

# Simplified Prospectus

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 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 document (the "Simplified Prospectus") contains selected important information to help you make an informed investment decision and understand your rights as an investor. The Simplified Prospectus contains information about the Fund and the risks of investing in mutual funds generally, as well as the names of the firms responsible for the management of the Fund.

Additional information about the Fund is available in the annual information form for the Fund (the "Annual Information Form"), the most recently filed Fund Facts, the most recently filed annual financial statements of the Fund, any interim financial report of the Fund filed after those annual financial statements, the most recently filed annual management report of fund performance, and any interim management report of fund performance filed after that annual management report of fund performance. These documents are incorporated by reference into this Simplified Prospectus, 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](mailto:info@phn.com).

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

- › on our website at [www.rbcgam.com](http://www.rbcgam.com); or
- › at [www.sedar.com](http://www.sedar.com).

In this Simplified Prospectus, "you" and "your" mean the investor; "PH&N," "we," "us," "our" and "Phillips, Hager & North" 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.

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

### What is a mutual fund?

A mutual fund is a pool of investments made on behalf of people with similar investment objectives. When you invest in the 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 of investors. We follow a set of guidelines outlined in the investment objectives and investment strategies of the Fund. You can find these later in this Simplified Prospectus. You and all the other investors share in any profits or losses the mutual fund makes.

The Fund is organized as a trust and sold in units, which are issued in 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. There is no limit to the number of units the Fund can issue. However, the Fund may be closed to new investors from time to time.

### What are the risks of investing in a mutual fund?

There is no such thing as risk-free investing. For investors, risk is the possibility of losing money or not making any money. The same is true with mutual funds. The value of a mutual fund may change every day, reflecting changes in interest rates, economic conditions, and market and company news. Therefore, when you redeem your units in a mutual fund, you may receive less than the full amount you originally invested. The full amount of your investment in a mutual fund is not guaranteed and the Fund does not guarantee your principal or any level of income at any point. Unlike bank accounts or guaranteed investment certificates ("GICs"), mutual fund units are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

One risk of a mutual fund is that, in exceptional circumstances, the fund manager may not accept requests to redeem units of the fund, or the delivery of your redemption proceeds may be delayed. These circumstances in the context of the Fund are explained under the heading *Purchases, switches and redemptions* on page 10.

Mutual funds own different types of investments, depending on their investment objectives. The principal risks associated with a mutual fund are the same risks that affect the value of the investments held by that fund.

The total effect of the different types of risk is measured by volatility. Volatility measures how variable the value of a fund is relative to an expected return. The value of some funds will change very little over time while others will change substantially.

It is very important that you be aware of the risks associated with the different funds you invest in, their relative return over time and their volatility.

The value of mutual funds like the Fund can change from day to day because the value of the securities in which they invest can be affected by changes in interest rates, the economy, financial

markets or company news. As a result, when you redeem your mutual fund units, they may be worth more or less than when you bought them.

The specific risks applicable to the Fund are set out in the Fund's *Fund details* section starting on page 4.

## Specific information about the Phillips, Hager & North Canadian Equity Underlying Fund II

### Organization and management of the Fund

<p><b>Manager</b>  RBC Global Asset Management Inc.  Head Office  155 Wellington St. W.  Suite 2200  Toronto, Ontario M5V 3K7</p> <p>Phillips, Hager &amp; North Investment Management*  Main Operating Office  20th Floor, 200 Burrard Street  Vancouver, British Columbia V6C 3N5</p>	<p>RBC GAM is the manager and principal portfolio advisor of the Fund. Phillips, Hager &amp; 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 &amp; North has its main operating office in Vancouver, British Columbia.</p> <p>RBC GAM is an indirect wholly-owned subsidiary of Royal Bank. As manager, RBC GAM manages the overall business and operations of the Fund. The Fund may invest in units of other investment funds managed by RBC GAM or its affiliates or associates.</p> <p>We provide investment counselling services to company pension and multi-employer pension plans, foundations, endowments, corporations, private clients and our own investment funds.</p> <p>We will not vote units of other investment 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 investment funds managed by RBC GAM or its affiliates or associates to unitholders of the Fund that hold such units.</p>
<p><b>Portfolio Advisor</b>  RBC Global Asset Management Inc.  Head Office  155 Wellington St. W.  Suite 2200  Toronto, Ontario M5V 3K7</p> <p>Phillips, Hager &amp; North Investment Management*  Main Operating Office  Vancouver, British Columbia</p>	<p>As principal portfolio advisor, RBC GAM manages the investment portfolio of the Fund.</p>
<p><b>Principal Distributor</b>  RBC Global Asset Management Inc.  Phillips, Hager &amp; North Investment Management*  Main Operating Office  Vancouver, British Columbia</p>	<p>RBC GAM is the principal distributor of units of the Fund. As principal distributor, RBC GAM is responsible for marketing and distributing units of the Fund where permitted under applicable securities laws.</p>

