund. Effect of harmonized sales tax (*HST*) on MERs A fund is generally required to pay HST on management fees and administration fees charged to the fund. In general, the HST rate depends on the residence of a fund's unitholders. Changes in existing HST rates, changes to which provinces impose HST and changes in the breakdown of the residence of the fund's unitholders may therefore have an impact on the MER of a fund, year over year.

	Costs of reference fund forwards There are costs associated with the use of reference fund forwards in the form of fees which are negotiated and paid by a fund to its counterparty or counterparties and which are initially not expected to exceed 0.75% of the net asset value of a fund annually. If a fund terminates a reference fund forward prior to the scheduled termination date, additional costs which are not expected to be material may be payable by a fund for any loss or cost incurred by the counterparty or its affiliates as a result of its terminating, liquidating, obtaining or re-establishing any hedge or related trading position. RBC GAM would only effect such a termination on behalf of a fund if it were considered to be in the best interests of the fund and its unitholders. Board of Governors The Board of Governors acts as the independent review committee of the funds. Each member of the Board of Governors is entitled to receive an annual fee of $25,000 ($35,000 for the Chair) and $2,000 per meeting of the Board of Governors. Each member that sits on a sub-committee of the Board of Governors is entitled to receive an additional meeting fee with respect to these committee meetings. For the Governance Committee, each member is entitled to receive a meeting fee of $2,500 and the Chair of this committee is also entitled to receive an annual fee of $3,000. For the Financial Advisory Committee, each member is entitled to receive a meeting fee of $3,000 and the Chair of this committee is also entitled to receive an annual fee of $4,000. Each member of the Investment Conflicts Committee is entitled to receive a meeting fee of $3,500 and the Chair of this committee is also entitled to receive an annual fee of $5,000. Each member of the Board of Governors will also be reimbursed for expenses in connection with performing his or her duties in this regard. These fees and expenses are allocated among the funds managed by RBC GAM in a manner that is fair and reasonable.

FEES AND EXPENSES PAYABLE DIRECTLY BY YOU

Sales charges	The Series O units of the funds are no load, which means you can buy, redeem or switch units of these series through certain dealers without paying a commission.
Redemption fees	You pay no sales charge when you redeem Series O units of a fund.
Other fees and expenses	You may have to reimburse your dealer if it suffers a loss as a result of our having to redeem your units for insufficient payment. See *How to buy, redeem and switch* on page 14 of this simplified prospectus.

Impact of sales charges

The following table shows the fees that you would pay if:

› you invested $1,000 in Series O units of the fund; and

› you held that investment for one, three, five or 10 years and you redeemed the entire investment immediately before the end of that period.

	Fee at time of purchase	Redemption fee before end of: 1 year	3 years	5 years	10 years
RBC Underlying Fund – Series O	Nil	Nil	Nil	Nil	Nil

You do not pay a sales charge or commission when you buy, redeem or switch Series O units.

Dealer compensation

How your investment professional and dealer are paid

Your investment professional usually is the person through whom you purchase the funds. Your investment professional could be a broker, financial planner or advisor who is registered to sell mutual funds. Your dealer is the firm for which your investment professional works.

For Series O units
You do not pay sales charges on Series O units.

Trailing commissions
We do not pay trailing commissions on Series O units.

Other forms of dealer support
Royal Bank owns, directly or indirectly, 100 per cent of RBC DS, a participating dealer in respect of units of the funds.

Dealer compensation from management fees

We cannot provide information regarding the use of management fees to pay for dealer commissions or other promotional activities because the funds were created on December 21, 2011.

Income tax considerations for investors

This section describes how your investment in a fund will be subject to Canadian income tax. This description assumes that:

› you are a resident in Canada for purposes of the *Income Tax Act* (Canada);

› you are not a “financial institution” for purposes of the “mark-to-market” rules contained in the *Income Tax Act* (Canada); and

› you hold your units as capital property.

Everyone’s tax situation is different. You should consult your tax advisor about your individual situation.

How you can earn money from your investment

Your investment in a fund can earn money from:

› any income the fund earns or capital gains it realizes; and

› any capital gains you realize when you redeem or switch your units of the fund.

