

Annual Information Form

August 6, 2014

Managed by Phillips, Hager & North Investment Management®*

Offering Series O units of the:

Phillips, Hager & North Canadian Equity Underlying Fund II

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

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

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Introduction

RBC Global Asset Management Inc.

RBC Global Asset Management Inc. ("RBC GAM"), an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank"), is the manager of the Phillips, Hager & North Canadian Equity Underlying Fund II (the "Fund"). Phillips, Hager & North Investment Management is a division of RBC GAM principally responsible for carrying out RBC GAM's responsibilities as manager and principal portfolio advisor of the Fund. Phillips, Hager & North has its main operating office in Vancouver, British Columbia.

This Annual Information Form contains information about the Fund described in this document and is meant to supplement the information contained in the applicable simplified prospectus of the Fund (the "Simplified Prospectus"). The principal address of the Fund is 20th Floor, 200 Burrard Street, Vancouver, British Columbia, V6C 3N5.

Additional information about the Fund is available in the Fund's management report of fund performance and financial statements. These documents are incorporated by reference into this Annual Information Form, which means that they are legally part of this document, just as if they were printed as part of it. You can get a copy of these documents at no cost by:

- › calling us toll-free at 1-800-661-6141;
- › faxing us toll-free at 1-800-666-9899; or
- › emailing us at info@phn.com.

These documents and other information about the Fund are also available:

- › on our website at www.rbcgam.com; or
- › at www.sedar.com.

In this Annual Information Form, "you" and "your" mean the investor; "we," "us," "our," "Phillips, Hager & North" and "PH&N" mean Phillips, Hager & North Investment Management, a division of RBC GAM; and the "Fund" refers to the Phillips, Hager & North Canadian Equity Underlying Fund II.

When the Fund was created

The Fund was created under the laws of the Province of British Columbia pursuant to an amended and restated master trust agreement dated as of July 31, 2014, as may be further amended and/or restated from time to time (the "Trust Agreement"). The Fund is an open-end mutual fund.

Investment restrictions

The Fund is designed to meet the investment objectives of different investors. Please refer to the Simplified Prospectus of the Fund for a description of the investment objective of the Fund.

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

Subject to the exceptions described below, we manage the Fund in accordance with the standard investment restrictions and practices applicable to mutual funds and the other requirements of applicable securities legislation, including National Instrument 81-102 – *Mutual Funds* ("NI 81-102") and National Instrument 81-107 – *Independent Review Committee for Investment Funds* ("NI 81-107"). The Fund is a dealer-managed mutual fund and accordingly is subject to the restrictions set

out in section 4.1 of NI 81-102. These restrictions and practices and other requirements are designed in part to ensure that the investments of the Fund are diversified and relatively liquid, and to ensure that the Fund is properly administered. The exceptions applicable to the Fund described below may only be relied on by the Fund where consistent with the investment objectives of the Fund.

Related issuer securities

Generally, the restrictions prevent the Fund from purchasing the securities of a related issuer. The Fund is permitted, however, to purchase the securities of a related issuer if the purchase is made on an exchange on which the securities are listed and traded. This means the Fund can purchase, for example, listed common and preferred shares.

Principal trading

Generally, the restrictions prevent the Fund from purchasing securities from or selling securities to a related party acting as principal. The Fund is, however, permitted to engage in such transactions if the bid and ask price are reported by any public quotation.

Related party underwriting

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

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

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

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

Inter-fund trades

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

Pursuant to an exemptive relief obtained on behalf of the Fund, subject to similar conditions, the Fund is permitted to engage in certain trades of portfolio securities with investment funds that are not subject to NI 81-107 and discretionary accounts managed by RBC GAM or related parties. This relief also permits inter-fund trades of mortgage securities provided such securities are acquired at a price that is equal to the net asset value of the security determined in accordance with National Policy Statement No. 29 – *Mutual Funds Investing in Mortgages*.

Board of Governors review

Appropriate records of the related party transactions described above (referred to, collectively, as “Related Party Trading Activities”) must be maintained and, in certain cases, particulars must be filed with the securities regulatory authorities. In addition, the Board of Governors in its role as the independent review committee of the Fund and other funds managed by RBC GAM must review and assess the adequacy and effectiveness of the policies and procedures of RBC GAM in respect of Related Party Trading Activities. The Board of Governors and RBC GAM must act in accordance with the requirements of NI 81-107 in respect of standing instructions and reporting to securities regulatory authorities.

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

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

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

Additional information about the members of the Board of Governors is disclosed under the heading *Board of Governors* on page 18.

Derivative transactions

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

The Fund has received from the securities regulatory authorities an exemption from certain of the derivatives rules in NI 81-102, which allows the Fund, when it uses derivative instruments, to use as cover when the Fund has a long position in a debt-like security that has a component that is a long position in a forward contract or in a standardized futures or forward contract or when the Fund has a right to receive payments under a swap: (i) cash cover in an amount that, together with margin on account for the specified derivative and the market value of the specified derivative, is not less than, on a daily mark-to-market basis, the underlying market exposure of the specified derivative; (ii) a right or obligation to sell an equivalent quantity of the underlying interest of the futures or forward contract, and cash cover that together with margin on account for the position is not less than the amount, if any, by which the strike price of the futures or forward contract exceeds the strike price of the right or obligation to sell the underlying interest; (iii) a right or obligation to enter into an offsetting swap on an equivalent quantity and with an equivalent term and cash cover that together with margin on account for the position is not less than the aggregate amount, if any, of the obligations of the Fund under the swap less the obligations of the Fund under such offsetting swap; or (iv) a combination of the positions referred to in subparagraphs (i) and (ii) for debt-like securities with a long position in a forward or in a standardized futures or forward contract or of the positions referred to in subparagraphs (i) and (iii) in the case of a swap, that is sufficient, without recourse to other assets of the Fund, to enable the Fund to acquire the underlying interest of the futures or forward contract or satisfy its obligations under the swap.

Investing in the Fund

The Fund is permitted to have an unlimited number of series of units and may issue an unlimited number of units of each series. Each unit of a series represents an undivided share of the Fund's net assets, equal to the share of every other unit of the series.

Series O units are only available to large private or institutional investors who make the required minimum investment and minimum subsequent investment as determined by us from time to time. No management fees are charged to the Fund with respect to the Series O units. Investors who are eligible to purchase Series O units pay a negotiated fee directly to us which will not exceed 2% for services. Series O units may only be purchased, switched or redeemed through us.

When you invest in a mutual fund, you are combining your money with that of many other investors. We use this pool of money to buy a wide variety of investments on behalf of the entire group. We follow a set of guidelines outlined in the investment objectives and investment strategies of the Fund. You and all other investors share in any profits or losses the Fund makes.

Description of units of the Fund

Each unit of a series of the Fund entitles the holder to:

- › one vote at any meeting of unitholders of the Fund or a meeting of unitholders of that specific series;
- › participate equally with all other units of the series in the regular distribution of net income and net realized capital gains of the Fund allocable to the series (other than management fee distributions);
- › participate equally with all other units of the series, if the Fund is being terminated and wound up, in the distribution of the series' share of net assets of the Fund that remain after the Fund's liabilities have been paid; and
- › the right to redeem their units of the Fund.

Units of a series of the Fund do not entitle the holder to any conversion rights (except in limited circumstances) or pre-emptive rights, and units are not transferrable (except in limited circumstances). There is also no liability to holders of units of a series of the Fund for future calls or assessments.

