

PHILLIPS, HAGER & NORTH FUNDS

# **2011 Pension Trusts Semi-Annual Management Report of Fund Performance**

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Phillips, Hager & North Balanced Pension Trust	1
Phillips, Hager & North Canadian Equity Pension Trust	7
Phillips, Hager & North Small Float Fund	13
Phillips, Hager & North Canadian Equity Plus Pension Trust	19
Phillips, Hager & North Overseas Equity Pension Trust	25

BALANCED FUND

**PHILLIPS, HAGER & NORTH  
BALANCED PENSION TRUST**

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June 30, 2011

The Board of Directors of RBC Global Asset Management Inc. approved this semi-annual management report of fund performance on August 9, 2011.

**A Note on Forward-looking Statements**

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

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*This semi-annual management report of fund performance ("MRFP") contains financial highlights but does not contain either the complete semi-annual financial statements or the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at [www.phn.com](http://www.phn.com) or SEDAR at [www.sedar.com](http://www.sedar.com). Securityholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.*

*\* Phillips, Hager & North Investment Management is an operating division within RBC Global Asset Management Inc., the Manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada.*

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The investment objective of the Fund is to provide investors with long-term capital growth and income by investing primarily in a strategic asset mix of Canadian and foreign equities, Canadian fixed income securities and money market instruments. Its asset mix is adjusted periodically to reflect changing economic and market conditions. The magnitude and timing of all rebalancing decisions within the Fund are made by a team of investment professionals who focus on determining the best asset mix in any given economic environment. To achieve the Fund's investment objective, we invest primarily in Canadian and foreign common stocks; bonds issued by the Government of Canada, provincial governments and Canadian corporations; and high-quality money market securities including asset backed commercial paper.

### Results of Operations

During the six-month period ending June 30, 2011, the Fund's Series A units returned 1.0%. The Fund's return is after the deduction of fees and expenses. See the *Financial Highlights* section for the management expense ratios and the *Past Performance* section for the returns of the other series, which may vary because of differences in management fees and expenses.

The Fund maintained an overweight position in equities through early June, when it was trimmed to neutral. At the end of the reporting period, it carried an overweight position in both U.S. and Overseas equities and an underweight position in Canadian equities.

The Fund underperformed its benchmark during the reporting period, primarily due to relative weakness in the overseas equity component. A number of steel and precious metals companies in the Materials sector also had a negative impact on returns.

Within the U.S. equity portion of the portfolio, the Fund benefited from strong stock selection in the Consumer Discretionary and Health Care sectors. At the same time, a number of Information Technology and Financials holdings lagged the market and hindered the Fund's performance relative to the benchmark<sup>1</sup>.

The Canadian equity component of the Fund posted strong results in the first six months of 2011, outperforming the S&P/TSX Composite Index. This was due to strong stock selection within the Energy sector, as well as a decision to hold an underweight position in the Gold and Precious Metals sub-sector, which weakened during the reporting period.

The fixed income component of the Fund outperformed its benchmark during the reporting period, primarily due to continued strong returns from corporate and provincial bonds.

### Recent Developments

The current asset mix for the Fund is to hold a neutral position in equities, an underweight position in bonds and an overweight position in cash. Over the next year, we believe that foreign equities will outperform Canadian equities, and this is reflected in the relative overweight and underweight positions in those equity classes, relative to the benchmark.

Despite recent weakness in economic indicators, we expect rates to rise over the medium term, quicker than the market expects. As such, we have shortened the duration of our bond portfolio and trimmed the Fund's overall exposure to fixed income. Given the uncertainty surrounding the shape of the recovery, we have opted to maintain cash reserves.

During the reporting period, the Fund transitioned to a fully fund-of-fund structure, converting directly held Canadian equity, fixed income and short-term securities to PH&N pooled funds with identical investment exposures. The Fund continues to hold units of the PH&N U.S. Equity Fund and PH&N Overseas Equity Pension Trust, and now also holds units of the PH&N Canadian Equity Underlying Fund, PH&N Bond Fund and RBC Institutional Cash Fund.

Effective November 1, 2010, RBC Asset Management Inc. and its affiliate, Phillips, Hager & North Investment Management Ltd., have amalgamated and continued as one corporate entity, RBC Global Asset Management Inc. ("RBC GAM"), an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank"). For the purposes of this report, references to RBC GAM are intended to refer to Phillips, Hager & North Investment Management Ltd. (prior to November 1, 2010) and the amalgamated entity RBC Global Asset Management Inc. (after November 1, 2010).

Effective July 1, 2010, the governments of Ontario and British Columbia harmonized the provincial sales tax with the federal goods and services tax, resulting in the harmonized sales tax ("HST"). As a result, the management expense ratio for all unitholders was increased by the additional HST payable on management fees and administration fees.

### Related-Party Transactions

#### **Manager, Portfolio Adviser, Distributor and Registrar**

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the Manager, principal portfolio adviser and registrar of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM, as registrar, also keeps the records of who owns the units of the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

<sup>1</sup> The Fund's custom benchmark index is composed of:  
• 35% – S&P/TSX Capped Composite Total Return Index  
• 25% – MSCI World ex Canada Total Return Index (CDNS)  
• 35% – DEX Universe Bond Index • 5% – DEX 30-day T-Bill Index

Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

**Trustee and Custodian**

RBC Dexia Investor Services Trust ("RBC Dexia") is the trustee and custodian of the Fund. The fees paid to RBC Dexia are paid by RBC GAM and not the Fund.

RBC Dexia holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

**Brokerage**

The Fund has established standard brokerage agreements at market rates with related-party dealers. For the six months ended June 30, 2011, these related-party commissions were \$20 000 (2010 – \$6 000), or 6% (2010 – 2%) of the total transaction costs paid for this Fund.

**Royal Bank Securities, Related-Party Underwritings, Related-Party Principal Trading and Inter-Fund Trading**

The Fund relied, or may rely, on the standing instructions from the Board of Governors ("BoG") in its capacity as the Independent Review Committee with respect to the following transactions:

*Related-Party Trading Activities*

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal;

*Inter-Fund Trading*

- (d) purchases or sales of securities of an issuer from or to another investment fund by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities:

- (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates;
- (ii) represents the business judgment of the portfolio Manager, uninfluenced by considerations other than the best interests of the Fund;
- (iii) is in compliance with RBC GAM policies and procedures; and
- (iv) achieves a fair and reasonable result for the Fund.

RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past six months (noted by June 30, 2011), and for the past five years or for the periods since inception. This information is derived from the Fund's unaudited semi-annual financial statements and audited annual financial statements. "Net Assets" are calculated in accordance with Canadian generally accepted accounting principles, which are used to prepare the financial statements (see table below). "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds' Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value.

### Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
<b>Series A</b>												
<b>June 30, 2011</b>	<b>16.56</b>	<b>0.21</b>	<b>(0.05)</b>	<b>1.31</b>	<b>(1.29)</b>	<b>0.18</b>	<b>(0.20)</b>	–	–	–	<b>(0.20)</b>	<b>16.54</b>
Dec. 31, 2010	15.62	0.51	(0.09)	0.26	0.66	1.34	(0.23)	(0.22)	–	–	(0.45)	16.56
Dec. 31, 2009	13.43	0.55	(0.08)	(0.36)	2.33	2.44	(0.31)	(0.12)	–	–	(0.43)	15.62
Dec. 31, 2008	16.92	0.60	(0.09)	(0.22)	(3.36)	(3.07)	(0.38)	(0.11)	–	–	(0.49)	13.43
Dec. 31, 2007	17.41	0.54	(0.09)	1.15	(1.57)	0.03	(0.35)	(0.09)	–	–	(0.44)	16.92
Dec. 31, 2006	15.97	0.50	(0.09)	0.63	0.73	1.77	(0.32)	(0.10)	–	–	(0.42)	17.41
<b>Series O</b>												
<b>June 30, 2011</b>	<b>16.41</b>	<b>0.21</b>	–	<b>1.30</b>	<b>(1.27)</b>	<b>0.24</b>	<b>(0.26)</b>	–	–	–	<b>(0.26)</b>	<b>16.39</b>
Dec. 31, 2010	15.48	0.50	–	0.26	0.66	1.42	(0.27)	(0.26)	–	–	(0.53)	16.41
Dec. 31, 2009	13.37	0.53	–	(0.37)	2.49	2.65	(0.41)	(0.16)	–	–	(0.57)	15.48
Dec. 31, 2008	16.92	0.60	–	(0.22)	(3.22)	(2.84)	(0.49)	(0.13)	–	–	(0.62)	13.37
Dec. 31, 2007	17.45	0.56	–	1.19	(1.70)	0.05	(0.46)	(0.11)	–	–	(0.57)	16.92
Dec. 31, 2006	16.00	0.52	–	0.62	0.84	1.98	(0.40)	(0.12)	–	–	(0.52)	17.45

<sup>1</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**FINANCIAL HIGHLIGHTS (cont.)**

**Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>3</sup>	Trading Expense Ratio (%) <sup>4</sup>
<b>Series A</b>							
<b>June 30, 2011</b>	<b>16.54</b>	<b>413 936</b>	<b>25 020</b>	<b>0.61</b>	<b>0.61</b>	<b>114.70</b>	<b>0.13</b>
Dec. 31, 2010	16.57	424 343	25 605	0.58	0.58	60.78	0.11
Dec. 31, 2009	15.64	395 584	25 288	0.55 <sup>2</sup>	0.55	54.76	0.08
Dec. 31, 2008	13.45	403 165	29 985	0.56	0.56	75.48	0.12
Dec. 31, 2007	16.93	614 693	36 304	0.55	0.55	131.79	0.02
Dec. 31, 2006	17.41	814 179	46 758	0.56	0.56	102.72	0.03
<b>Series O</b>							
<b>June 30, 2011</b>	<b>16.39</b>	<b>1 148 172</b>	<b>70 067</b>	<b>0.04</b>	<b>0.04</b>	<b>114.70</b>	<b>0.13</b>
Dec. 31, 2010	16.43	1 209 761	73 629	0.04	0.04	60.78	0.11
Dec. 31, 2009	15.51	1 414 864	91 249	0.02 <sup>2</sup>	0.02	54.76	0.08
Dec. 31, 2008	13.39	1 512 916	112 981	0.03	0.03	75.48	0.12
Dec. 31, 2007	16.93	2 123 490	125 434	0.03	0.03	131.79	0.02
Dec. 31, 2006	17.45	2 143 646	122 879	0.03	0.03	102.72	0.03

<sup>1</sup> The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

<sup>2</sup> Effective November 1, 2009, a fixed administration fee was introduced in respect of each series of the Fund. If the fixed administration fee would have been in effect throughout 2009, the adjusted MER for each series of the Fund would be: Series A – 0.55%, Series O – 0.03%.

<sup>3</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio Manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>4</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**Management Fees**

RBC GAM is the Manager, portfolio advisor and registrar of the Fund. Management fees paid by each series (other than Series O) of the Fund are calculated at the applicable annual percentages, before GST or HST, of the daily value of the net assets of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.50%	0%	100%

Series O – no management fees are paid by the Fund in respect of Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counseling services.

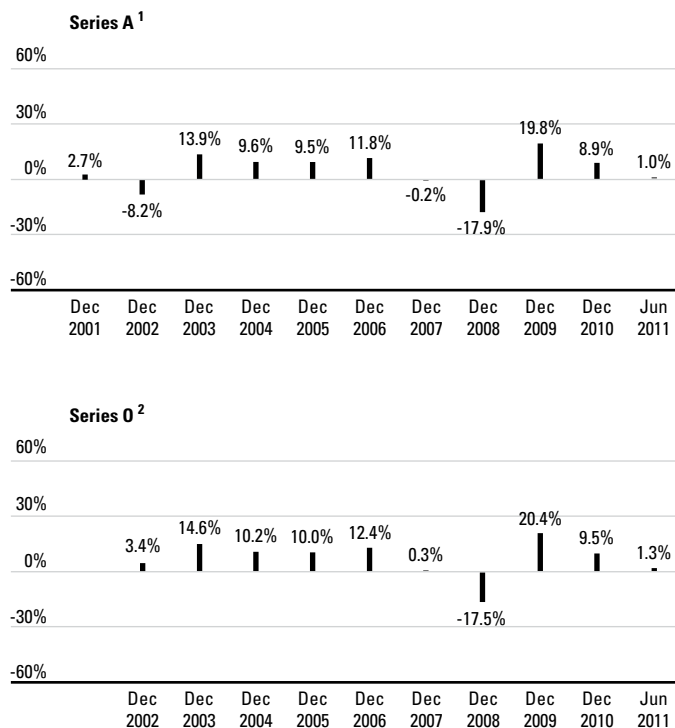
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, or optional charges, or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

**Year-by-Year Returns (%)**

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



<sup>1</sup> Although Series A units of the Fund were created in September 1988, units were not offered for sale under a simplified prospectus until July 2001. We are therefore not permitted to disclose performance data for this Fund for any period prior to July 2001.

<sup>2</sup> From October 2002.

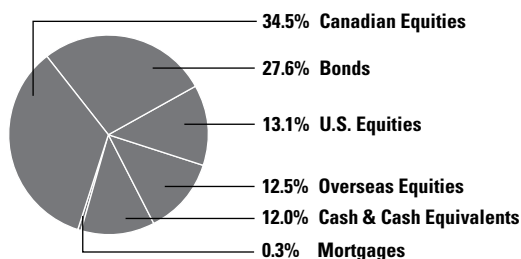
For the 12-month periods ended December 31 and the six-month period ended June 30, 2011.

**SUMMARY OF INVESTMENT PORTFOLIO**

As at June 30, 2011

**Market Exposure**

(after consideration of derivative products)



**Top 25 Holdings**

(after consideration of derivative products, if any)

	% of Net Assets
Phillips, Hager & North Canadian Equity Underlying Fund	34.5
Phillips, Hager & North Bond Fund	34.1
Phillips, Hager & North U.S. Equity Fund	13.2
Phillips, Hager & North Overseas Equity Pension Trust	13.0
RBC Institutional Cash Fund	4.7
Cash and Cash Equivalents	0.4
<b>Top 25 Holdings</b>	<b>99.9</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.phn.com](http://www.phn.com), or by e-mailing us at [info@phn.com](mailto:info@phn.com).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY PENSION TRUST**

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## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The investment objective of the Fund is to provide investors with long-term capital growth by investing primarily in common shares of Canadian companies, which are chosen primarily for their growth potential. To achieve the Fund's investment objective, we invest in companies that we believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and strong earnings potential.