<p><b>Trustee and Custodian</b> RBC Investor Services Trust Toronto, Ontario</p>	<p>As trustee, RBC Investor Services Trust ("RBC IS") holds title to securities owned by the Fund on behalf of its unitholders with responsibility to act in the best interest of unitholders. As custodian, RBC IS holds the Fund's cash and investments in safekeeping on behalf of the Fund. RBC IS is a wholly-owned subsidiary of Royal Bank and an affiliate of RBC GAM.</p>
<p><b>Registrars</b> RBC Global Asset Management Inc. Head Office 155 Wellington St. W. Suite 2200 Toronto, Ontario M5V 3K7  Phillips, Hager &amp; North Investment Management* Main Operating Office Vancouver, British Columbia  RBC Investor Services Trust Toronto, Ontario</p>	<p>The registrars process all the purchases and redemptions of units of the Fund, keep a register of all investors, and issue investor statements and annual tax slips for investors.</p>
<p><b>Auditor</b> Deloitte LLP Toronto, Ontario</p>	<p>As auditor, Deloitte LLP provides assurance that the Fund's annual financial statements present fairly, in all material respects, its financial position and results of operations in accordance with International Financial Reporting Standards.</p>
<p><b>Board of Governors</b> <b>(Independent Review Committee)</b></p>	<p>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 National Instrument 81-107 – <i>Independent Review Committee for Investment Funds</i> ("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.</p> <p>The Board of Governors also provides advice to RBC GAM on other issues relating to the management of the Fund.</p> <p>The Board of Governors is currently composed of nine members. Each member is independent from RBC GAM, the Fund and the entities related to RBC GAM. The Board of Governors prepares, at least annually, a report of its activities for you, which will be available on our website at <a href="http://www.rbcgam.com">www.rbcgam.com</a> or at your request and at no cost by calling us at 1-800-661-6141 or by emailing us at <a href="mailto:info@phn.com">info@phn.com</a>. Additional information about fund governance and the Board of Governors, including the names of its members, is available in the Fund's Annual Information Form.</p> <p>In certain circumstances, the Board of Governors is permitted under securities legislation to approve a fund merger instead of obtaining unitholder approval for such a merger. In these circumstances, you will receive written notice of any proposed fund merger at least 60 days prior to the completion of the merger.</p>

\* Phillips, Hager & North Investment Management is a division of RBC GAM that is principally responsible for carrying out RBC GAM's responsibilities as manager and principal portfolio advisor of the Fund.

## Phillips, Hager & North Canadian Equity Underlying Fund II

### Fund details

Type of fund	Canadian equity		
Date started	Series O – August 6, 2014		
Type of securities <sup>1</sup>	Series O trust units		
Eligibility	The Canadian Equity Underlying Fund II is a qualified investment for RRSPs, RRIFs, DPSPs, RESPs, RDSPs and TFSAs.		
Fees and expenses	See <i>Fees and expenses</i> on page 13 for more details.		
	Series	Management fee <sup>2</sup>	Administration fee
	Series O	0%	0.02%
<sup>1</sup> Another series of units of the Fund exists, but is not offered under this Simplified Prospectus. The rights attached to this other series of units do not affect the rights attached to the series of units offered in this Simplified Prospectus.			
<sup>2</sup> No management fees are charged to the Fund with respect to Series O units. Investors who are eligible to purchase Series O units pay a negotiated fee directly to us which will not exceed 2%. Only certain investors qualify to purchase Series O units. See <i>Purchases, switches and redemptions</i> on page 10.			

## What does the Fund invest in?

### Investment objectives

The fundamental investment objectives of the Fund are to provide long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks.

Fundamental investment objectives may only be changed with the approval of a majority of unitholders at a meeting called for that purpose. However, we may change the Fund's investment strategies described below, at our discretion.

### Investment strategies

The Fund is expected to be used primarily as an underlying fund for other mutual funds.

To achieve the Fund's investment objectives we will focus primarily on stocks with market capitalization greater than \$1 billion. We generally look for growth companies to invest in that have:

- › superior management;
- › industry leadership;
- › a high level of profitability compared to their competitors;
- › a sound financial position;
- › strong earnings growth; and
- › a reasonable valuation.

In addition to the standard investment restrictions imposed by securities legislation, the value of any one investment at month-end must not exceed 15% of the Fund's net assets at market value. This restriction does not apply to government or government-guaranteed debt instruments.

The Fund may use derivatives, such as swaps, options, futures and forward contracts, as permitted by National Instrument 81-102 – *Mutual Funds* ("NI 81-102"):

- › for hedging purposes, including to protect against losses or reduce volatility resulting from changes in interest rates, market indices or foreign exchange rates including changes in the value of foreign currency relative to the Canadian dollar; and
- › for non-hedging purposes, including as a substitute for direct investment or to generate income.

Any use of derivatives will be compatible with the Fund's investment objectives and strategies and will comply with applicable securities laws. For further information, please see *Derivatives risk* on page 6.

The Fund may invest a portion of its net asset value in non-Canadian securities where such an investment is compatible with the investment objectives of the Fund. The Fund may invest no more than 10% of its net asset value in non-Canadian securities.

We may invest up to 10% of the Fund's net asset value in units of other investment funds managed by RBC GAM where we believe that such investment is a more efficient and cost-effective way of achieving the Fund's investment objectives. We will only invest in units of other investment funds managed by RBC GAM where the investment is compatible with the Fund's investment objectives and strategies, and otherwise complies with applicable securities laws.

We may depart temporarily from the Fund's fundamental investment objectives as a result of adverse market, economic, political or other considerations. In these circumstances, we may, as a temporary defensive tactic, increase the Fund's holdings of cash or short-term money market securities.

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The Fund may enter into securities lending transactions, repurchase transactions and reverse repurchase transactions, as permitted by applicable securities laws, to earn additional income for the Fund. The Fund does not currently enter into these types of transactions, but for more information on how the Fund could engage in these types of transactions, please see *How the Fund engages in securities lending transactions, repurchase transactions and reverse repurchase transactions* below.