No unitholder owns any assets of the Fund. Unitholders have only those rights mentioned in this Annual Information Form, the Simplified Prospectus and the Trust Agreement.

The Trust Agreement does not require unitholder approval with respect to amendments to the Trust Agreement unless such approval is required under applicable securities laws. However, if an amendment to the Trust Agreement is one that we believe a reasonable unitholder would consider important in determining whether to continue to hold units of the Fund and is prejudicial to the interests of unitholders as a group, we must provide unitholders with 30 days' prior notice of that change.

Unless the Fund receives an exemption from Canadian securities regulatory authorities, we must obtain the approval of a majority of the votes cast by unitholders of the Fund – or for matters that affect one series differently than others, a majority of votes cast by unitholders of a series of units of the Fund – with respect to:

- › any change in the way fees or expenses are calculated that could result in an increase in the fees or expenses charged to the Fund, or directly to unitholders of the Fund by the Fund or us in connection with the holding of units of the Fund, unless unitholders are provided with written notice of the increase at least 60 days before the increase becomes effective;
- › any introduction of a fee or expense to be charged to the Fund, or directly to unitholders of the Fund by the Fund or us in connection with the holding of units of the Fund, that could result in an increase in charges to the Fund or to its unitholders, unless unitholders are provided with written notice of the increase at least 60 days before the increase becomes effective;
- › a change of the manager of the Fund, unless the new manager is an "affiliate" (within the meaning of applicable securities laws) of RBC GAM;

- › a change in the fundamental investment objectives of the Fund;
- › except in the circumstances described below, a change of the auditors of the Fund;
- › a decrease in the frequency of the calculation of the net asset value per unit of the Fund; and
- › except in the circumstances described below, certain material reorganizations of the Fund.

However, under NI 81-107, the Fund has the ability to make the following changes without unitholder approval:

- (a) change the auditors of the Fund, provided that the independent review committee of the Fund, known as the Board of Governors, has approved the change and unitholders are sent a written notice at least 60 days prior to the change; and
- (b) complete a reorganization of the Fund that involves the transfer of its units to another fund (for example, a fund merger) where (i) the Fund will cease to continue after the transaction, and (ii) the transaction results in the unitholders of the Fund becoming unitholders in the other fund, provided that the Board of Governors has approved the transaction and unitholders are sent written notice at least 60 days prior to the completion of the transaction and certain other conditions are met.

Although the Fund does not hold regular meetings, we will hold meetings to obtain your approval on certain matters.

Determining the value of your investment

To determine the value of your investment in the Fund, RBC GAM or one of its affiliates calculates the net asset value for each series of units of the Fund.

Calculation of unit value

The issue and redemption price of units of a series is based on the Fund's net asset value per unit of that series ("unit value"), next determined after receipt of a purchase order or redemption order.

The Fund maintains a separate net asset value for each series of units, as if the series were a separate fund. However, the assets of the Fund constitute a single pool for investment purposes. The net asset value for a series is based on series-specific amounts, such as amounts paid on the purchase and redemption of units of the series and expenses attributable solely to the series, and on the series' share of the Fund's investment earnings, market appreciation or depreciation of assets, common expenses and other amounts not attributable to a specific series. Expenses are recognized on an accrual (i.e., "as incurred") basis, not on a cash (i.e., "when paid") basis.

The unit value for each series is the basis for calculating the purchase price or redemption price for buying, switching or redeeming units of that series. We or our agent calculate the unit value for each series by dividing the net asset value for the series by the number of outstanding units of the series. We or our agent determine the unit value for each series at the close of trading on each valuation day.

A valuation day is defined as any day that the Toronto Stock Exchange is open for business, and/or any day or days as we determine, subject to compliance with applicable securities laws.

You can get the net asset value of the Fund or the net asset value per unit for a series of the Fund, at no cost, by (i) calling us toll-free at 1-888-880-5588, or by sending an email to institutions@phn.com or (ii) calling us toll-free at 1-800-661-6141, or by sending an email to info@phn.com.

The Fund's assets

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

- › Cash, bills, demand notes, accounts receivable, prepaid expenses, cash dividends received or receivable, distributions receivable and interest accrued and not yet received, will be valued at their full amount unless it is determined that the cash or other asset is not worth that amount. In such a case, a reasonable value will be determined.

- › Securities quoted in foreign currencies are translated to Canadian dollars using the prevailing rate of exchange as quoted by customary banking sources on the valuation day.
- › Bonds, debentures and other obligations are valued by taking the average of the latest available bid and ask quotations on the valuation day. Notes and money market instruments are valued at their current market value on the valuation day. This value may be determined based on the cost of the investments, which approximates market value after taking into account accrued interest which is recorded separately from the investment. If short-term instruments are sold, the difference between the cost and the proceeds (less income previously credited for such security) will be recorded as income not capital.
- › The value of any security which is listed or dealt on any stock exchange or exchanges is generally determined by taking its latest available sale price of a board lot on the principal stock exchange on which it is listed. However, the following exceptions apply:
 - where such sales or records are not available, or if the last such sale is not within the latest available bid and ask quotations on the valuation day, the fair value of the listed security will be determined based on market quotations which are believed to most closely reflect the fair value of the investment;
 - in calculating the value of inter-listed investments, over-the-counter (“OTC”) rather than stock exchange quotations may be used when they appear to reflect more closely the fair value of any particular investment; but if such stock exchange or OTC quotations do not properly reflect the prices which would be received by the Fund upon the disposal of such investments, values may be placed upon such investments which appear to it to reflect most closely the fair value of such investments; and
 - in calculating the value of foreign securities listed or dealt in exchanges outside North America, values will be placed upon such securities which appear to reflect most closely the fair value of such securities. In particular, we or our agent have procedures in place to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market. Accordingly, the value calculated on fair valued securities for purposes of calculating the Fund’s net asset value may differ from that security’s most recent closing market price. As a means of evaluating our fair value process, we or our agent will routinely compare closing market prices, the next day’s opening prices in the same markets, and adjusted fair value prices. These procedures are designed to minimize the potential for market timing strategies, which are largely focused on funds with significant holdings of foreign securities.
- › Long positions in clearing corporation options, options on futures, OTC options, debt-like securities and listed warrants will be valued at their current market value.
- › Where a covered clearing corporation option, option on futures or OTC option is written, the premium received by the Fund shall be reflected as a deferred credit which will be valued at an amount equal to the current market value of the clearing corporation option, option on futures or OTC option that would have the effect of closing the position. Any differences resulting from the revaluation will be treated as unrealized gains or losses on investment. The deferred credit will be deducted in arriving at the net asset value of the Fund. The securities, if any, which are the subject of a written clearing corporation option or OTC option will be valued at their current market value.
- › The value of a futures contract, forward contract or swap will be the gain or loss that would be realized if, on the valuation day, the position in the futures contract, forward contract or swap, as the case may be, were to be closed out unless *daily limits* are in effect, in which case fair value will be determined based on the current market value of the underlying interest.
- › Margin paid or deposited in respect of futures contracts and forward contracts will be reflected as an account receivable and margin consisting of assets other than cash will be noted as held as margin.
- › The value of any security which is not listed or dealt in upon any stock exchange is determined at the most recently available sale price on a valuation day, or if such sale price is not available, at a sale price based on relevant market and/or company data that is believed to most closely reflect the fair value of the investment.