### Results of Operations

During the six-month period ending June 30, 2011, the Fund's Series O units returned 1.3%. The Fund's return is after the deduction of fees and expenses. See the *Financial Highlights* section for the management expense ratios and the *Past Performance* section for the returns of the other series, which may vary because of differences in management fees and expenses.

During the first half of 2011, the Fund's performance was driven primarily by the Financials sector. Strong stock selection within the Energy sector also contributed to results.

In aggregate, our expectations for the direction of the economy did not change significantly over the past six months, however, volatility in the market meant that trading opportunities presented themselves during this time, and we remained active. Within the Energy sector, we trimmed our positions in Cenovus Energy and Suncor Energy, and added them back later in the quarter at favourable prices. We also added to the Fund's position in Canadian Natural Resources and Talisman Energy and initiated a position in Husky Energy.

During the reporting period, we trimmed a number of holdings, including Tourmaline Oil, Trilogy Energy, Precision Drilling and Trinidad Drilling, due to strong performance. In Materials, we took advantage of weakness in Teck Resources to build a position, which was funded by selling Quadra FNX Mining from the portfolio. The Fund is exposed to these securities through holding units of the PH&N Small Float Fund.

In the Health Care sector, we initiated a position in Valeant Pharmaceuticals, while in the Financials sector, we added to Manulife Financial and Royal Bank of Canada. We trimmed our position in Research In Motion during the reporting period due to increasing concerns about the company's competitive position.

Overall, the Fund remains positioned to benefit from the ongoing economic recovery that we expect in the North American and global economies. Our focus continues to be on quality companies that can grow their revenue while trading at attractive valuations.

### Recent Developments

We believe that the recent string of economic indicators coming in below expectations is characteristic of a relatively normal mid-cycle slowdown in the course of a half-speed recovery, and not the beginning of another downturn. Markets tend to discount things moving in straight lines, but economic activity rarely does, and is vulnerable to temporary shocks along the way. Mid-cycle slowdowns in the past have been associated with 5% to 15% equity market setbacks as investors recalibrate their expectations to a more modest growth trajectory. In June, the S&P/TSX Composite Index corrected as much as 10% from highs reached in April.

Indicators from other markets have also suggest that this correction may be close to running its course: high yield bonds spreads have widened 70 basis points, compared with a 100 basis point widening during the worst of last summer's correction and ten-year Government of Canada bond yields are near their lows of 2008.

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*Inter-Fund Trading*

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## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past six months (noted by June 30, 2011), and for the past five years or for the periods since inception. This information is derived from the Fund's unaudited semi-annual financial statements and audited annual financial statements. "Net Assets" are calculated in accordance with Canadian generally accepted accounting principles, which are used to prepare the financial statements (see table below). "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds' Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value.

### Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
<b>Series 0</b>												
<b>June 30, 2011</b>	<b>10.54</b>	<b>0.11</b>	–	<b>0.51</b>	<b>(0.49)</b>	<b>0.13</b>	–	–	–	–	–	<b>10.68</b>
Dec. 31, 2010	9.51	0.24	–	0.62	0.37	1.23	(0.02)	(0.28)	–	–	(0.30)	10.54
Dec. 31, 2009	7.26	0.25	–	(0.34)	2.61	2.52	(0.02)	(0.32)	–	–	(0.34)	9.51
Dec. 31, 2008	11.51	0.30	–	(0.42)	(3.68)	(3.80)	(0.04)	(0.25)	–	–	(0.29)	7.26
Dec. 31, 2007	13.44	0.31	–	2.20	(1.56)	0.95	(0.03)	(0.30)	(2.42)	–	(2.75)	11.51
Dec. 31, 2006	12.98	0.29	–	1.34	0.46	2.09	(0.01)	(0.29)	(1.41)	–	(1.71)	13.44

<sup>1</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

### Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>3</sup>	Trading Expense Ratio (%) <sup>4</sup>
<b>Series 0</b>							
<b>June 30, 2011</b>	<b>10.70</b>	<b>153 965</b>	<b>14 392</b>	<b>0.04</b>	<b>0.04</b>	<b>43.44</b>	<b>0.21</b>
Dec. 31, 2010	10.56	179 736	17 016	0.03	0.03	37.88	0.14
Dec. 31, 2009	9.53	228 293	23 959	0.03 <sup>2</sup>	0.03	47.61	0.14
Dec. 31, 2008	7.28	260 338	35 777	0.03	0.03	62.79	0.18
Dec. 31, 2007	11.53	387 582	33 623	0.02	0.02	36.98	0.05
Dec. 31, 2006	13.44	394 938	29 390	0.02	0.02	32.52	0.06

<sup>1</sup> The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

<sup>2</sup> Effective November 1, 2009, a fixed administration fee was introduced in respect of each series of the Fund. If the fixed administration fee would have been in effect throughout 2009, the adjusted MER for each series of the Fund would be: Series 0 – 0.03%.

<sup>3</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio Manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>4</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**FINANCIAL HIGHLIGHTS (cont.)**

**Management Fees**

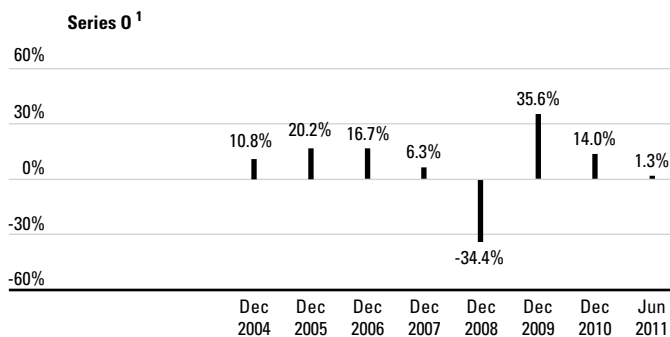
The Fund does not pay a management fee with respect to Series O units. Series O unitholders pay a negotiated fee to RBC GAM for investment counseling services.

**PAST PERFORMANCE**

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, or optional charges, or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

**Year-by-Year Returns (%)**

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



<sup>1</sup> Although Series O units of the Fund were created in March 1998, units were not offered for sale under a simplified prospectus until June 2004. We are therefore not permitted to disclose performance data for this Fund for any period prior to June 2004.

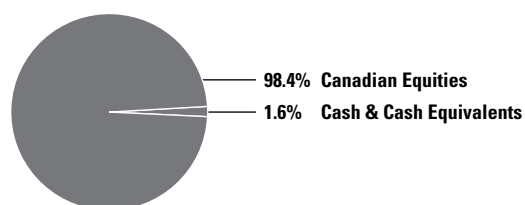
For the 12-month periods ended December 31 and the six-month period ended June 30, 2011.

**SUMMARY OF INVESTMENT PORTFOLIO**

*As at June 30, 2011*

**Market Exposure**

*(after consideration of derivative products)*



**Top 25 Holdings**

*(after consideration of derivative products, if any)*

	% of Net Assets
Phillips, Hager & North Small Float Fund	14.0
Toronto-Dominion Bank	6.8
Royal Bank of Canada	6.0
Suncor Energy Inc.	5.0
Canadian Natural Resources Ltd.	3.5
Cenovus Energy Inc.	3.5
Potash Corporation of Saskatchewan Inc.	3.2
Rogers Communications Inc., Class B	3.1
Manulife Financial Corporation	2.9
Canadian National Railway Co.	2.8
Bank of Nova Scotia	2.7
Talisman Energy Inc.	2.6
Canadian Imperial Bank of Commerce	2.6
EnCana Corp.	2.2
Thomson Corp.	1.8
Goldcorp Inc.	1.8
Teck Resources Ltd., Class B	1.7
Barrick Gold Corp.	1.7
Loblaw Companies Ltd.	1.6
SNC-Lavalin Group Inc.	1.5
Cash and Cash Equivalents	1.5
Husky Energy Inc.	1.5
Power Financial Corp.	1.4
ARC Resources Ltd.	1.3
TELUS Corp., Class A	1.2
<b>Top 25 Holdings</b>	<b>77.9</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.phn.com](http://www.phn.com), or by e-mailing us at [info@phn.com](mailto:info@phn.com).