### How the Fund engages in securities lending transactions, repurchase transactions and reverse repurchase transactions

The Fund may enter into securities lending transactions, repurchase transactions and reverse repurchase transactions in accordance with applicable securities legislation.

A securities lending transaction occurs when the Fund lends portfolio securities that it owns to a creditworthy institutional borrower. The borrower promises to return to the Fund, at a later date, an equal number or amount of the same securities and to pay a fee to the Fund for borrowing the securities. The Fund may recall the securities at any time. The borrower provides the Fund with collateral consisting of cash and/or securities or non-cash collateral equal to no less than 102% of the market value of the loaned securities measured each business day. Therefore, the Fund retains exposure to changes in the value of the securities loaned while earning additional income.

A repurchase transaction occurs when the Fund sells portfolio securities that it owns to a creditworthy institution for cash and simultaneously agrees to buy back the securities at a later date not to exceed 30 days. The amount of cash maintained by the Fund for the transaction is at least 102% of the market value of the sold securities measured each business day. The Fund retains its exposure to changes in the value of the sold securities, but also earns additional income for participation in the repurchase transaction.

In securities lending and repurchase transactions, the Fund receives any interest or dividends paid by the issuer of the securities while those securities are held by the other party to the transaction.

A reverse repurchase transaction occurs when the Fund purchases portfolio securities from a creditworthy institution and simultaneously agrees to sell the securities back to the institution at a later date not to exceed 30 days. The difference between the Fund's purchase price for the securities and the resale price may provide the Fund with additional income. The basic purpose is to provide the Fund with short-term investment income for cash held by the Fund.

The Fund will not enter into a securities lending transaction or a repurchase transaction if, immediately thereafter, the aggregate market value of all securities loaned by the Fund and not yet returned to it, or sold by the Fund in repurchase transactions and not yet repurchased, would exceed 50% of the total assets of the Fund (exclusive of collateral held by the Fund for securities lending transactions and cash held by the Fund for repurchase transactions).

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. For further information, see the Fund's Annual Information Form.

## What are the risks of investing in the Fund?

The principal risks associated with an investment in this Fund are as follows:

### Market risk

Market risk is the risk of being invested in the equity and fixed-income markets. The market value of a mutual fund's investments will rise and fall based on specific issuer developments and broader equity or fixed-income market conditions. Market value will also vary with changes in the general economic and financial conditions in countries or sectors in which the investments are based.

### Currency risk

Most Canadian mutual funds are valued in Canadian dollars. However, mutual funds that purchase foreign securities may be required to pay for such securities using a foreign currency and receive a foreign currency when they sell them. Such mutual funds may also purchase foreign currencies as investments. As a result, changes in the value of the Canadian dollar compared to foreign currencies will affect the value, in Canadian dollars, of any foreign securities or foreign currencies in a mutual fund. For example, if the Canadian dollar rises relative to the U.S. dollar, the Fund's U.S.

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holdings, if any, will be worth fewer Canadian dollars. This decline in value may reduce, or even eliminate, any return the mutual fund has earned. Currency exposure may increase the volatility of foreign investments relative to Canadian investments. Some mutual funds may hedge (protect against) the risk of changes in foreign currency exchange rates of the underlying assets of the mutual fund.

### Foreign investment risk

Foreign investments are affected by global economic factors. There is often less information available about foreign companies and many countries have less stringent accounting, auditing and reporting standards than we do in Canada, or lower standards of government supervision and regulation. Some foreign stock markets have less trading volume, which may make it more difficult to sell an investment or may make prices more volatile. Certain countries may also have foreign investment or exchange laws that make it difficult to sell an investment or may impose withholding or other taxes that could reduce the return on the investment. Different financial, political and social factors could hurt the value of foreign investments. Investments in foreign markets may be subject to change in currency exchange rates, the imposition of taxes or the expropriation of assets. Mutual funds that specialize in foreign investments may experience larger or more frequent price changes in the short term. The risks of foreign investments are generally higher in emerging markets.

### Income trust risk

Income trusts generally hold debt and/or equity securities of an underlying active business or are entitled to receive a royalty on revenues generated by such a business. To the extent that an underlying business is susceptible to industry risks, interest rate fluctuations, commodity prices and other economic factors, investment returns from an income trust may be similarly affected. Although distributions and returns are neither fixed nor guaranteed, income trusts are structured in part to provide a constant stream of income to investors. As a result, an investment in an income trust may be subject to interest rate risk. There is also a remote risk that where claims against an income trust are not satisfied by that trust, investors in that trust could be held liable for any outstanding obligations.

### Derivatives risk

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

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

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

The most common types of derivatives are:

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

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

- › Using derivatives for hedging may not always work and it could limit a mutual fund's potential to make a gain.
- › Using derivatives for non-hedging does not protect a mutual fund from a decline in the value of the underlying security, currency or market for which the derivative is a substitute.
- › Costs relating to entering into, maintaining and unwinding derivatives contracts may reduce the returns of a mutual fund.
- › The price of a derivative may not accurately reflect the value of the underlying currency or security.
- › There is no guarantee that a mutual fund can close out a derivative contract when it wants to. If, for example, a stock exchange imposes trading limits, it could affect the ability of a mutual fund to close out its position in derivatives. This type of event could prevent a mutual fund from making a profit or limiting its losses.



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- › Derivatives traded on foreign markets may be harder to trade and have higher credit risks than derivatives traded in North America.
- › The other party to a derivative contract, known as the counterparty, may not be able to meet its obligation to complete the transaction. In general, credit ratings are relied on as indications of the ability of the other party to live up to its agreement. In the event of the bankruptcy or insolvency of the counterparty, collateral posted by the mutual fund to secure obligations of the fund pursuant to derivatives contracts may be difficult to recover. During the recovery process, the collateral posted may fluctuate in value.