- › In this Annual Information Form, unless otherwise indicated, “current market value” means the most recently available sale price applicable to the relevant security on the principal exchange on which it is traded immediately preceding the valuation time on the valuation day, provided that, if no sale has taken place on a valuation day, the average of the bid and ask quotations immediately prior to the valuation time on the valuation day shall be used.
- › If a valuation day of the Fund is not a business day for a specific market, the prices or quotations of the prior business day will be used to value any asset or liability for such market.
- › Although we or our agent will generally determine the value of the assets of the Fund by following the valuation practices described above, we or our agent have the discretion to value the assets using other methods if we determine that these practices are not appropriate in the circumstances; however, this discretion has not been exercised in the past three years. It may be necessary to exercise such discretion in situations where market prices are not readily available (such as for certain restricted or unlisted securities, warrants and private placements) or securities may not be reliably priced (such as in the case of technical difficulties, trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). We and our agent have policies in place regarding fair valuation and guidelines that provide guidance on how fair value should be determined. The application of fair value pricing represents a good faith determination based upon these guidelines. There can be no assurance that the Fund could obtain the fair value assigned to a security if it were able to sell the security at approximately the time at which the Fund determines its net asset value per unit.

The Fund’s liabilities

The Fund’s liabilities include:

- › all debts, obligations, liabilities or claims of any kind; and
- › all accrued operating expenses and other charges.

Purchases, switches and redemptions

How to buy, redeem and switch Series O units

Series O units are only available to large private or institutional investors who make the required minimum investment and minimum subsequent investment as determined by RBC GAM from time to time. Series O units may only be purchased, switched or redeemed through us.

The series net asset value per unit (“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 or redeemed is based on the next applicable unit value determined after the receipt of the purchase or redemption order.

If you become ineligible to hold the Fund or Series O, we may redeem or switch your units, as applicable. Where a unitholder is or becomes a citizen or resident of the United States or a resident of any other foreign country, we may require such unitholder to redeem their units if their participation has the potential to cause adverse regulatory or tax consequences for the Fund or other unitholders of the Fund. If we redeem or switch your units, the effect will be the same as if you initiated the transaction. For redemptions in non-registered accounts, we may transfer the proceeds to you, and for redemptions in registered plans, we may transfer the proceeds to a registered savings deposit within the plan. We will not give you notice prior to taking any action.

For us to act on an order to buy, redeem, reclassify or switch units, the telephone salesperson 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 on a valuation day (and before 1:00 p.m. Eastern Time on December 24, if that day is a valuation day), your order will be processed using that day’s unit value. A separate unit value is calculated for each series of units. If we receive your order after 4:00 p.m. Eastern Time on a valuation day (and after 1:00 p.m. Eastern Time on December 24, if that day is a valuation day), your order will be processed using the next valuation 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.

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 your order is refused, your money will be returned to you in full, without interest.

Purchases

To buy units of the Fund please provide the following information:

- › your name and account number;
- › the date of the transaction;
- › the name of the Fund and dollar amount of units you want to buy;
- › a cheque made out to the trustee of the Fund, or if applicable, financial institution information for an Electronic Funds Transfer ("EFT"); and
- › your signature, if the transaction is submitted by mail or by fax.

Pre-printed forms are also available for your use, and can be found on our website.

In certain circumstances, you may have to include full payment for your units with your subscription order.

If we do not receive payment in full within the time limits described above, or if a cheque is returned due to insufficient funds, the units that you bought will be redeemed on the next valuation day. If they are redeemed for more than you paid, the Fund will keep the difference. If they are redeemed for less than you paid, you will be charged for the difference plus any costs.

Short-term trading

Most mutual funds are considered long-term investments, so we discourage investors from buying, redeeming and switching units frequently.

We may impose a short-term trading fee of up to 2% of the current value of the units if you redeem or switch out units within seven days of purchasing or previously switching into the Fund. The fee is designed to protect unitholders from the costs associated with investors frequently purchasing and redeeming units of the Fund. Frequent trading can hurt the Fund's performance by forcing the portfolio manager to keep more cash in the Fund than would otherwise be needed, or to sell investments to meet redemptions. It may also increase the Fund's transaction costs. Short-term trading fees are designed to deter excessive trading and offset its associated costs and are paid to the Fund, not to us, and are in addition to any other redemption or switch fees that may be payable.

RBC GAM regularly monitors transactions in all funds it manages. RBC GAM has established criteria for acceptable transaction activity in an effort to eliminate activity that it deems potentially detrimental to long-term unitholders including activity associated with attempts to engage in market timing. We have the right to restrict or reject any purchase or switch order without any prior notice. Generally speaking, your trading may be considered excessive if you sell or switch your units of the Fund within 90 days of buying them on more than one occasion. Whether your trading is considered excessive or inappropriate will be determined by us at our sole discretion.

We will not charge a short-term trading fee in certain circumstances including:

- › for redemptions initiated by us or another investment fund managed by RBC GAM;
- › for redemptions of \$2,500 or less;
- › for redemptions within five days of certain automated transactions;
- › for redemptions on omnibus accounts that represent the assets of many underlying investors; and
- › in extraordinary situations, for example, a financial emergency.

While we actively take steps to monitor, detect and deter excessive and inappropriate short-term trading, we cannot ensure that such trading activity will be completely eliminated.

Switching between funds

You may redeem units of one fund managed by RBC GAM to buy units of another fund managed by RBC GAM or, in some cases, an affiliate. This is called “switching.”

The same rules that apply for buying and redeeming units of the Fund apply to switches. Once we receive your order to switch, we will redeem your units in the Fund from which you are switching and use the proceeds to buy units of the other fund to which you are switching. There are no fees for switching units of the Fund into units of another investment fund managed by RBC GAM, other than short-term trading fees. Please see *Short-term trading* on page 9.

To switch units of one fund for units of another investment fund managed by RBC GAM, please provide the following information to us:

- › your name and account number;
- › the date of the transaction;
- › the name of the fund and dollar amount of units you want to switch from;
- › the name of the fund you want to switch to; and
- › your signature, if the transaction is submitted by mail or by fax.

Redemptions

With the exception of short-term trading fees, there are no charges for redeeming units of the Fund.

The redemption price of units of a series is based on that series’ unit value, next determined after receipt by the Fund of the redemption order.

To redeem units of the Fund, please provide the following information to us:

- › your name and account number;
- › the date of the transaction;
- › the name of the Fund and dollar amount of units of the Fund you want to redeem;
- › the method of the redemption payment (e.g., cheque or EFT); and
- › your signature, if the transaction is submitted by mail or by fax.

You may also need to provide other information. If more information is needed, you will be contacted.

If a cheque is requested, we will automatically send your cheque to the address on our file. To deposit the payment directly into your account with a Canadian financial institution via an EFT, enclose a cheque marked “void” with your transaction request if you have not done so previously. You may also specify that we deposit the payment into your bank account on record. You can expect to receive the money in your bank or trust company account in about three to five business days.

When you may not be allowed to redeem your units

In extraordinary circumstances, we may suspend the right of investors to redeem units of the Fund. These circumstances include when:

- › normal trading is suspended on any stock exchange on which securities or derivatives that make up more than half of the Fund’s total assets by value are traded; or
- › we have permission from the applicable securities regulatory authority.

We reserve the right to require any unitholder of the Fund to redeem such unitholder's entire holding or a portion of units of the Fund at our sole discretion including where a unitholder is or becomes a U.S. citizen or resident of the United States or a resident of another foreign country if we conclude that their participation has the potential to cause adverse regulatory or tax consequences for the Fund or other unitholders of the Fund.