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
SMALL FLOAT FUND**

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June 30, 2011

The Board of Directors of RBC Global Asset Management Inc. approved this semi-annual management report of fund performance on August 9, 2011.

**A Note on Forward-looking Statements**

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

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*This semi-annual management report of fund performance ("MRFP") contains financial highlights but does not contain either the complete semi-annual financial statements or the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at [www.phn.com](http://www.phn.com) or SEDAR at [www.sedar.com](http://www.sedar.com). Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.*

*\* Phillips, Hager & North Investment Management is an operating division within RBC Global Asset Management Inc., the Manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada.*

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The investment objective of the Fund is to provide investors with long-term capital growth by investing generally in a diversified portfolio of common stocks of small-float, high-quality Canadian companies. To achieve the Fund's investment objective, we generally invest in small capitalization growth companies that we believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their competitors, and strong earnings potential.

### Results of Operations

During the six-month period ending June 30, 2011, the Fund's Series A units returned 5.7%. The Fund's return is after the deduction of fees and expenses. See the *Financial Highlights* section for the management expense ratios and the *Past Performance* section for the returns of the other series, which may vary because of differences in management fees and expenses.

In the first half of 2011, a number of holdings contributed to the Fund's performance, including strong performance from our Energy sector holdings, driven both by high oil prices and company-specific fundamentals. The Fund's holding in Tourmaline Oil appreciated as management continues solid execution on their large and attractive asset base. Precision Drilling and Trinidad Drilling also performed well as the outlook for oil and gas development strengthened. A large position in Toromont Industries also benefited the Fund. Toromont spun off its gas compression business, Enerflex, to shareholders while retaining their equipment dealership business under the Toromont name. We continue to hold shares of both companies as both are well-managed, have good growth prospects and will benefit from increasingly focused operations as independent entities.

Our holdings in the forestry sector, including Canfor, Eacom Timber and Conifex Timber, underperformed during the reporting period as lumber prices weakened. Over a longer-time horizon, we expect these companies to outperform with the eventual rebound in the U.S. housing market. Major Drilling detracted from performance, due to commodity price volatility. While commodity prices can be volatile over time, we expect that Major Drilling will be a beneficiary of increased exploration spending in the future as mining customers look to redeploy profits into new mines.

Our investment focus remains on high-quality, well-managed companies with above-average growth prospects and conservative valuations. These industry leaders perform relatively well in most stock market environments.

### Recent Developments

We believe that the recent string of economic indicators coming in below expectations is characteristic of a relatively normal mid-cycle slowdown in the course of a half-speed recovery, and not the beginning of another downturn. Markets tend to discount things moving in straight lines, but economic activity rarely does, and is vulnerable to temporary shocks along the way. Mid-cycle slowdowns in the past have been associated with 5% to 15% equity market setbacks as investors recalibrate their expectations to a more modest growth trajectory. In June, the S&P/TSX Composite Index corrected as much as 10% from highs reached in April.

Indicators from other markets have also suggest that this correction may be close to running its course. High yield bonds spreads have widened 70 basis points, compared with a 100 basis point widening during the worst of last summer's correction and ten-year Government of Canada bond yields are near their lows of 2008.

Effective November 1, 2010, RBC Asset Management Inc. and its affiliate, Phillips, Hager & North Investment Management Ltd., have amalgamated and continued as one corporate entity, RBC Global Asset Management Inc. ("RBC GAM"), an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank"). For the purposes of this report, references to RBC GAM are intended to refer to Phillips, Hager & North Investment Management Ltd. (prior to November 1, 2010) and the amalgamated entity RBC Global Asset Management Inc. (after November 1, 2010).

Effective July 1, 2010, the governments of Ontario and British Columbia harmonized the provincial sales tax with the federal goods and services tax, resulting in the harmonized sales tax ("HST"). As a result, the management expense ratio for all unitholders was increased by the additional HST payable on management fees and administration fees.

### Related-Party Transactions

#### **Manager, Portfolio Adviser, Distributor and Registrar**

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the Manager, principal portfolio adviser and registrar of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM, as registrar, also keeps the records of who owns the units of the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.



Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

**Trustee and Custodian**

RBC Dexia Investor Services Trust ("RBC Dexia") is the trustee and custodian of the Fund. The fees paid to RBC Dexia are paid by RBC GAM and not the Fund.

RBC Dexia holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

**Brokerage**

The Fund has established standard brokerage agreements at market rates with related-party dealers. For the six months ended June 30, 2011, these related-party commissions were \$75 000 (2010 – \$192 000), or 5% (2010 – 16%) of the total transaction costs paid for this Fund.

**Royal Bank Securities, Related-Party Underwritings, Related-Party Principal Trading and Inter-Fund Trading**

The Fund relied, or may rely, on the standing instructions from the Board of Governors ("BoG") in its capacity as the Independent Review Committee with respect to the following transactions:

*Related-Party Trading Activities*

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal;

*Inter-Fund Trading*

- (d) purchases or sales of securities of an issuer from or to another investment fund managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities:

- (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates;
- (ii) represents the business judgment of the portfolio Manager, uninfluenced by considerations other than the best interests of the Fund;
- (iii) is in compliance with RBC GAM policies and procedures; and
- (iv) achieves a fair and reasonable result for the Fund.

RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past six months (noted by June 30, 2011), and for the past five years or for the periods since inception. This information is derived from the Fund's unaudited semi-annual financial statements and audited annual financial statements. "Net Assets" are calculated in accordance with Canadian generally accepted accounting principles, which are used to prepare the financial statements (see table below). "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds' Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value.

**Change in Net Assets Per Unit (\$)**

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
<b>Series A</b>												
<b>June 30, 2011</b>	<b>15.33</b>	<b>0.15</b>	<b>(0.09)</b>	<b>3.28</b>	<b>(2.30)</b>	<b>1.04</b>	–	–	–	–	–	<b>16.16</b>
Dec. 31, 2010	13.09	0.22	(0.14)	1.82	0.38	2.28	(0.01)	(0.10)	–	–	(0.11)	15.33
Dec. 31, 2009	9.32	0.24	(0.11)	(3.80)	7.00	3.33	(0.02)	(0.10)	–	–	(0.12)	13.09
Dec. 31, 2008	16.51	0.29	(0.16)	(0.72)	(6.26)	(6.85)	(0.08)	(0.11)	–	–	(0.19)	9.32
Dec. 31, 2007	17.48	0.28	(0.19)	2.21	(0.16)	2.14	(0.07)	(0.05)	(1.60)	–	(1.72)	16.51
Dec. 31, 2006	17.07	0.20	(0.18)	1.74	(0.45)	1.31	–	(0.02)	(0.98)	–	(1.00)	17.48
<b>Series O</b>												
<b>June 30, 2011</b>	<b>14.80</b>	<b>0.14</b>	–	<b>3.15</b>	<b>(2.20)</b>	<b>1.09</b>	–	–	–	–	–	<b>15.69</b>
Dec. 31, 2010	12.65	0.22	–	1.77	0.36	2.35	(0.02)	(0.25)	–	–	(0.27)	14.80
Dec. 31, 2009	9.03	0.23	–	(3.20)	6.70	3.73	(0.05)	(0.20)	–	–	(0.25)	12.65
Dec. 31, 2008	15.93	0.28	–	(0.81)	(5.58)	(6.11)	(0.12)	(0.16)	–	–	(0.28)	9.03
Dec. 31, 2007	16.89	0.28	–	1.76	(1.06)	0.98	(0.17)	(0.13)	(1.56)	–	(1.86)	15.93
Dec. 31, 2006	16.49	0.19	–	1.74	(0.43)	1.50	(0.04)	(0.15)	(0.94)	–	(1.13)	16.89