### Securities lending, repurchase and reverse repurchase risk

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There are risks associated with securities lending transactions, repurchase transactions and reverse repurchase transactions. The value of securities loaned under a securities lending transaction or sold under a repurchase transaction may exceed the value of the collateral held by a mutual fund like the Fund. If there is a default on an obligation to repay or resell the securities to the mutual fund, the collateral may be insufficient to enable the mutual fund to purchase replacement securities and the mutual fund may suffer a loss for the difference and/or experience delays in receiving payment. Similarly, the value of securities purchased by a mutual fund under a reverse repurchase transaction may decline below the amount of cash paid by the mutual fund. If there is a default on an obligation to repurchase the securities from the mutual fund, the mutual fund may need to sell the securities for a lower price and suffer a loss for the difference.

For more information about how the Fund may engage in these transactions, please see the section called *How the Fund engages in securities lending transactions, repurchase transactions and reverse repurchase transactions* on page 5.

### Large investor risk

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The securities of a mutual fund like the Fund may be held in significant percentages by an investor, including another mutual fund. In order to meet purchase and redemption requests by the investor, the mutual fund may have to alter its holdings significantly and purchase or sell investments at unfavourable prices and incur capital gains and transaction costs. This can reduce the returns of the mutual fund. As at August 6, 2014, one investor held 100% of the net asset value of the Fund. If an investor holds units representing a large portion of the outstanding units of the Fund, an investment in the Fund will involve large investor risk.

If the Fund experiences a “loss restriction event” (i) the Fund will be deemed to have a year-end for tax purposes, and (ii) the Fund will become subject to the loss restriction rules generally applicable to corporations that experience an acquisition of control, including a deemed realization of any unrealized capital losses and restrictions on their ability to carry forward losses. Generally, the Fund will be subject to a loss restriction event when a person becomes a “majority-interest beneficiary” of the Fund, or a group of persons becomes a “majority-interest group of beneficiaries” of the Fund, as those terms are defined in the affiliated persons rules contained in the *Income Tax Act* (Canada) (the “Tax Act”), with appropriate modifications. Generally, a majority-interest beneficiary of a Fund will be a beneficiary who, together with the beneficial interests of persons and partnerships with whom the beneficiary is affiliated, has a fair market value that is greater than 50% of the fair market value of all the interests in the income or capital, respectively, in the Fund.

### Limited operating history risk

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The Fund was recently formed and has no, or a limited, operating history. There can be no assurance that we will be successful in achieving the Fund’s investment objectives.

## Who should invest in the Fund?

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

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

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

This Fund may be right for you if:

- › you are seeking exposure to investments in quality, primarily Canadian, growth companies; or

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› you are planning to hold this investment for the long term and can tolerate medium investment risk.

### Investment risk classification methodology

The fund risk rating referred to in this section will help you decide, along with your financial advisor, whether the Fund is right for you. This information is only a guide. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Fund Risk Classification Task Force ("Task Force") of the Investment Funds Institute of Canada ("IFIC"). The Task Force concluded that the most common, easily understood form of risk is the historical volatility of a fund as measured by the standard deviation of its performance. Just as historical performance may not be indicative of future returns, a fund's historical volatility may not be indicative of its future volatility. You should be aware that other types of risk, both measurable and non-measurable, also exist.

Standard deviation is a statistical measure used to estimate the dispersion of a set of data around the average value of the data. In the context of investment returns, it measures the amount of variability of returns that has historically occurred relative to the average return. For example, if a fund has an average annual return of 7% and a standard deviation of 9%, the fund's historical one-year return would have ranged between -2% and 16% (i.e. 7% +/- 9%) approximately two-thirds (68%) of the time. Approximately one-third of the time the fund's historical one-year return would have been either lower or higher than this range. Accordingly, the higher the standard deviation of a fund, the greater the range of returns it has experienced in the past.

Using this methodology, we assign a risk rating to the Fund as either low, low to medium, medium, medium to high, or high risk.

- › Low – Funds that are rated with a low risk rating are commonly associated with money market funds and Canadian fixed-income funds.
- › Low to medium – Funds that are rated with a low to medium risk rating are commonly associated with balanced, higher yielding fixed-income and asset allocation funds.
- › Medium – Funds that are rated with a medium risk rating are commonly associated with equity funds investing in large-capitalization companies in developed markets.
- › Medium to high – Funds that are rated with a medium to high risk rating are commonly associated with equity funds investing in small-capitalization companies or specific regions or sectors.

- › High – Funds that are rated with a high risk rating are commonly associated with equity funds investing in narrow sectors or emerging market countries where there may be substantial risk of loss over short to medium periods.

Using an average annual return of 7% as an example, IFIC risk categories can be summarized in the following table:

Risk Rating Categories	Standard deviations (%)	Average return (%)	Range of return (%)
Low	0 to 6	7	1 to 13
Low to medium	6 to 11	7	-4 to 18
Medium	11 to 16	7	-9 to 23
Medium to high	16 to 20	7	-13 to 27
High	> 20	7	< -13 to > 27

Generally, the Fund's risk rating is determined by comparing its average rolling three-year and/or five-year standard deviation, where applicable, calculated monthly and annualized from the inception of the Fund with the categories set out above. Because the Fund is new and does not have at least three years of performance history, we use the Fund's benchmark index as a proxy. There may be times when we believe this methodology produces a result that does not reflect the Fund's risk based on other qualitative factors. As a result, we may place the Fund in a different risk rating category, as appropriate. For example, when a comparable mandate already exists and the Fund's performance history is too short, we may assign a risk rating based on the historical standard deviation of performance of a comparable mandate in making our final determination of the Fund's risk rating. We review the risk rating for the Fund on an annual basis.