Income includes interest the fund earns from its investments as well as gains from its investments in certain derivatives. A fund may realize gains or losses when it sells its investments.

The net income of a fund will be allocated as to 0.01% (up to a maximum of $3,000 per year) and the net loss of a fund will be allocated as to 0.01% to the general partner of the fund and the balance of the net income of a fund and of the net loss of a fund will be allocated to the limited partners of a fund pro rata in accordance with the number of Series O units held at the end of the fiscal year of the fund (which is currently March 31).

How you are taxed

A fund will not be subject to income tax on its income or gains. Instead, the income or loss, and capital gains and capital losses, of a fund will be computed as if the fund were a separate person and you will be treated as earning your share of the income, loss, capital gains and capital losses of the fund for a fiscal year of the fund that ends in (or coincidentally with) your taxation year, whether or not you receive any distributions from the fund. Accordingly, you will be treated as earning your share of any dividends from taxable Canadian corporations, capital gains or losses, and foreign source income on which foreign tax has been paid, as well as any other types of income or losses realized by the fund. An investor that is a corporation that holds a significant interest (generally, more than a 10 per cent interest) in a fund and that has a taxation year other than March 31 should consult its own tax advisor regarding recent proposed changes to the *Income Tax Act* (Canada) applicable to investments in partnerships.

A fund will not realize any income, gain or loss as a result of entering into a reference fund forward pursuant to which it agrees to sell Canadian securities to a counterparty. The fund may realize a gain or loss on the sale of Canadian securities under the reference fund forward. You may be entitled to make an election under the *Income Tax Act* (Canada) to deem gains and losses on all Canadian securities held by you, including your share of gains and losses on Canadian securities held by a fund and sold to a counterparty under a reference fund forward, to be capital gains and capital losses. You should consult your tax advisor regarding whether you can and should make this election in your circumstances. If obligations under a reference fund forward are settled by making cash payments (as opposed to by the delivery of securities), a payment received or made by a fund may be a receipt or outlay on income account, as applicable, and you will be allocated your share of any net income or loss.

Your ability to deduct losses, if any, incurred by a fund will be subject to the "at-risk" rules in the *Income Tax Act* (Canada). If your share of a loss of the fund for a fiscal year exceeds your "at-risk amount" as defined in the *Income Tax Act* (Canada) in respect of the fund at the end of that fiscal year, your share of the loss cannot be deducted in computing your income, but may be carried forward and deducted in a future year to the extent that you have an "at-risk" amount at the relevant time in such future year.

In general, the adjusted cost base of your units in a fund at any time will be equal to the cost of the units to you (including any units purchased through the reinvestment of distributions from the fund), plus your share of income and capital gains of the fund and less your share of losses and capital losses of the fund for fiscal years ending before that time, and less distributions if any received by you from the fund before that time. If the adjusted cost base of your units in the fund is a negative amount at the end of a fiscal year of the fund, you would be deemed to realize a capital gain equal to such amount and the adjusted cost base of your units would then be deemed to be nil. If, at the end of a later fiscal year, the adjusted cost base of your units is a positive amount, you may be able to make a tax election to be deemed to realize a capital loss subject to and in accordance with the rules in the *Income Tax Act* (Canada).

› You will be informed each year of the type of income considered to be earned by you and what amounts are treated as income, capital gains and foreign income, and the amount of any foreign taxes paid by the fund for which you may be able to claim a credit for tax purposes to the extent permitted by the *Income Tax Act* (Canada), where those items are applicable.
› A fund's gains on certain derivatives are considered ordinary income, not capital gains.

Calculating your capital gains or losses when you redeem your units

You are responsible for tracking and reporting to the CRA any capital gains or losses that you realize in respect of dispositions of your units. Your capital gain or loss for tax purposes on a redemption or switch of units is the difference between the amount you receive for the redemption or switch (less any costs of a disposition such as fees) and the adjusted cost base of those units. One-half of a capital gain or a capital loss is taken into account in determining taxable capital gains and allowable capital losses, respectively. The amount of a taxable capital gain is included in your income. Allowable capital losses are only deductible against taxable capital gains subject to and in accordance with detailed tax rules. You may also realize capital gains or losses on units redeemed to pay any fees in connection with switches.