<sup>1</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**FINANCIAL HIGHLIGHTS (cont.)**

**Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>3</sup>	Trading Expense Ratio (%) <sup>4</sup>
<b>Series A</b>							
<b>June 30, 2011</b>	<b>16.22</b>	<b>1 033</b>	<b>64</b>	<b>1.12</b>	<b>1.12</b>	<b>63.90</b>	<b>0.49</b>
Dec. 31, 2010	15.35	1 016	66	1.08	1.08	108.14	0.35
Dec. 31, 2009	13.14	778	59	1.05 <sup>2</sup>	1.40	123.27	0.32
Dec. 31, 2008	9.43	1 132	120	1.05	1.33	146.09	0.42
Dec. 31, 2007	16.58	3 098	187	1.00	1.20	90.27	0.18
Dec. 31, 2006	17.48	10 385	594	1.02	1.18	35.20	0.11
<b>Series O</b>							
<b>June 30, 2011</b>	<b>15.75</b>	<b>472 398</b>	<b>29 990</b>	<b>0.00</b>	<b>0.00</b>	<b>63.90</b>	<b>0.49</b>
Dec. 31, 2010	14.83	645 701	43 553	0.00	0.00	108.14	0.35
Dec. 31, 2009	12.70	685 812	54 021	0.00 <sup>2</sup>	0.02	123.27	0.32
Dec. 31, 2008	9.13	572 132	62 654	0.00	0.02	146.09	0.42
Dec. 31, 2007	16.00	1 001 249	62 590	0.00	0.02	90.27	0.18
Dec. 31, 2006	16.89	1 003 720	59 425	0.00	0.02	35.20	0.11

<sup>1</sup> The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

<sup>2</sup> Effective November 1, 2009, a fixed administration fee was introduced in respect of each series of the Fund. If the fixed administration fee would have been in effect throughout 2009, the adjusted MER for each series of the Fund would be: Series A – 1.05%, Series O – 0.00%.

<sup>3</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio Manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>4</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**Management Fees**

RBC GAM is the Manager, portfolio advisor and registrar of the Fund. Management fees paid by each series (other than Series O) of the Fund are calculated at the applicable annual percentages, before GST or HST, of the daily value of the net assets of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.00%	0%	100%

Series O – no management fees are paid by the Fund in respect of Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counseling services.

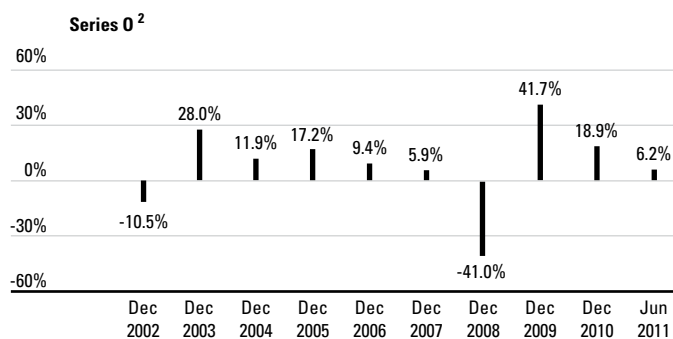
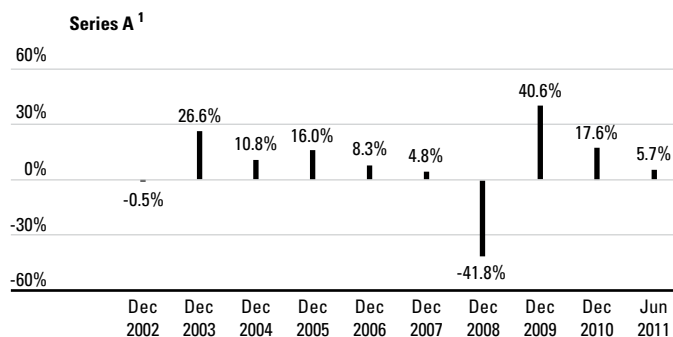
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, or optional charges, or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

**Year-by-Year Returns (%)**

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



<sup>1</sup> From October 2002.

<sup>2</sup> Although Series O units of the Fund were created in February 1994, units were not offered for sale under a simplified prospectus until July 2002. We are therefore not permitted to disclose performance data for this Fund for any period prior to July 2002.

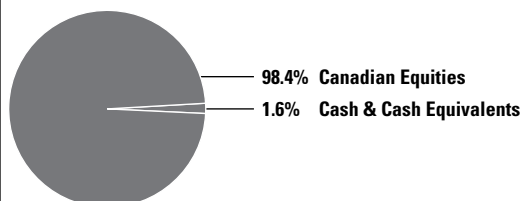
For the 12-month periods ended December 31 and the six-month period ended June 30, 2011.

**SUMMARY OF INVESTMENT PORTFOLIO**

*As at June 30, 2011*

**Market Exposure**

*(after consideration of derivative products)*



**Top 25 Holdings**

*(after consideration of derivative products, if any)*

	% of Net Assets
Genworth MI Canada Inc.	5.9
Richelieu Hardware Ltd.	5.7
Home Capital Group Inc.	5.6
Toromont Industries Ltd.	5.0
iShares S&P/TSX 60 Index Fund	4.9
Major Drilling Group International Inc.	4.6
Enerflex Ltd.	4.5
Corus Entertainment Inc., Class B	4.4
Stantec Inc.	4.3
Linamar Corp.	4.1
Dollarama Inc.	3.9
NAL Energy Corp.	3.7
Legacy Oil + Gas Inc.	3.4
Tourmaline Oil Corp.	3.4
Open Text Corp.	3.3
Canaccord Capital Inc.	3.3
Canfor Corp.	3.3
WestJet Airlines Ltd.	3.0
MacDonald Dettwiler & Associates Ltd.	3.0
Astral Media Inc., Class A	2.8
Capital Power Corp.	2.2
Gibson Energy Inc.	2.1
Trinidad Drilling Ltd.	2.0
Capstone Infrastructure Corp.	1.7
Cineplex Inc.	1.6
<b>Top 25 Holdings</b>	<b>91.7</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.phn.com](http://www.phn.com), or by e-mailing us at [info@phn.com](mailto:info@phn.com).

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY PLUS  
PENSION TRUST**

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June 30, 2011

The Board of Directors of RBC Global Asset Management Inc. approved this semi-annual management report of fund performance on August 9, 2011.