Fees and expenses

We may reduce part of the management fee borne by investors who have made substantial investments in the Fund. We may decide to do this for a number of reasons, including the value of the investor's assets that we manage and our relationship with the investor. We calculate the amount of the reimbursement using a sliding scale based on the value of the investor's assets that we manage. The amount of the reduction is not negotiable. It is determined by us, at our discretion.

We do not reimburse investors directly in respect of management fees. Instead, fees are reimbursed to the Fund, and the Fund is obligated to make corresponding distributions (referred to as management fee distributions) to the qualifying investors. Each investor may choose to receive such distributions from the Fund in cash or as additional units of the Fund. Distributions made by the Fund in respect of reimbursed fees are normally considered distributions of the Fund's net income. However, in some circumstances such distributions may be, in whole or in part, distributions of the Fund's net realized capital gains or returns of capital. Return of capital represents a return to the investor of a portion of their own invested capital. See *Income tax considerations for investors* on page 22.

The reimbursement of a management fee to the Fund does not have any net tax consequences for the Fund. The resulting distribution to qualifying investors has the same income tax consequences to the investors as other distributions of the Fund's net income or net realized capital gains, or returns of capital from the Fund.

Management of the Fund

Manager and portfolio advisor

RBC GAM, the manager and principal portfolio advisor of the Fund, is an indirect wholly-owned subsidiary of Royal Bank. Phillips, Hager & North Investment Management is a division of RBC GAM principally responsible for carrying out RBC GAM's responsibilities as manager and principal portfolio advisor of the Fund.

We provide investment counselling services to company pension and multi-employer pension plans, foundations, endowments, corporations, private clients and our own investment funds.

As manager, RBC GAM is responsible for the general administration of the Fund. We provide office premises and certain clerical, accounting and operational services. As an added service, our portfolio managers provide advice on discretionary mutual fund investments.

The Trust Agreement establishing the Fund does not contain any provisions for terminating us as manager of the Fund. However, RBC GAM may assign its management responsibilities to one of its affiliates without the approval of investors. If RBC GAM wants to assign its management responsibilities to a company or person who is not an affiliate, RBC GAM must first receive approval from investors.

As principal portfolio advisor, we are responsible for managing the investment portfolio of the Fund.

How to reach us

You can reach us at no cost by:

- › calling us at 1-800-661-6141; or
- › faxing us toll-free at 1-800-666-9899.

To reach us by mail, please write to the head office of the Fund:

RBC Global Asset Management Inc.
155 Wellington St. W.
Suite 2200
Toronto, Ontario M5V 3K7

or to the main operating office of Phillips, Hager & North Investment Management:

RBC Global Asset Management Inc.
Phillips, Hager & North Investment Management
Main Operating Office
20th Floor, 200 Burrard Street
Vancouver, British Columbia V6C 3N5

You can also reach us on the Internet at www.rbcgam.com or by email at info@phn.com.

RBC GAM directors and executive officers

A list of RBC GAM's directors and executive officers is set out below. We have included their name and the city in which they live, the current position they hold with us, and their main occupation. If they have held any other positions within the last five years, we have included those positions.

NAME AND MUNICIPALITY OF RESIDENCE	POSITION AND OFFICE HELD WITH RBC GAM	CURRENT PRINCIPAL OCCUPATION
Wayne Bossert Oakville, Ontario	Director	Executive Vice President Sales, Canadian Banking, Royal Bank
Daniel E. Chornous Toronto, Ontario	Director and Chief Investment Officer	Chief Investment Officer, RBC GAM
Douglas Coulter Toronto, Ontario	Director and President, Retail	President, Retail, RBC GAM
Katherine Gibson Toronto, Ontario	Director	Vice President, Finance, Wealth Management & Insurance, Royal Bank
M. George Lewis Toronto, Ontario	Director and Chairman	Group Head, Wealth Management & Insurance, Royal Bank
Frank Lipka Toronto, Ontario	Chief Financial Officer and Chief Operating Officer	Chief Financial Officer and Chief Operating Officer, RBC GAM

NAME AND MUNICIPALITY OF RESIDENCE	POSITION AND OFFICE HELD WITH RBC GAM	CURRENT PRINCIPAL OCCUPATION
John S. Montalbano Vancouver, British Columbia	Director and Chief Executive Officer and Ultimate Designated Person	Chief Executive Officer, RBC Global Asset Management Head, RBC GAM
Lawrence A.W. Neilsen Vancouver, British Columbia	Chief Compliance Officer	Chief Compliance Officer, RBC GAM
Vijay Parmar Toronto, Ontario	Director and Vice President	President, RBC Phillips, Hager & North Investment Counsel Inc.
Richard E. Talbot Toronto, Ontario	Director	Chief Operating Officer of RBC Capital Markets, Royal Bank
Brian M. Walsh West Vancouver, British Columbia	Chief Administrative Officer	Chief Administrative Officer, RBC GAM
Damon G. Williams North Vancouver, British Columbia	Director and President, Institutional	President, Institutional, RBC GAM
Gina Zapras Vaughan, Ontario	Corporate Secretary	Subsidiary Governance Officer, Royal Bank

Each of the people listed above has held his or her current position with RBC GAM (or one of our predecessor amalgamating entities, RBC Asset Management Inc. and/or Phillips, Hager & North Investment Management Ltd.) and his or her principal occupation during the five years preceding the date hereof, except for Katherine Gibson, who prior to November 2010 held various finance positions in Royal Bank; John S. Montalbano, who from 2005 to 2009 was President, Phillips, Hager & North Investment Management Ltd.; Vijay Parmar, who from September 2009 has been President, RBC Phillips, Hager & North Investment Counsel Inc. and prior thereto was Branch Manager and Director, RBC Dominion Securities ("RBC DS"); Brian M. Walsh, who from May 2008 to October 2010 was Chief Financial Officer, Phillips, Hager & North Investment Management Ltd.; and Gina Zapras, who from June 2013 is Corporate Secretary, RBC GAM and prior thereto held various positions with RBC GAM and other affiliates as Subsidiary Governance Officer, Royal Bank.

Responsibility for investment decisions

The investment decisions for the Fund are made by a team of portfolio managers. All of the portfolio managers share information, expertise and decision-making authority with respect to the Fund so that no one individual is principally responsible for the Fund.

The following is a list of the portfolio managers who together are principally responsible for the day-to-day management of the Fund, the implementation of material strategies and the management of various segments of the Fund.

PRINCIPAL SECTOR OF RESPONSIBILITY	NAME	EXPERIENCE
Chief Investment Officer	Daniel E. Chornous	Mr. Chornous is Chief Investment Officer, RBC GAM. He has been associated with RBC GAM since 2002.
Canadian equities	Doug B. Stadelman	Mr. Stadelman is a Portfolio Manager and co-head of the Phillips, Hager & North Canadian Equities team. Prior to joining Phillips, Hager & North in 2007, he had 20 years' related experience with Canadian investment managers and dealers.
	Scott A. Lysakowski	Mr. Lysakowski is a Portfolio Manager, Canadian Equities. Prior to joining Phillips, Hager & North in 2009, he had seven years' experience as a senior research analyst with RBC Asset Management Inc., a predecessor entity to RBC GAM.

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

Brokerage arrangements

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

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

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

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

The users of these research goods and services and order execution goods and services are our portfolio managers, analysts and traders.