If you switch your units of one fund to units of another mutual fund, the transaction will be treated as a disposition of the switched units and an acquisition of the new units. Therefore, on such a switch, you may realize a capital gain or loss and the adjusted cost base of your investment may change.

If you sell your units of a fund for a capital loss and you or a person affiliated with you has bought units of the fund within 30 days before or after you sell your units, such loss may not be deductible by you against your capital gains. In such case, if you are an individual, the amount of the loss may be added to the adjusted cost base of the newly acquired units, and if you are a corporation, partnership or trust, recognition of such loss will be suspended until you have disposed of all of your units of the fund.

Under proposed new tax rules, if you sell or redeem all of your units during a fiscal year of the fund, you may be treated as if you continued to hold units until the end of the fiscal year for certain purposes, including recognition of your share of income and losses of the fund and the calculation of the adjusted cost base of your units.

You should keep a detailed record of the cost of your units, amounts allocated to you and distributions you receive on those units so you can calculate their adjusted cost base. Appropriate adjustments will have to be made in the event of a consolidation or split of units. You may want to consult a tax advisor about your own circumstances.

Eligibility

Units of each of the funds will **not** be a qualified investment for trusts governed by registered plans and tax-free savings accounts and should not be acquired by such plans and accounts.

Registered plans include Registered Retirement Savings Plans (*RRSPs*), Group Registered Retirement Savings Plans (*GRSPs*), Registered Retirement Income Funds (*RRIFs*), Registered Education Savings Plans (*RESPs*), Registered Disability Savings Plans (*RDSPs*) and Deferred Profit Sharing Plans (*DPSPs*).

Portfolio turnover rate

In general, the higher the portfolio turnover rate in a year, the greater the chance that the fund may realize a gain or loss to be taken into account in calculating its income to be allocated to unitholders. There is not necessarily a relationship between a high turnover rate and the performance of a mutual fund. However, a high turnover rate will increase trading costs, which are expenses payable by the funds.

What are your legal rights?

Securities legislation in some provinces gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the simplified prospectus, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces and territories also allows you to cancel an agreement to buy mutual fund units and get your money back if you do not receive our simplified prospectus, or to make a claim for damages if the simplified prospectus, annual information form or financial statements misrepresent any facts about the fund. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or territory or consult your lawyer.

Words and phrases used in this simplified prospectus

We have written this simplified prospectus in plain language to help you understand how our mutual funds work. Financial terms can be complex, so we have provided a more complete definition of some of them here. If you have any questions after reading this section, please call the number on the back of this simplified prospectus or your dealer.

Adjusted cost base
In general terms, it is the total price you paid for all the units of a series of a fund in your account, including reinvested distributions, plus or minus certain adjustments.

Annual information form
A document filed by the funds with Canadian securities regulators. It provides supplementary information about the funds.

Asset-backed commercial paper
A short-term debt security issued by a trust or a special purpose vehicle which in turn buys various assets that produce income streams such as trade receivables, auto loans, home equity loans and mortgages. The trust (otherwise known as a conduit) funds the purchase of these various assets by issuing commercial paper.

Bond
A long-term debt security issued or guaranteed by a government or business entity. The issuer promises to pay the holder a specified amount of interest and return the principal amount when the bond matures. Bonds can be transferred from one owner to another. They should not be confused with Canada Savings Bonds which, generally, can be owned and cashed only by the original buyer.

Commercial paper
A short-term debt security issued by banks, corporations and other borrowers. The issuer promises to pay the holder a specific amount, with interest, on a specified day in the future. It is generally not secured by assets and is usually offered at varying interest rates, depending on its term.

Debenture
A bond that is not secured by any pledge of property. Debentures are backed only by the general credit of the issuer.

Debt securities
Obligations to repay borrowed money within a certain time, with or without interest. Bonds, debentures, commercial paper, asset-backed commercial paper, notes and treasury bills (*T-bills*) are debt securities.

Derivatives
A derivative is a financial instrument that "derives" its value from the performance of an underlying asset, index or other investment.

Equity
When you buy shares in a corporation, you are buying "equity," or ownership rights, in that corporation. Shares are often referred to as "equities."