**A Note on Forward-looking Statements**

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

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*This semi-annual management report of fund performance ("MRFP") contains financial highlights but does not contain either the complete semi-annual financial statements or the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at [www.phn.com](http://www.phn.com) or SEDAR at [www.sedar.com](http://www.sedar.com). Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.*

*\* Phillips, Hager & North Investment Management is an operating division within RBC Global Asset Management Inc., the Manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada.*

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The investment objective of the Fund is to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks that are qualified investments for registered Canadian pension plans. The Fund also invests a portion of its assets in U.S. and international securities. To achieve the Fund's investment objective, we invest primarily in large-capitalization companies that we believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their competitors, and strong earnings potential.

### Results of Operations

During the six-month period ending June 30, 2011, the Fund's Series A units returned 1.1%. The Fund's return is after the deduction of fees and expenses. See the *Financial Highlights* section for the management expense ratios and the *Past Performance* section for the returns of the other series, which may vary because of differences in management fees and expenses.

During the first half of 2011, the Fund's performance was driven primarily by the Financials sector. Strong stock selection within the Energy sector also contributed to results. The Fund is exposed to these securities through holding units of the PH&N Small Float Fund.

In aggregate, our expectations for the direction of the economy did not change significantly over the past six months, however, volatility in the market meant that trading opportunities presented themselves during this time, and we remained active. Within the Energy sector, we trimmed our positions in Cenovus Energy and Suncor Energy, and added them back later in the quarter at favourable prices. We also added to the Fund's position in Canadian Natural Resources and Talisman Energy and initiated a position in Husky Energy.

During the reporting period, we trimmed a number of holdings, including Tourmaline Oil, Trilogy Energy, Precision Drilling and Trinidad Drilling, due to strong performance. In Materials, we took advantage of weakness in Teck Resources to build a position, which was funded by selling Quadra FNX Mining from the portfolio.

In the Health Care sector, we initiated a position in Valeant Pharmaceuticals, while in the Financials sector, we added to Manulife Financial and Royal Bank of Canada. We trimmed our position in Research In Motion during the reporting period due to increasing concerns about the company's competitive position.

Overall, the Fund remains positioned to benefit from the ongoing economic recovery that we expect in the North American and global economies. Our focus continues to be on quality companies that can grow their revenue while trading at attractive valuations.

### Recent Developments

We believe that the recent string of economic indicators coming in below expectations is characteristic of a relatively normal mid-cycle slowdown in the course of a half-speed recovery, and not the beginning of another downturn. Markets tend to discount things moving in straight lines, but economic activity rarely does, and is vulnerable to temporary shocks along the way. Mid-cycle slowdowns in the past have been associated with 5% to 15% equity market setbacks as investors recalibrate their expectations to a more modest growth trajectory. In June, the S&P/TSX Composite Index corrected as much as 10% from highs reached in April.

Indicators from other markets have also suggest that this correction may be close to running its course: high yield bonds spreads have widened 70 basis points, compared with a 100 basis point widening during the worst of last summer's correction and ten-year Government of Canada bond yields are near their lows of 2008.

Effective November 1, 2010, RBC Asset Management Inc. and its affiliate, Phillips, Hager & North Investment Management Ltd., have amalgamated and continued as one corporate entity, RBC Global Asset Management Inc. ("RBC GAM"), an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank"). For the purposes of this report, references to RBC GAM are intended to refer to Phillips, Hager & North Investment Management Ltd. (prior to November 1, 2010) and the amalgamated entity RBC Global Asset Management Inc. (after November 1, 2010).

Effective July 1, 2010, the governments of Ontario and British Columbia harmonized the provincial sales tax with the federal goods and services tax, resulting in the harmonized sales tax ("HST"). As a result, the management expense ratio for all unitholders was increased by the additional HST payable on management fees and administration fees.

### Related-Party Transactions

#### **Manager, Portfolio Adviser, Distributor and Registrar**

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the Manager, principal portfolio adviser and registrar of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM, as registrar, also keeps the records of who owns the units of the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

**Trustee and Custodian**

RBC Dexia Investor Services Trust ("RBC Dexia") is the trustee and custodian of the Fund. The fees paid to RBC Dexia are paid by RBC GAM and not the Fund.

RBC Dexia holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

**Brokerage**

The Fund has established standard brokerage agreements at market rates with related-party dealers. For the six months ended June 30, 2011, these related-party commissions were \$14 000 (2010 – \$3 000), or 8% (2010 – 1%) of the total transaction costs paid for this Fund.

**Royal Bank Securities, Related-Party Underwritings, Related-Party Principal Trading and Inter-Fund Trading**

The Fund relied, or may rely, on the standing instructions from the Board of Governors ("BoG") in its capacity as the Independent Review Committee with respect to the following transactions:

*Related-Party Trading Activities*

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal;

*Inter-Fund Trading*

- (d) purchases or sales of securities of an issuer from or to another investment fund managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities:

- (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates;
- (ii) represents the business judgment of the portfolio Manager, uninfluenced by considerations other than the best interests of the Fund;
- (iii) is in compliance with RBC GAM policies and procedures; and
- (iv) achieves a fair and reasonable result for the Fund.

RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past six months (noted by June 30, 2011), and for the past five years or for the periods since inception. This information is derived from the Fund's unaudited semi-annual financial statements and audited annual financial statements. "Net Assets" are calculated in accordance with Canadian generally accepted accounting principles, which are used to prepare the financial statements (see table below). "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds' Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value.

### Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
<b>Series A</b>												
<b>June 30, 2011</b>	<b>62.55</b>	<b>0.63</b>	<b>(0.19)</b>	<b>1.41</b>	<b>(1.12)</b>	<b>0.73</b>	–	–	–	–	–	<b>63.23</b>
Dec. 31, 2010	56.37	1.40	(0.34)	5.03	0.70	6.79	(0.10)	(1.18)	–	–	(1.28)	62.55
Dec. 31, 2009	42.76	1.50	(0.28)	(4.45)	17.69	14.46	(0.26)	(1.02)	–	–	(1.28)	56.37
Dec. 31, 2008	70.81	1.59	(0.38)	(2.57)	(18.90)	(20.26)	(0.29)	(1.09)	–	–	(1.38)	42.76
Dec. 31, 2007	102.60	2.43	(0.59)	22.17	(19.26)	4.75	(1.24)	(2.59)	(29.45)	–	(33.28)	70.81
Dec. 31, 2006	90.09	1.79	(0.52)	10.89	(0.23)	11.93	(0.57)	(1.62)	–	–	(2.19)	102.60
<b>Series O</b>												
<b>June 30, 2011</b>	<b>76.92</b>	<b>0.78</b>	<b>(0.01)</b>	<b>1.74</b>	<b>(1.38)</b>	<b>1.13</b>	–	–	–	–	–	<b>77.99</b>
Dec. 31, 2010	69.34	1.73	(0.02)	6.22	0.87	8.80	(0.16)	(1.88)	–	–	(2.04)	76.92
Dec. 31, 2009	52.67	1.84	(0.02)	(5.81)	22.74	18.75	(0.41)	(1.60)	–	–	(2.01)	69.34
Dec. 31, 2008	86.81	1.86	(0.02)	(5.56)	(27.89)	(31.61)	(0.41)	(1.56)	–	–	(1.97)	52.67
Dec. 31, 2007	104.39	2.52	(0.03)	22.62	(22.31)	2.80	(0.89)	(1.87)	(16.90)	–	(19.66)	86.81
Dec. 31, 2006	91.16	2.12	(0.01)	12.12	1.05	15.28	(0.56)	(1.57)	–	–	(2.13)	104.39

<sup>1</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.