The methodology that we use to identify the investment risk level of the Fund is available on request at no cost, by calling us toll-free at 1-877-408-6019 or by writing to us at 155 Wellington St. W., Suite 2200, Toronto, Ontario, M5V 3K7.

### Distribution policy

A distribution of net income and net realized capital gains is made annually in December. If and when the Fund offers other series of units, net income and net realized capital gains may be distributed periodically as management fee reimbursements.

**Distributions from the Fund are automatically reinvested in units of the Fund unless you tell us in advance that you want to receive your distributions in cash.** For more information about distributions, please see *Distributions from the Fund* on page 16.

## Phillips, Hager & North Canadian Equity Underlying Fund II

### Fund expenses indirectly borne by investors

Information regarding fund expenses indirectly borne by investors is not available because this Fund was created on July 31, 2014.

### Other information about the Fund

#### Regulatory relief from investment restrictions

Subject to the exceptions described below and in the Fund's Annual Information Form, RBC GAM manages the Fund in accordance with the standard mutual fund investment restrictions and practices (the "restrictions") contained in securities legislation, including NI 81-102 and NI 81-107. The restrictions are designed in part to ensure that the investments of the Fund are diversified and relatively liquid and to ensure the proper administration of the Fund. The exception applicable to the Fund described below may only be relied upon by the Fund where compatible with the investment objectives of the Fund. Additional information about the exemptive relief described below, and other types of transactions with related parties that the Fund is permitted to engage in, is contained in the Fund's Annual Information Form under the heading *Investment restrictions*.

#### Related party underwritings

A mutual fund is generally prohibited from investing in a class of securities for which a related dealer has acted as underwriter during the period in which the distribution of those securities is carried out and for 60 days after that distribution. However, RBC GAM has obtained relief pursuant to which the Fund is permitted to purchase equity securities for which a related dealer has acted as underwriter, subject to Board of Governors approval and certain other conditions, during the distribution and for 60 days thereafter: (i) when a prospectus is filed in respect of the securities; or (ii) when no prospectus is filed in respect of the securities provided that the issuer is a reporting issuer in Canada.

Please also refer to the Fund's Annual Information Form for additional information on the exemptions from the restrictions that RBC GAM has obtained.

#### Proxy voting

The proxies associated with securities held by the Fund will be voted in accordance with guidelines which seek to enhance long-term shareholder value and which are consistent with leading

corporate governance practices. The guidelines are available on our website, [www.rbcgam.com](http://www.rbcgam.com), or by contacting us at 1-800-661-6141.

We may use a third-party firm to assist in evaluating how specific proxies should be voted. We may also delegate the actual voting of proxies to a third-party firm, under strict guidance provided by us.

#### Portfolio turnover rate

The portfolio turnover rate indicates how actively the Fund's portfolio advisor manages the Fund's investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. In any year, the higher the Fund's portfolio turnover rate, the greater the trading costs payable by the Fund and the larger the capital gains distributions may be. There is not necessarily a relationship between a high portfolio turnover rate and the performance of the Fund. For information about the potential tax consequences that a high portfolio turnover rate may have on the Fund and on investors, see the section called *Units held in non-registered accounts* on page 16.

## Purchases, switches and redemptions

### How the units are valued

The Fund's units are divided into several series. Each series is divided into units of equal value. When you invest in the Fund, you are actually purchasing units of a specific series of the Fund.

All transactions are based on the series net asset value per unit ("unit value"). We determine the unit value at the close of trading on each valuation day. A valuation day is defined as any day that the Toronto Stock Exchange (the "TSX") is open for business, and/or any day or days as we determine, subject to compliance with applicable securities laws.

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

Here is how we calculate the unit value of each series of the Fund:

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

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

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, on the Phillips, Hager & North investment funds website at [www.rbcgam.com](http://www.rbcgam.com) or by calling us toll-free at 1-800-661-6141, or by sending an email to [info@phn.com](mailto:info@phn.com).

### How to buy, redeem and switch

The Fund is permitted to have an unlimited number of series of units and may issue an unlimited number of units of each series.

#### 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 us from time to time. No management fees are payable by the Fund in respect of Series O

units. Unitholders pay a negotiated fee directly to us, which will not exceed 2%. Series O units may only be purchased, switched or redeemed through us.

If you become ineligible to hold units of the Fund, we may require you to bring the value of your account up to the minimum, or 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.

For us to act on an order to buy, redeem 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. 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. You will find more information about buying, redeeming and switching units of the Fund in the Fund's Annual Information Form.

There are no charges for opening an account or buying units of the Fund directly through us.

### Restrictions on purchasing units of the Fund

When you buy units of the Fund you have to include full payment for your units with your order.

If we do not receive payment in full within the time limits described above or if a cheque is returned because of 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.

**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.**

### Short-term trading

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

Some investors may seek to trade units frequently in an effort to benefit from differences between the value of the Fund's units and the value of the underlying securities (market timing). These activities, if undertaken by unitholders, can negatively impact the value of the Fund to the detriment of other unitholders. They may also increase the Fund's transaction costs. Excessive short-term trading can also reduce the Fund's return because the Fund may be forced to hold additional cash to pay redemption proceeds or, alternatively, to sell portfolio holdings, thereby incurring additional trading costs.