In certain instances, we may receive goods and services containing some elements that qualify as research goods and services and/or order execution goods and services and other elements that do not qualify as either of such permitted goods and services. These types of goods and services are considered to be mixed-use ("mixed-use goods and services"). If we obtain mixed-use goods and services, we only use brokerage commissions to pay for the portion that is used in our investment

or trading decisions or in effecting securities transactions, each on behalf of the Fund or client accounts. The types of mixed-use goods and services that we receive may include software applications and data analysis.

We only route trade orders to a dealer or broker for execution if we have reviewed and approved of that dealer or broker for use. We approve a dealer or broker for use if we are of the view that the dealer or broker is able to provide best execution, which includes a number of considerations such as price, volume, speed and certainty of execution, and total transaction cost.

An additional but secondary consideration when we review and approve a dealer or broker is the dealer's or broker's ability to provide research goods and services and order execution goods and services that add value to our investment decision-making and trade order execution processes to generate investment returns for clients. Other factors that we consider when reviewing and approving a dealer or broker include the dealer's or broker's regulatory status, its creditworthiness and its ability to efficiently process trade orders and settle trades.

We use the same criteria in selecting all dealers and brokers, regardless of whether the dealer or broker is our affiliate. We currently have in place brokerage arrangements with RBC DS, an affiliate of RBC GAM. RBC DS may provide research goods and services, order execution goods and services and mixed-use goods and services in exchange for effecting brokerage transactions.

We conduct extensive trade cost analysis to ensure that the Fund and clients receive a reasonable benefit considering the amount of brokerage commissions paid. Specifically, we decide which dealers or brokers are allocated brokerage business based on the competitiveness of the commission costs, their ability to provide best execution of trades and the range of services and quality of research received.

We may use research goods and services and order execution goods and services to benefit the Fund and clients other than those whose trades generated the brokerage commission. However, we have policies and procedures in place to make a good faith determination that over a reasonable period of time, all clients, including the Fund, receive fair and reasonable benefit in return for the commission generated.

For a list of any other dealer, broker or third party which provides research goods and services and/or order execution goods and services, call us, at no cost, at 1-800-661-6141, or send an email to info@phn.com.

Principal distributor

RBC GAM acts as the principal distributor of the Fund. As principal distributor, RBC GAM is responsible for marketing and distributing units of the Fund where permitted under applicable securities laws. The head office of RBC GAM is in Toronto, Ontario.

Trustee and custodian

The trustee and custodian of the Fund is RBC IS. RBC IS is a wholly-owned subsidiary of Royal Bank and an affiliate of RBC GAM. Its principal office is located in Toronto, Ontario. In respect of the Fund, the trustee has entered into the Trust Agreement, which may be amended as described under the heading *Description of units of the Fund*. The Fund is charged an annual fee by the trustee for its services as trustee and custodian based on the net asset value of the Fund. We negotiate this fee with RBC IS on behalf of the Fund. We pay these fees for the Fund as described in the Simplified Prospectus.

The trustee may resign by giving 90 days' notice to the investors and the manager. The manager may remove the trustee by giving 90 days' notice to the trustee, provided a successor trustee is appointed or the Fund is terminated.

RBC IS, as custodian, is responsible for the safekeeping of the assets of the Fund. The custodian may contract with sub-custodians to hold the assets of the Fund.

Registrars

RBC GAM and RBC IS act as registrars of the Fund and maintain the register of investors at RBC GAM's Vancouver office and at RBC IS' Toronto office.

Auditor

The auditor of the Fund is Deloitte LLP, Chartered Professional Accountants, located in Toronto, Ontario.

Board of Governors (Independent Review Committee)

The Board of Governors acts as the independent review committee that the Fund and other funds managed by RBC GAM are required to have pursuant to NI 81-107. The Board of Governors reviews and provides input on conflicts of interest matters in respect of RBC GAM and the Fund. The Board of Governors also provides advice to RBC GAM on other issues relating to the management of the Fund. For further information, see the section *Fund governance* on page 18.

Conflicts of interest

Principal holders of securities

(a) Funds

On August 6, 2014, the people, companies or other entities who beneficially owned, directly or indirectly, more than 10% of the outstanding units of a series of the Fund were as follows:

NAME OF BENEFICIAL OWNER	NUMBER OF UNITS OWNED	PERCENTAGE OF OUTSTANDING UNITS
Capital Funding Alberta Limited	15,000	100%

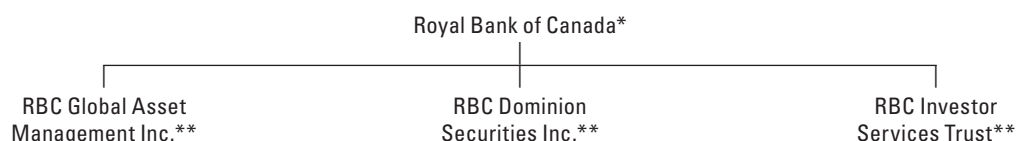
(b) RBC GAM

On August 6, 2014, Royal Bank indirectly beneficially owned 100% of the outstanding common voting shares of RBC GAM. As at August 6, 2014, the percentage of securities of each class or series of voting or equity securities of Royal Bank beneficially owned, directly or indirectly, in aggregate, by all the directors and senior officers of RBC GAM is no more than 0.01%, and by all members of the Board of Governors, is no more than 0.01%.

RBC IS does not own any securities of the Fund or RBC GAM or any other service provider to the Fund.

Affiliated entities

The following companies that provide services to the Fund are affiliated with RBC GAM:



* Royal Bank does not provide services to the Fund, and is included solely to demonstrate the connection between RBC GAM and its affiliates.

**Indirect wholly-owned subsidiary.

RBC DS provides brokerage services to the Fund. The fees paid to the above-noted affiliated entities are disclosed in the audited financial statements of the Fund.

The following individuals are directors or officers of RBC GAM and also of Royal Bank or an affiliated entity of Phillips, Hager & North that provides services to the Fund or RBC GAM in relation to the Fund.

NAME	POSITION WITH RBC GAM	POSITION WITH AFFILIATE
Wayne Bossert	Director	Executive Vice President, Royal Bank; Director, RBC DS
Douglas Coulter	Director and President, Retail	Senior Vice President, Royal Bank
Katherine Gibson	Director	Vice President, Royal Bank
M. George Lewis	Director and Chairman	Group Head, Wealth Management & Insurance, Royal Bank
John S. Montalbano	Director, Chief Executive Officer and Ultimate Designated Person	Executive Vice President, Royal Bank
Richard E. Talbot	Director	Managing Director, RBC DS; Officer, Royal Bank
Damon G. Williams	Director and President, Institutional	Senior Vice President, Royal Bank
Gina Zapras	Corporate Secretary	Assistant Corporate Secretary, RBC DS

As disclosed in the table above, certain directors or officers of RBC GAM may also be directors or officers of RBC DS or RBC IS or a senior officer of Royal Bank. RBC GAM has put into place appropriate policies and procedures to minimize the potential for conflicts between its interests and any affiliated entities. In particular, RBC GAM has policies and procedures which deal with trading in securities of Royal Bank and offerings underwritten by RBC DS, and to ensure that any brokerage business allocated to affiliates will be on the basis of best execution and will be on competitive terms and conditions.