**FINANCIAL HIGHLIGHTS (cont.)**

**Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>3</sup>	Trading Expense Ratio (%) <sup>4</sup>
<b>Series A</b>							
<b>June 30, 2011</b>	<b>63.33</b>	<b>5,811</b>	<b>92</b>	<b>0.64</b>	<b>0.64</b>	<b>26.38</b>	<b>0.16</b>
Dec. 31, 2010	62.64	5 850	93	0.60	0.60	49.20	0.17
Dec. 31, 2009	56.46	7 022	124	0.58 <sup>2</sup>	0.58	75.82	0.19
Dec. 31, 2008	42.92	5 331	124	0.59	0.59	90.43	0.28
Dec. 31, 2007	71.01	48 953	689	0.55	0.55	39.16	0.11
Dec. 31, 2006	102.60	179 358	1 748	0.57	0.57	40.85	0.04
<b>Series O</b>							
<b>June 30, 2011</b>	<b>78.11</b>	<b>342 613</b>	<b>4 386</b>	<b>0.03</b>	<b>0.03</b>	<b>26.38</b>	<b>0.16</b>
Dec. 31, 2010	77.03	350 249	4 547	0.03	0.03	49.20	0.17
Dec. 31, 2009	69.45	404 905	5 830	0.03 <sup>2</sup>	0.03	75.82	0.19
Dec. 31, 2008	52.85	334 437	6 328	0.03	0.03	90.43	0.28
Dec. 31, 2007	87.05	572 722	6 579	0.03	0.03	39.16	0.11
Dec. 31, 2006	104.39	649 523	6 222	0.03	0.03	40.85	0.04

<sup>1</sup> The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

<sup>2</sup> Effective November 1, 2009, a fixed administration fee was introduced in respect of each series of the Fund. If the fixed administration fee would have been in effect throughout 2009, the adjusted MER for each series of the Fund would be: Series A – 0.59%, Series O – 0.03%.

<sup>3</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio Manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>4</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**Management Fees**

RBC GAM is the Manager, portfolio advisor and registrar of the Fund. Management fees paid by each series (other than Series O) of the Fund are calculated at the applicable annual percentages, before GST or HST, of the daily value of the net assets of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.50%	0%	100%

Series O – no management fees are paid by the Fund in respect of Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counseling services.

\* Includes all costs related to management, investment advisory services, general administration and profit.

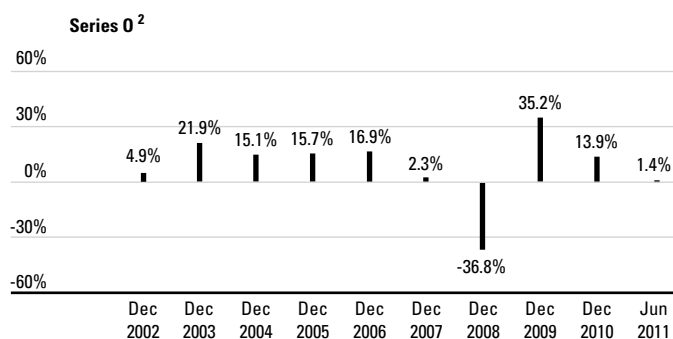
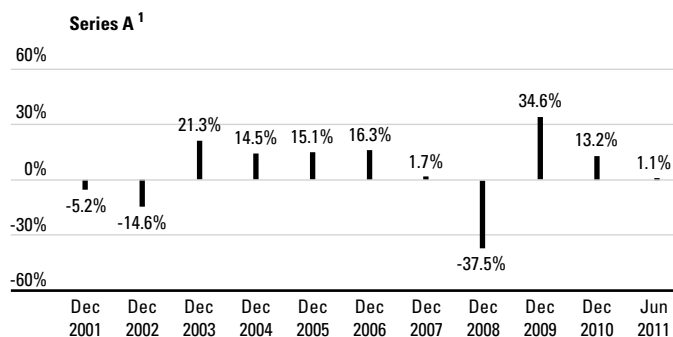
**PHILLIPS, HAGER & NORTH CANADIAN EQUITY PLUS PENSION TRUST**

**PAST PERFORMANCE**

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, or optional charges, or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

**Year-by-Year Returns (%)**

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



<sup>1</sup> From February 1967.

<sup>2</sup> From October 2002.

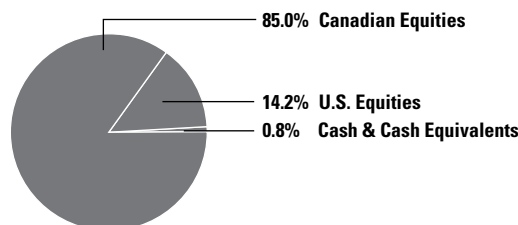
For the 12-month periods ended December 31 and the six-month period ended June 30, 2011.

**SUMMARY OF INVESTMENT PORTFOLIO**

As at June 30, 2011

**Market Exposure**

(after consideration of derivative products)



**Top 25 Holdings**

(after consideration of derivative products, if any)

	% of Net Assets
Phillips, Hager & North Small Float Fund	12.0
Toronto-Dominion Bank	5.9
Royal Bank of Canada	5.1
Suncor Energy Inc.	4.3
Canadian Natural Resources Ltd.	3.0
Cenovus Energy Inc.	3.0
Potash Corporation of Saskatchewan Inc.	2.8
Rogers Communications Inc., Class B	2.6
Manulife Financial Corporation	2.5
Canadian National Railway Co.	2.4
Bank of Nova Scotia	2.3
Talisman Energy Inc.	2.2
Canadian Imperial Bank of Commerce	2.2
EnCana Corp.	1.9
Goldcorp Inc.	1.9
Home Depot Inc.	1.6
Thomson Corp.	1.5
Barrick Gold Corp.	1.5
International Business Machines	1.5
Teck Resources Ltd., Class B	1.4
Illinois Tool Works Inc.	1.4
Loblaw Companies Ltd.	1.3
SNC-Lavalin Group Inc.	1.3
Power Financial Corp.	1.2
Microsoft Corp.	1.2
<b>Top 25 Holdings</b>	<b>68.0</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.phn.com](http://www.phn.com), or by e-mailing us at [info@phn.com](mailto:info@phn.com).

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INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
OVERSEAS EQUITY PENSION TRUST**

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June 30, 2011

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## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The investment objective of the Fund is to provide investors with long-term capital growth and international diversification by investing in common stocks of companies in Europe, the Far East (including Japan and Australia). To achieve the Fund's investment objective, we invest in companies that are attractively valued, possess sound fundamentals and have a strong market position.

### Results of Operations

During the six-month period ending June 30, 2011, the Fund's Series O units returned -2.0%. The Fund's return is after the deduction of fees and expenses. See the *Financial Highlights* section for the management expense ratios.

At the beginning of the reporting period, global equity markets rose. However, with adverse developments in Japan, disappointing economic data from the U.S., as well as the sovereign debt crisis in Europe, markets subsequently retreated.

The Fund underperformed its benchmark during the reporting period. This primarily was a result of the Fund's position in Cable & Wireless Worldwide, a global telecommunications company which was the largest holding in the portfolio. The portfolio manager continues to have confidence in the company, which it believes has valuable assets and sells at a compelling valuation. Another holding that hindered the Fund's performance during the reporting period was Thomas Cook, a travel company, which was negatively affected by events in Japan and Greece.