Forward contract
A commitment made today to buy or sell a currency, a commodity or security on a specific day in the future at a specified price. The terms of the contract are agreed upon when the commitment is made. Forward contracts are traded through an over-the-counter telephone or computer network. See also "Over-the-counter trading."

Futures contract
Similar to a forward contract, except that it has standardized terms and conditions and is traded only on a futures exchange, not over-the-counter.

Hedge
Hedging is a strategy used to offset or reduce the risk associated with an investment or a group of investments. For example, if a fund buys investments valued in U.S. dollars, it can sign an agreement to protect or "hedge" the value of the investment against a change in the value of the Canadian dollar relative to the U.S. dollar.

Index
A means of measurement. There are indices that measure the rise and fall of key consumer goods and services and others that track fluctuations in the value of stocks and bonds.

Leverage
Using borrowed funds to help pay for an investment. Leveraging magnifies the amount you make or lose, because the gain or loss is measured against the portion of the investment you have not borrowed – not against the total investment. For example, if you borrow $500 to make a $1,000 investment, and the value of the investment increases by $100, your gain is 20 per cent ($100 gain on the $500 you have not borrowed), not 10 per cent. Similarly, if the value of the investment decreases by $100, your loss will be 20 per cent.

Liquidity
An investment is "liquid" if it can be bought and sold on a public market. Liquidity also refers to how easy it is to convert an investment to cash at a reasonable price.

London Inter-Bank Offered Rate (*LIBOR*)
The rate of interest on U.S.-dollar-denominated deposits traded between banks in London, widely monitored as an international interest rate indicator. It may be quoted as a one-month, three-month, six-month, or one-year rate. The LIBOR allows investors to match their cost of lending to their cost of funds, and is often used as a base index for setting rates of some adjustable rate financial instruments, including Adjustable Rate Mortgages (*ARMs*).

Management expense ratio
A management expense ratio (*MER*) is the total fees and expenses a fund paid during a year divided by its average assets for that year.

Note
A debt security committing the issuer to pay a specific sum of money, either on demand or on a fixed date in the future, with or without interest.

Option
Gives the owner the right, but not the obligation, to buy or sell a security within a certain time period, at a specified price. A call option is the right to buy; a put option is the right to sell. The buyer of the option pays the seller a premium. Options can be traded on an exchange or over-the-counter.

Over-the-counter trading (*OTC*)
This term refers to trading in stocks or options through a computer or telephone network rather than through a public stock exchange. The term originates from the time share certificates were purchased over a bank or a store counter.

Portfolio turnover rate
Portfolio turnover rate is calculated based on the lesser of securities purchased or sales proceeds divided by the average market value of portfolio securities for the period, excluding short-term securities.

Repurchase Agreements ("repo")
This agreement is like a short-term loan and takes place when one party buys a security at one price and agrees to sell it back later to the same party at a higher price. The difference between the higher price and the original price is like the interest rate payment on a loan.

Securities
Investments or financial instruments such as shares, debt securities and derivatives.

Shares
Units of ownership in a corporation that give the owner certain stated rights. Holders of preferred shares generally have preference over holders of common shares when a corporation pays dividends or liquidates its assets.

Swaps
These are negotiated contracts between parties agreeing to exchange payments based on returns of different investments. The most common type is an interest rate swap. Party A agrees to pay Party B a fixed amount based on a pre-set interest rate. In return, Party B agrees to pay Party A a floating amount based on a reference rate such as bankers acceptances or LIBOR.

Treasury bills (*T-bills*)
Short-term debt securities issued or guaranteed by federal, provincial or other governments. T-bills are issued at a discount and do not pay any interest. The return on a T-bill is the difference between the price you pay and its "face" or par value.

Units (*units*)
Limited partnership units are issued by a limited partnership and represent your investment in the fund. When you invest in a limited partnership, you buy units or fractions of units of the mutual fund.

Unit value
The total value of a fund's assets allocable to a series, minus the liabilities allocable to that series, divided by the number of outstanding units of that series.

RBC Underlying Funds

You will find more information about each fund in its annual information form, fund facts, management reports of fund performance and financial statements. These documents are incorporated by reference into this simplified prospectus. That means they legally form part of this simplified prospectus just as if they were printed in it.

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 fonds.investissements@rbc.com (French) or ask your dealer.

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

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