Other matters

We perform investment advisory services for our clients as well as for certain investment funds that RBC GAM manages (collectively, "Accounts"). We make investment decisions for each Account dependent on the circumstances, investment objectives and guidelines of the specific Account. Our policy and practice is not to intentionally favour or disfavour any Account in the allocation of investment opportunities so that over a period of time, such opportunities will be allocated among Accounts on a fair basis. We may give advice and take action with respect to any Account that differs from the advice given to, or the action taken for, other Accounts. Our emphasis is on ensuring that all Accounts, through their portfolio managers, are given a fair opportunity to invest in a security that is appropriate for the specific Account. Each portfolio manager makes the final determination as to whether a particular investment opportunity is appropriate for the specific Account to which we provide investment advisory services.

To ensure efficient trade execution and a better price, when we engage in transactions for larger quantities of securities for a number of Accounts, we group the trade orders together for placement with securities dealers ("block trades"). The client's portfolio manager or the investment fund's manager, in advance of the order being placed with the securities dealers by us, determines the quantity of securities ordered for each Account. We set internal trade order submission deadlines for our portfolio managers for the purposes of making block trades. We use the *pro rata* method to allocate the price of the securities and the related commission costs for securities purchased or sold on a block basis whether or not an order is partially filled or

fully filled. Therefore, all clients and funds participating in a block trade receive the same execution price and commission cost for that block trade.

If there is only a limited amount of an investment opportunity available, such as for an Initial Public Offering ("IPO"), we determine the level of interest of the firm's portfolio managers on behalf of each Account, establish the size of the trade order, and allocate fills of the order on a *pro rata* basis. In certain circumstances, such as when the quantity of the IPO security is too small to allocate across a number of clients or funds, we will allocate an IPO purchase to one or two investment funds managed by RBC GAM in order to maximize the number of clients able to participate in the purchase and will choose different investment funds for participation in the next IPO. Accounts that are considered proprietary to us because of their or their affiliates' interest in the Account are not permitted to participate in IPOs.

Fund governance

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

Policies, procedures, practices and guidelines

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

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

Compliance with investment practices and investment restrictions mandated by securities legislation is monitored by RBC GAM on a regular basis. The investment practices and restrictions for the Fund and guidelines for derivative use, repurchase transactions and reverse repurchase transactions are outlined beginning on page 21.

RBC GAM has adopted a personal trading policy for employees (the "Policy") which is designed to prevent potential, perceived or actual conflicts between the interests of RBC GAM and the interests of clients and the Fund. Under the Policy, certain RBC GAM personnel are required to pre-clear certain personal securities transactions in order to ensure that those trades do not conflict with the best interests of the Fund and have not been offered to the person because of the position they hold in RBC GAM. RBC GAM has also adopted the basic principles set out in the Code of Ethics on Personal Investing established by the Investment Funds Institute of Canada.

Board of Governors

The Board of Governors acts as the independent review committee that the Fund and other funds managed by RBC GAM are required to have pursuant to NI 81-107. The Board of Governors also provides independent oversight as required under the terms of certain exemptive relief for certain transactions by certain non-prospectus funds managed by RBC GAM. The Board of Governors also provides advice to RBC GAM on other issues relating to the management of the Fund.

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

- › RBC GAM's policies and procedures relating to conflict of interest matters in respect of the Fund;
- › any standing instructions it has provided to RBC GAM pertaining to conflict of interest matters in respect of the Fund; and
- › RBC GAM's and the Fund's compliance with any conditions imposed by the Board of Governors in a recommendation or approval.

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

The Board of Governors will also prepare an annual report that describes its activities as the independent review committee of the Fund. For a free copy of this report, call us at 1-800-661-6141. You can also get a copy of this report on our website at www.rbcgam.com or by sending an email to info@phn.com.

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

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

NAME	MUNICIPALITY OF RESIDENCE	CURRENT PRINCIPAL OCCUPATION
Selwyn B. Kossuth ^{1,2}	Mississauga, Ontario	Financial Consultant
Charles F. Macfarlane ^{1,2}	Toronto, Ontario	Corporate Director
Lloyd R. McGinnis ⁴	Winnipeg, Manitoba	Director, Airport Site Redevelopment, Winnipeg Airports Authority
Linda S. Petch ^{1,2}	Victoria, British Columbia	Principal, Linda S. Petch Governance Services
Elaine Cousineau Phénix ³	Montréal, Québec	President, Phénix Capital Inc.
Mary C. Ritchie ^{1,2}	Edmonton, Alberta	President and Chief Executive Officer, Richford Holdings Ltd.
Joseph P. Shannon ³	Port Hawkesbury, Nova Scotia	President, Atlantic Corp. Ltd.
Michael G. Thorley ^{1,2}	Toronto, Ontario	Retired Lawyer
James W. Yuel ³	Saskatoon, Saskatchewan	Chair, PIC Investment Group Inc.

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

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

³ Member of the Governance Committee of the Board of Governors.

⁴ Chair of the Board of Governors.

Proxy voting guidelines

We have developed Proxy Voting Guidelines with the following principles in mind:

- › proxies will be voted in a manner that seeks to enhance long-term unitholder value;
- › proxies will be voted in a manner that is consistent with leading corporate governance practices; and
- › management has important insights into the value creation process.

We consider each matter on a case-by-case basis and may vote in a manner different from that contemplated by the general guidelines where we believe it is appropriate in the circumstances. We utilize the research services of Glass Lewis & Co., LLC and Institutional Shareholder Services, Inc., proxy voting advisory firms, as well as the voting services of Institutional Shareholder Services, Inc.

In the event that we face a potential material conflict of interest with respect to proxies, RBC GAM's Corporate Governance Committee will meet to resolve the conflict. In some cases, proxy voting matters may be referred to the Board of Governors for its recommendation. We employ a Governance Analyst who is responsible for ensuring that we vote all proxies in accordance with our Proxy Voting Guidelines and for identifying any situations that must be addressed by our Corporate Governance Committee. As we have discretionary authority over the Fund's portfolio, we file applicable class action settlement claims on behalf of the Fund.

A copy of the proxy voting record of the Fund for the most recent period ended June 30 of each year is available to any unitholder of that Fund upon request, at no cost, at any time after August 31 of that year.

You may obtain a copy of these guidelines or, when available, the proxy voting record of the Fund, at no cost by visiting our website, www.rbcgam.com, or by contacting us at the telephone number on the back cover of this Annual Information Form.

The Fund may invest in units of other funds managed by RBC GAM. We will not vote units of other funds managed by RBC GAM or its affiliates or associates held by the Fund. However, we may pass on the right to vote units of other funds managed by RBC GAM or its affiliates or associates to unitholders of the Fund that hold such units.

Policies and practices with respect to derivatives

Derivatives may be used in managing the Fund. A detailed description of the risks related to the use of derivatives for the Fund can be found in the Simplified Prospectus under the heading *What are the risks of investing in a mutual fund?*

Written policies and procedures are in place, setting out the objectives for derivatives trading and related risk management. The objectives are:

- › to enhance yields, or returns (or both);
- › to isolate and manage risk; and
- › to execute new strategies to add value.

Derivatives will not be used to create excess leverage, and will only be used as permitted by NI 81-102 and any applicable regulatory relief. They will be used for hedging purposes – to offset or control risk exposures of the Fund. They may also be used for non-hedging purposes. A description of the derivatives used by the Fund can be found in the Simplified Prospectus under the heading *What does the Fund invest in?*

Derivatives may be used to participate in changes to a particular market or group of securities without purchasing the securities directly.