Despite the fact that the Fund trimmed its exposure to emerging markets during the reporting period, the decline in these markets also dampened the Fund's returns.

Positive contributors to the Fund's performance during the reporting period included Berendsen, GlaxoSmithKline and Michelin. Berendsen has a steady business providing laundry services. GlaxoSmithKline has pharmaceutical and consumer products, which we believe are quite resilient. In the case of Michelin, the company was able to increase prices to offset rising raw material costs.

The Fund was positioned to be more defensive in the second part of the reporting period, with the main additions being Roche and First Group. Roche, based in Switzerland, is the world's largest pharmaceutical company and a leader in cancer treatments. First Group is the largest bus and rail company in the U.K. A position was initiated in Renault, an automotive company. While it is not a defensive company, the stock was purchased because it was exceptionally well-priced.

### Recent Developments

While the global economy has seen difficulty in recent months, there has been some action to address the issues. The disruptions in Japan look to be contained and businesses are showing signs of recovery. In Europe, the sovereign debt crisis was also averted, at least for the present time.

The portfolio manager's focus continues to be on companies which can be resilient and grow under challenging market conditions. The focus will be on strong businesses, with solid balance sheets and good cash generation. Companies that generate strong cash flows can grow their dividends, and this is attractive in a low interest rate environment.

Overall, the valuation and quality of the portfolio remains the key to future performance. There is increasing focus on making sure sound businesses are purchased.

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### **Related-Party Transactions**

#### ***Manager, Portfolio Adviser, Distributor and Registrar***

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Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

#### ***Sub-Adviser***

Sky Investment Counsel Inc. ("Sky") is the sub-adviser and provides investment advice for the Fund. RBC GAM has a non-controlling interest in Sky. The fees paid to Sky are paid by RBC GAM and not the Fund.

#### ***Trustee and Custodian***

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## FINANCIAL HIGHLIGHTS

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### Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
<b>Series 0</b>												
<b>June 30, 2011</b>	<b>9.67</b>	<b>0.22</b>	–	<b>0.28</b>	<b>(0.67)</b>	<b>(0.17)</b>	–	–	–	–	–	<b>9.47</b>
Dec. 31, 2010	9.41	0.28	(0.01)	0.65	(0.37)	0.55	–	(0.26)	–	–	(0.26)	9.67
Dec. 31, 2009	7.66	0.31	–	(0.50)	2.12	1.93	(0.33)	–	–	–	(0.33)	9.41
Dec. 31, 2008	11.60	0.43	(0.01)	(3.11)	(0.79)	(3.48)	(0.41)	–	–	–	(0.41)	7.66
Dec. 31, 2007	14.54	0.37	(0.01)	1.55	(3.28)	(1.37)	(0.35)	–	(1.30)	–	(1.65)	11.60
Dec. 31, 2006	11.46	0.28	(0.01)	0.75	2.27	3.29	(0.30)	–	–	–	(0.30)	14.54

<sup>1</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

### Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>3</sup>	Trading Expense Ratio (%) <sup>4</sup>
<b>Series 0</b>							
<b>June 30, 2011</b>	<b>9.47</b>	<b>723 256</b>	<b>76 349</b>	<b>0.09</b>	<b>0.09</b>	<b>30.70</b>	<b>0.36</b>
Dec. 31, 2010	9.67	670 281	69 315	0.09	0.09	82.31	0.35
Dec. 31, 2009	9.42	635 527	67 433	0.04 <sup>2</sup>	0.04	71.52	0.36
Dec. 31, 2008	7.69	633 048	82 350	0.08	0.08	103.49	0.53
Dec. 31, 2007	11.66	893 649	76 632	0.07	0.07	70.68	0.43
Dec. 31, 2006	14.54	902 257	62 067	0.07	0.07	58.97	0.21

<sup>1</sup> The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

<sup>2</sup> Effective November 1, 2009, a fixed administration fee was introduced in respect of each series of the Fund. If the fixed administration fee would have been in effect throughout 2009, the adjusted MER for each series of the Fund would be: Series 0 – 0.08%.

<sup>3</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio Manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>4</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**FINANCIAL HIGHLIGHTS (cont.)**

**Management Fees**

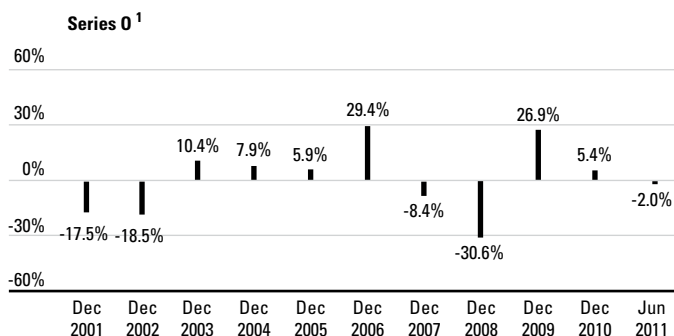
The Fund does not pay a management fee with respect to Series O units. Series O unitholders pay a negotiated fee to RBC GAM for investment counseling services.

**PAST PERFORMANCE**

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, or optional charges, or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

**Year-by-Year Returns (%)**

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



<sup>1</sup> From December 2000.

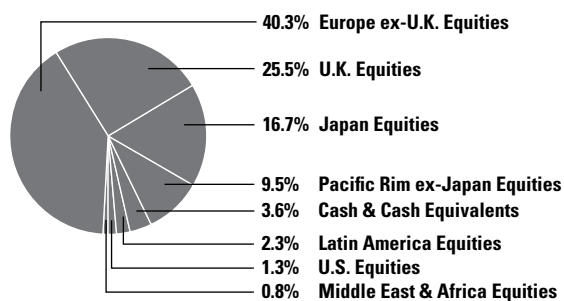
For the 12-month periods ended December 31 and the six-month period ended June 30, 2011.

**SUMMARY OF INVESTMENT PORTFOLIO**

*As at June 30, 2011*

**Market Exposure**

*(after consideration of derivative products)*



**Top 25 Holdings**

*(after consideration of derivative products, if any)*

	% of Net Assets
Cable & Wireless Worldwide Plc.	8.1
Sanofi-Aventis	5.3
BBVA S.A.	4.5
Roche Holdings AG Genussscheine	4.1
UBS AG	4.1
ENI S.p.A.	3.3
Renault S.A.	3.0
Carillion Plc.	2.9
Cash and Cash Equivalents	2.8
Yamaha Corp.	2.7
Sumitomo Metal Industries Ltd.	2.6
Catlin Group Ltd.	2.5
BNP Paribas S.A.	2.4
Firstgroup Plc.	2.4
Zijin Mining Group Co. Ltd.	2.3
G4S Plc.	2.2
CRH Plc.	2.1
Gazprom, Sp ADR	2.0
Cia de Saneamento Basico do Estado de Sao Paulo ADR	1.9
Barclays Plc.	1.8
Mapfre SA	1.8
Sankyo Co. Ltd.	1.7
Nippon Telegraph & Telephone Corp.	1.6
Orkla AS.A.	1.5
Stanley Electric Co. Ltd.	1.4
<b>Top 25 Holdings</b>	<b>71.0</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.phn.com](http://www.phn.com), or by e-mailing us at [info@phn.com](mailto:info@phn.com).





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