Depending on the particular circumstances, we will employ a combination of preventative and detective measures to discourage and identify excessive short-term trading in the Fund, including:

- › imposition of short-term trading fees; and
- › monitoring of trading activity and refusal of trades.

#### Short-term trading fee

A fee of 2% of the amount redeemed or switched may be charged if you invest in units of the Fund for a seven-day period or less.

Short-term trading fees are designed to deter excessive trading and offset its associated costs and are paid to the Fund, not to us. See *Fees and expenses* on page 13.

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

- › for redemptions initiated by us or another investment fund;
- › for redemptions of \$2,500 or less;
- › for redemptions within seven 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.

### Monitoring of trading activity

RBC GAM regularly monitors transactions in the Fund. RBC GAM has established criteria for the Fund that is applied fairly and consistently in an effort to eliminate trading activity that RBC GAM deems potentially detrimental to long-term unitholders. RBC GAM has 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.

RBC GAM has the right to consider trading activity in multiple accounts under common ownership, control or influence as trading in a single account when exercising our right to reject a purchase or switch. **Whether your trading is considered excessive will be determined in our sole discretion.**

### Purchases

Series O units are no load, which means you can buy, redeem or switch Series O units of the Fund without paying a commission. See *Fees and expenses* on page 13 and *Dealer compensation* on page 16 for more information.

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

Restrictions apply to purchases of units of the Fund. Please see *Restrictions on purchasing units of the Fund* on page 10.

### Switching between funds

You may redeem units of the Fund to buy units of another fund managed by RBC GAM or, in some cases, an affiliate. This is called "switching." You may do so as long as you maintain the relevant minimum balance in each fund.

The same rules 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 or switching into or out of units of the Fund, other than short-term trading fees (please refer to the heading *Short-term trading fee* on page 11).

**These switches will constitute a disposition and may result in capital gain or loss for income tax purposes. You are responsible for tracking and reporting to the Canada Revenue Agency (the “CRA”) any capital gain or loss that you realize. For information about income tax considerations, please see *Income tax considerations for investors* on page 16.**

We may suspend or restrict your switching privileges if you switch between funds too often.

Restrictions on purchases of units of the Fund also apply in respect of switches into units of the Fund. See *Restrictions on purchasing units of the Fund* on page 10.

## **Redemptions**

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With the exception of the short-term trading fee (please refer to the heading *Short-term trading fee* on page 11), there are no charges for redeeming units of the Fund directly through us.

When you redeem units of the Fund, we will send you your money within three business days of the valuation day on which the order to redeem units was received, if:

- › instructions necessary to complete the transaction have been received; and
- › any payment for buying the same units that you are redeeming has cleared.

However, you may receive the money later due to mail delays.

### **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

A brief description of the fees and expenses that you may have to pay if you invest in the Fund is set out in the table below. You may have to pay some of these fees and expenses directly. The Fund may pay some of these fees and expenses, which will therefore reduce the value of your investment in the Fund.

### FEES AND EXPENSES PAYABLE BY THE FUND

<b>Management fees</b>	<p>The Fund does not pay a management fee with respect to Series O units. Investors who are eligible to purchase Series O units pay a negotiated fee directly to RBC GAM which will not exceed 2% for investment services provided pursuant to an agreement between the investor and RBC GAM, and will be subject to applicable taxes including GST/HST. RBC GAM, in its capacity as manager of the Fund, manages the day-to-day business of the Fund. RBC GAM acts as principal portfolio advisor of the Fund, managing the investment portfolio of the Fund.</p> <p>Unitholders will be provided with written notice of any change to these fees (and any other fee charged to the Fund) that could result in an increase in charges to the Fund at least 60 days before the change becomes effective.</p>
<b>Operating expenses</b>	<p>We pay certain operating expenses of the Fund. These expenses include regulatory filing fees and other day-to-day operating expenses including, but not limited to, recordkeeping, accounting and fund valuation costs, custody fees, audit and legal fees and the costs of preparing and distributing annual and semi-annual reports, prospectuses, statements and investor communications. In return, the Fund pays RBC GAM a fixed administration fee. The administration fee is listed under the heading <i>Fund details</i>, and is subject to applicable taxes including GST/HST. The amount of operating expenses paid by us in exchange for the payment of the administration fee may exceed or be less than the administration fee in any particular period. The Fund will continue to pay certain operating expenses directly, including the costs and expenses related to the Board of Governors, the cost of any government or regulatory requirements introduced after July 1, 2009, and any borrowing costs (collectively, "other fund costs") and taxes (including GST/HST as applicable).</p> <p>Unitholders will be provided with written notice at least 60 days before the basis of calculating any of these expenses (or any other expense charged to the Fund) is changed in any other way that could result in an increase in charges to the Fund.</p> <p>We may, in some years and in certain cases, pay a portion of a series' administration fee or other fund costs. The decision to absorb the administration fee or other fund costs is reviewed annually and determined at the discretion of Phillips, Hager &amp; North without notice to unitholders.</p> <p>The Fund may invest in units of other funds managed by RBC GAM or its affiliates. These other funds have their own fees and expenses to pay in addition to those paid by any fund that invest in them. However, the Fund will not invest in units of another fund if the Fund would be required to pay any management or incentive fees in respect of that investment that a reasonable person would believe duplicates a fee</p>

payable by the other fund for the same service. In addition, the Fund will not invest in another fund managed by RBC GAM if any sales or redemption fees are payable in respect of the investment or invest in any other fund if the Fund would be required to pay any sales or redemption fees in respect of the investment that a reasonable person would believe duplicates a fee payable by unitholders.