RBC GAM is responsible for managing the risks associated with the use of derivatives. RBC GAM has written guidelines that set out the objectives and goals for derivatives trading, which are established and reviewed periodically by the board of

directors of RBC GAM as required. In addition, RBC GAM has written control policies and procedures in place that set out the risk management procedures applicable to derivatives trading. These policies and procedures set out specific procedures for the authorization, documentation, reporting, monitoring and review of derivative strategies ensuring that these functions are performed by individuals independent of those who trade. Limits and controls on derivatives trading are part of RBC GAM's compliance regime. All derivatives transactions are reviewed by a specially trained team that ensures that the derivatives positions of the Fund are within the existing control policies and procedures. As the use of derivatives by the Fund is limited, RBC GAM does not currently conduct simulations to test the portfolio under stress conditions. Derivatives strategies are regularly monitored by RBC GAM management and reviewed by the Financial Advisory Committee of the Board of Governors of the Fund on an annual basis.

Policies and practices with respect to securities lending, repurchase and reverse repurchase transactions

The Fund may enter into securities lending transactions, repurchase transactions and reverse repurchase transactions in accordance with applicable securities legislation. In addition, we have agreed to provide at least six months' notice (or as otherwise required by applicable legislation) to unitholders prior to commencing these transactions unless disclosure had been provided in the Simplified Prospectus of the Fund that the Fund may participate in such transactions when the Fund first became a reporting issuer. For details about how the Fund may engage in these transactions, please see the heading *How the Fund engages in securities lending transactions, repurchase transactions and reverse repurchase transactions* and the heading *Securities lending, repurchase and reverse repurchase risk* in the Simplified Prospectus for the Fund.

RBC IS or another custodian or sub-custodian of the Fund will act as the agent for the Fund in administering the securities lending, repurchase and reverse repurchase transactions of the Fund in accordance with an agency agreement. The risks associated with these transactions will be managed by requiring that the Fund's agent enter into such transactions, including negotiating agreements, with reputable and well-established Canadian and foreign brokers, dealers and institutions ("counterparties"). The agent will maintain internal controls, procedures and records, including a list of approved counterparties based on generally accepted creditworthiness standards, transaction and credit limits for each counterparty, and collateral diversification standards. Each valuation day, the agent will determine the market value of both the securities loaned by the Fund under a securities lending transaction or sold by the Fund under a repurchase transaction or purchased by the Fund under a reverse repurchase transaction and the cash and/or collateral held by the Fund for such transactions. If on any business day the market value of the cash or collateral is less than 102% of the market value of the borrowed or sold securities, on the next day the counterparty will be required to provide additional cash or collateral to the Fund to cover the shortfall.

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

Income tax considerations for investors

The following is a summary of the principal Canadian federal income tax considerations generally relevant to individual investors who, for purposes of the *Income Tax Act* (Canada), are individuals (other than trusts) resident in Canada and hold their units as capital property.

This summary is based on the current provisions of the *Income Tax Act* (Canada) and the regulations under it, all specific proposals to amend the *Income Tax Act* (Canada) and its regulations that have been publicly announced by the Minister of Finance, and the published administrative practices of the Canada Revenue Agency. It is assumed that all amendments will be passed as proposed.

This summary is of a general nature and is not intended to be exhaustive. It does not take into account provincial, territorial or foreign tax laws. **Investors should consult their own tax advisors with respect to the tax consequences in their particular circumstances.**

The Fund is not expected to qualify as a mutual fund trust because it will not meet conditions relating to the number of unitholders. The Fund is expected to be at all material times a registered investment under the *Income Tax Act* (Canada).

Taxation of the Fund

Generally, a trust must pay tax on its net income and net realized capital gains for a year, except to the extent such amounts are distributed to unitholders. The Trust Agreement requires the Fund to distribute all of its net income each year and sufficient of its net realized capital gains, so that the Fund will not pay any tax under Part I of the *Income Tax Act* (Canada) (other than alternative minimum tax). The Fund may be subject to alternative minimum tax under the *Income Tax Act* (Canada) and will not be entitled to capital gains refunds under the *Income Tax Act* (Canada).

If more than 50% of the units of the Fund are held by one or more unitholders that are considered to be “financial institutions” for the purposes of certain special mark-to-market rules under the *Income Tax Act* (Canada), then the Fund itself will be treated as a financial institution under those special rules. Initially, a subsidiary of Royal Bank will hold substantially all the outstanding units of the Fund. As a result, the Fund itself will be treated as a financial institution under those special rules. Under those rules, the Fund will be required to recognize at least annually on income account any gains and losses accruing on certain types of debt obligations and equity securities that it holds and also will be subject to special rules with respect to income inclusion on these securities. Any income arising from such treatment will be included in amounts to be distributed to unitholders. If more than 50% of the units of the Fund subsequently cease to be held by a subsidiary of Royal Bank and/or other financial institutions, the taxation year of the Fund will be deemed to have ended immediately before that time and any gains or losses accrued to that time will be deemed to be realized by the Fund as described above and will be reflected in amounts distributed in that shortened taxation year to unitholders of the Fund. A new taxation year for the Fund will then begin and for that and subsequent years, for so long as not more than 50% of the units of the Fund are held by financial institutions, the Fund will not be subject to these special mark-to-market rules.

All of the Fund’s deductible expenses, including expenses common to Series O of the Fund and expenses specific to Series O, will be taken into account in determining the income or loss of the Fund as a whole.

In computing the net income and net realized capital gains of the Fund, gains from investing in derivatives, other than derivatives used in some circumstances for hedging purposes, will generally be treated as income rather than capital gains. Loss suspension or restriction rules may prevent the Fund from using losses in certain circumstances.

The Fund will be liable for a penalty tax under subsection 204.6(1) of the *Income Tax Act* (Canada) if, at the end of any month, the Fund holds any investments that are not qualified investments for registered retirement savings plans, registered retirement income funds or deferred profit sharing plans. The tax for a month is equal to 1% of the cost of the non-qualified investments held at the end of the month.

If at any time in a year the Fund has a unitholder that is a “designated beneficiary,” the Fund will be subject to a special tax at the rate of 36% under Part XII.2 of the *Income Tax Act* (Canada) on its “designated income” within the meaning of the *Income Tax Act* (Canada). A “designated beneficiary” includes a non-resident, and “designated income” includes taxable capital gains from dispositions of “taxable Canadian property” and income from business carried on in Canada (which could include gains on certain derivatives). Where the Fund is subject to tax under Part XII.2, the Fund may make a designation which will result in unitholders that are not designated beneficiaries receiving a tax credit with respect to their share of the Part XII.2 tax paid by the Fund.

Taxation of unitholders

Each unitholder of the Fund will be required to include in computing his or her income for a particular year the portion of the net income, and the taxable portion of net realized capital gains, of the Fund for the year distributed to the unitholder (including such amounts distributed on the redemption of units), whether those amounts are distributed in cash or reinvested in additional units. We will advise each unitholder of the share of the net income, return of capital and net taxable capital gains distributions of the Fund distributed to the unitholder each year. Return of capital represents a return to the investor of a portion of their own invested capital.

To the extent that distributions made by the Fund to a unitholder in a year exceed the unitholder’s share of the Fund’s net income and net realized capital gains for the year, the excess distributions will be a return of capital that is not taxable to the unitholder but that reduces the adjusted cost base of the unitholder’s units. If a unitholder’s adjusted cost base is reduced to less than zero, the unitholder will be deemed to have realized a capital gain equal to the negative amount and the adjusted cost base will be reset at nil.