#### Harmonized Sales Tax on Management Expense Ratio

Effective July 1, 2010, the provinces of Ontario and British Columbia harmonized the provincial sales tax with the GST, resulting in an HST. Effective January 1, 2013, Quebec harmonized the provincial sales tax with the GST, resulting in a GST/QST. Effective April 1, 2013, British Columbia returned to the provincial sales tax and the GST and Prince Edward Island harmonized the provincial sales tax with the GST, resulting in an HST. HST has been applicable in Nova Scotia, New Brunswick and Newfoundland and Labrador since 1997. The Fund is generally required to pay HST of up to 15% on administration fees charged to the Fund. In general, the HST rate depends on the residence of the Fund's unitholders. If all of the Fund's unitholders were resident in Ontario, the rate of HST levied would be 13%. Changes in existing HST rates, the adoption of HST by additional provinces and changes in the breakdown of the residence of the Fund's unitholders may therefore have an impact on the management expense ratio of the Fund, year over year.

#### 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. Each member of the Board of Governors is entitled to receive an annual fee of \$25,000 (\$35,000 for the Chair) and \$3,500 per meeting of the Board of Governors. Each member that sits on a subcommittee of the Board of Governors is entitled to receive an additional meeting fee with respect to these committee meetings. For the Governance Committee, each member is entitled to receive a meeting fee of \$2,500 and the Chair of this committee is also entitled to receive an annual fee of \$5,000. For the Financial Advisory Committee, each member is entitled to receive a meeting fee of \$3,000 and the Chair of this committee is also entitled to receive an annual fee of \$5,000. Each member of the Investment Conflicts Committee is entitled to receive a meeting fee of \$4,000 and the Chair of this committee is also entitled to receive an annual fee of \$5,000. Each member of the Board of Governors will also be reimbursed for expenses in connection with performing his or her duties in this regard. These fees and expenses are allocated among the funds managed by RBC GAM in a manner that is fair and reasonable. The administration fee and operating expenses borne directly by the Fund will be included in the management expense ratio of the Fund.



**FEES AND EXPENSES PAYABLE DIRECTLY BY YOU**

<b>Sales charges</b>	The Series O units of the Fund are “no load,” which means you can buy, redeem or switch units of this series through us without paying any sales charge or commissions.
<b>Switch fees</b>	<p>There is no fee payable to us for switching from the Fund to another fund managed by us.</p> <p>RBC GAM may charge a short-term trading fee if you switch your units within seven days of buying them. Please see <i>Short-term trading fee</i> on page 11 of this Simplified Prospectus.</p>
<b>Redemption fees</b>	You pay no sales charge when you redeem Series O units of the Fund. RBC GAM may charge a short-term trading fee if you redeem your units within seven days of buying them. Please see <i>Short-term trading fee</i> on page 11 of this Simplified Prospectus.
<b>Short-term trading fees</b>	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. Please see <i>Short-term trading fee</i> on page 11 of this Simplified Prospectus.
<b>Registered tax plan fees</b>	<p>Fees may be payable to your dealer if you transfer an investment within a registered plan to another financial institution.</p> <p>None of these fees are paid to us.</p>
<b>Other fees and expenses</b>	Investors who are eligible to purchase Series O units pay a negotiated fee directly to us which will not exceed 2%.

## Impact of sales charges

The Fund is “no load,” which means you pay no sales charges or commissions when you buy and redeem units of the Fund through us. You also pay no account set-up or administration fees, and you may transfer your units from the Fund to another fund managed by us at no administrative cost.

Although you pay no sales charges or commissions when you buy and redeem units of the Fund through Phillips, Hager & North, securities regulators require the inclusion of the following table to allow you to easily compare our funds to other mutual funds. The table is intended to show the amount of fees that you would have to pay under different purchase options if you made an investment of \$1,000 in the Fund, if you held that investment for one, three, five or ten years, and if you sold your units immediately before the end of each of these time periods:

	Redemption fee at time of purchase	Redemption fee before end of:			
		1 year	3 years	5 years	10 years
Sales charge option <sup>1</sup>	Nil	Nil	Nil	Nil	Nil
Redemption charge option <sup>1</sup>	Nil	Nil	Nil	Nil	Nil
No-load option <sup>2</sup>	Nil	Nil	Nil	Nil	Nil

<sup>1</sup> There is no sales charge option or redemption charge option when you buy units of the Fund through us.

<sup>2</sup> This is the only purchase option when you buy units through us.

## Dealer compensation

### How your investment professional and dealer are paid

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

Series O units are “no load,” which means you can buy, redeem or switch units of these series through us without paying a commission.

### Trailing commissions

We do not pay trailing commissions on Series O units.

### Other forms of dealer support

RBC GAM and its affiliates may participate in co-operative advertising programs with dealers to help them market the Fund. Such activities will be in accordance with the rules set out in National Instrument 81-105 – *Mutual Fund Sales Practices*.

Royal Bank owns, directly or indirectly, 100% of RBC GAM, which is the principal distributor in respect of Series O units of the Fund.

### Dealer compensation from management fees

The Fund does not pay management fees with respect to Series O units.

## Income tax considerations for investors

This section is a general summary of how your investments in the Fund are taxed. It applies to individual investors who are residents of Canada and hold their units in a non-registered account as capital property, or in an RRSP, RRIF, DPSP, RESP, Registered Disability Savings Plan or TFSA (collectively, “registered plans”). **Please consult with a tax advisor about your own circumstances.**

### Distributions from the Fund

The Fund may earn dividend, interest or other income from the investments in its portfolio, and in certain circumstances may be deemed to have earned income. It may also realize income or capital gains when it sells investments at a profit. Gains from derivatives, other than derivatives used in some circumstances for hedging purposes, are generally treated as income rather than capital gains.

The Fund pays out its net income and a sufficient portion of its net realized capital gains to investors, so that the Fund does not have to pay ordinary income taxes. These payments are called “distributions.” The portion of the regular distributions payable to unitholders of each series is determined based on a number of factors. Regular distributions payable to unitholders of a series are divided equally among all the units of the series. As an investor, you are entitled to your share of these distributions. The Fund may make distributions that are, wholly or partly, a return of capital. Return of capital represents a return to the investor of a portion of their own invested capital.

**We will reinvest your distributions to buy additional units of the Fund, unless you tell us in advance that you want to receive your distributions in cash.**

### Units held in non-registered accounts

If you hold your units in a non-registered account, you have to report the distributions you receive from the Fund (other than returns of capital) on your income tax return. Generally, distributions of Canadian dividends, capital gains and foreign source income will retain their character, and be taxed as if you earned them directly.

If you receive distributions from the Fund that are in excess of your share of the Fund’s net income and net realized capital gains, the excess will be treated as a return of capital. Return of capital

represents a return to the investor of a portion of their own invested capital. You don't pay tax on a return of capital. Instead it reduces the adjusted cost base ("ACB") of your units. If the ACB of your units is reduced to less than zero you will be deemed to realize a capital gain equal to the negative amount and your ACB will be reset to nil.

You will be sent a tax slip each year that shows your share of the Fund's distributions of income and capital gains.

When you invest in the Fund, the unit price may include accrued or realized income and/or capital gains which have not been distributed. You will have to include your share of a distribution of those amounts on your income tax return, even though the amounts were reflected in the purchase price for your units. Similarly, unrealized capital gains at the time you buy your units will be taxable if they are realized and distributed to you. This consideration may be particularly important if you invest in an equity fund late in the year.

The higher a fund's portfolio turnover rate, the more frequently it realizes taxable capital gains and losses. This can result in investors receiving larger capital gains distributions than investors in funds with a lower portfolio turnover rate. There is an explanation of portfolio turnover rate under that heading on page 9.

You will have a capital gain if you redeem any units (including a redemption to switch funds) for more than the ACB of the units plus your costs to redeem the units. You will have a capital loss if you redeem the units for less than their ACB plus your costs to redeem the units. The redemption amount used to compute a capital gain or loss is net of the short-term trading fee. On your tax return, one half of a capital gain generally is included in your income, and one half of a capital loss generally may be offset against the taxable portion of any capital gains you realize.

The ACB of a unit is equal to the average ACB of all your identical units of the Fund. Generally, the aggregate ACB of all your identical units is equal to the total cost of units you have bought to that time (including units purchased by reinvesting distributions) minus the return of capital component of distributions and the ACB of units previously redeemed.

In general, fees paid directly by you 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 you regarding the purchase or sale of units of the Fund or for services provided to you in respect of the administration or management of your units of the Fund. The portion of the fees that represents services provided by the manager to the Fund, rather than directly to you, is not deductible for income tax purposes. You should consult your own tax advisor with respect to the deductibility of fees in your own particular circumstances.

## Switching between funds

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For tax purposes, switching units of the Fund is considered to be the same as redeeming units for cash, even though you actually reinvested the money in units of another fund. The same tax rules apply for switching between funds as for redeeming your units.

## Units held in registered plans

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If you hold your units in a registered plan, the plan generally does not have to pay any taxes on income or capital gains. You generally do not have to pay taxes on these amounts until you withdraw your money from the plan. Any amount you withdraw from a registered plan (other than an RESP, RDSP or TFSA) is fully taxable. Any amount withdrawn from an RESP or RDSP is generally taxable to the extent it is not a refund of contributions. Amounts withdrawn from a TFSA are not taxable.

## Tax information

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Pursuant to the recent Intergovernmental Agreement for the Enhanced Exchange of Tax Information under the Canada-U.S. Tax Convention entered into between Canada and the United States (the "IGA"), and related proposed Canadian legislation, the Fund and the manager are required to report certain information with respect to unitholders who are U.S. residents and U.S. citizens (including U.S. citizens who are residents or citizens of Canada), and certain other "U.S. Persons" as defined under the IGA (excluding registered plans such as RRSPs), to the CRA. The CRA will then exchange the information with the U.S. Internal Revenue Service pursuant to the provisions of the Canada-U.S. Income Tax Treaty.

## What are your legal rights?

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

Securities legislation in some provinces and territories also allows you to cancel an agreement to buy mutual fund units and get your money back, or to make a claim for damages, if the Simplified Prospectus, Annual Information Form, Fund Facts or financial statements misrepresent any facts about the fund. These rights must usually be exercised within certain time limits.

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

## **Phillips, Hager & North® Canadian Equity Underlying Fund II**

Additional information about the Fund is available in the Annual Information Form, the Fund Facts, the management reports of fund performance and the financial statements. These documents are incorporated by reference into this Simplified Prospectus, 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 or by contacting us at any of the addresses below. Copies of these documents are also available at [www.rbcgam.com](http://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](http://www.sedar.com).

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**RBC Global  
Asset Management**

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