Where an investor acquires units of the Fund, the purchase price for the units may reflect net income and net realized capital gains which have not been distributed. The investor is subject to tax on his or her share of those amounts when distributed, even though the amounts were reflected in the purchase price paid for the units. Similarly, the investor’s share of capital gains realized after the units were acquired will include the portion of the gains that accrued before the investor acquired the units.

The Fund intends to make designations under the *Income Tax Act* (Canada) so that taxable dividends received from taxable Canadian corporations, income from foreign sources and net taxable capital gains distributed to unitholders will retain their character in the hands of unitholders. Distributed amounts that retain their character as taxable dividends on shares of taxable Canadian corporations will be subject to the gross-up and tax credit rules in the *Income Tax Act* (Canada). To the extent that such distributed amounts are distributions of eligible dividends received by the Fund, the enhanced gross-up and tax credit will apply. Each taxable unitholder will generally be entitled to a tax credit for foreign taxes paid by the Fund in respect of his or her share of income from foreign sources, except to the extent the Fund has deducted the foreign taxes in computing its income.

On a redemption (including a redemption to switch between funds) or other disposition of units of the Fund, the unitholder will realize a capital gain to the extent that the proceeds of disposition (net of the short-term trading fee, if applicable) exceed the adjusted cost base of the units plus any cost of disposition, or a capital loss to the extent that the total of the adjusted cost base of the units plus any costs of disposition exceeds the proceeds of disposition (net of the short-term trading fee, if applicable). One half of a capital gain generally must be included in income as a taxable capital gain. One half of a capital loss is an allowable capital loss, which may be applied against taxable capital gains realized in the year. Allowable capital losses in excess of taxable capital gains may be carried back three years or forward indefinitely and applied against taxable capital gains realized in those earlier or later years, subject to the rules in the *Income Tax Act* (Canada).

The adjusted cost base of a unit of the Fund is equal to the average adjusted cost base of all identical units of the Fund held by a unitholder. Generally, the aggregate adjusted cost base of all identical units at any time is equal to the total cost of Fund units purchased by the unitholder to that time (including units purchased by reinvesting distributions) minus the return of capital component of distributions and the adjusted cost base of units previously sold. The proceeds of disposition on the redemption of units of the Fund do not include net income or net realized gains, if any, that are distributed as part of the redemption amount.

In general, fees paid directly by a unitholder in respect of Series O units of the Fund held outside a registered plan should be deductible for income tax purposes to the extent that such fees are reasonable and represent fees for advice to the unitholder regarding the purchase or sale of units of the Fund or for services provided to the unitholder in respect of the administration or management of the unitholder's units of the Fund. The portion of the fees that represents services provided by the manager to the Fund, rather than directly to you, are not deductible for income tax purposes. Unitholders should consult their own tax advisors with respect to the deductibility of fees in their own particular circumstances.

Individuals (including most trusts) are required to pay tax equal to the greater of tax determined under the ordinary rules and alternative minimum tax. Amounts distributed by the Fund that are taxable dividends from taxable Canadian corporations or net taxable capital gains, and capital gains realized on the redemption of units, may increase a unitholder's liability for alternative minimum tax.

Investment by registered plans

Units of the Fund will be qualified investments under the *Income Tax Act* (Canada) for registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), deferred profit sharing plans ("DPSPs"), registered education savings plans ("RESPs"), registered disability savings plans ("RDSPs") and tax-free savings accounts ("TFSAs") provided that the Fund is registered as a registered investment for RRSPs, RRIFs and DPSPs. Units of the Fund will continue to be a qualified investment as long as the Fund is a registered investment under the *Income Tax Act* (Canada). Provided that the annuitant of an RRSP or RRIF, or the holder of a TFSA, deals at arm's length with the Fund and does not have a "significant interest" (within the meaning of the *Income Tax Act* (Canada)) in the Fund, units of the Fund will not be a prohibited investment under the *Income Tax Act* (Canada) for the RRSP, RRIF or TFSA. Units will also not be a prohibited investment for an RRSP, RRIF or TFSA if they are "excluded property" under the *Income Tax Act* (Canada) for that RRSP, RRIF or TFSA. Annuitants of RRSPs and RRIFs and holders of TFSAs should consult with their own tax advisors as to whether units of the Fund would be prohibited investments under the *Income Tax Act* (Canada) in their particular circumstances.

Remuneration of directors, officers and trustees

The Fund does not have directors or officers. RBC IS, in its capacity as the trustee of the Fund and other funds managed by RBC GAM, receives \$3,000 annually in remuneration for each such Fund for which RBC IS acts as trustee. RBC GAM, in its capacity as manager of the Fund, is entitled to receive a management fee set out in the Simplified Prospectus.

For the year ended December 31, 2013, members of the Board of Governors received annual fees and meeting fees in the amount of \$373,613 as well as \$63,395 as reimbursement for expenses in connection with performing their duties for the Fund and certain other prospectus-qualified funds managed by RBC GAM. These fees and expenses are allocated among the funds managed by RBC GAM in a manner that is fair and reasonable.

Material contracts

The material contracts, other than those entered into in the normal course of the Fund's business, are described briefly below.

1. Under the terms of the Trust Agreement, RBC GAM acts as manager, portfolio advisor and registrar of the Fund, and RBC IS acts as trustee. The Trust Agreement outlines the powers and duties of the parties, as well as the fees and expenses payable by the Fund, including management and trustee fees, administration fees and operating expenses. The management and administration fees payable by the Fund are described in the Simplified Prospectus.
2. Under an amended and restated custodian agreement dated as of July 31, 2014 between RBC GAM and RBC IS, RBC IS acts as the principal custodian for the Fund. The agreement may be terminated by either party giving notice 90 days in advance.

You can review any of these agreements during normal business hours at the main operating office of Phillips, Hager & North, 20th floor – 200 Burrard Street, Vancouver, British Columbia, V6C 3N5.

Legal and administrative proceedings

We are not aware of any material legal proceedings, either pending or ongoing, which would affect the Fund.

Certificate of the Fund, Manager, Promoter and Principal Distributor

August 6, 2014

This Annual Information Form, together with the Simplified Prospectus and the documents incorporated by reference into the Simplified Prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by the Simplified Prospectus, as required by the securities legislation of each of the provinces and territories of Canada and do not contain any misrepresentations.

RBC Global Asset Management Inc., on behalf of the Phillips, Hager & North Canadian Equity Underlying Fund II (the "Fund"), and in its capacity as manager, promoter and principal distributor of the Fund.

(signed) John S. Montalbano

John S. Montalbano
Chief Executive Officer

(signed) Frank Lippa

Frank Lippa
Chief Financial Officer

On behalf of the Board of Directors of RBC Global Asset Management Inc., on behalf of the Fund and in its capacity as manager, promoter and principal distributor of the Fund.

(signed) Damon G. Williams

Damon G. Williams
Director

(signed) Daniel E. Chornous

Daniel E. Chornous
Director

Phillips, Hager & North® Canadian Equity Underlying Fund II

Additional information about the Fund is available in the Fund's management report of fund performance, Fund Facts and financial statements. You can get a copy of these documents at no cost by calling us toll-free at 1-800-661-6141 or by contacting us at any of the addresses below. Copies of these documents are also available at www.rbcgam.com.

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

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