

PHILLIPS, HAGER & NORTH FUNDS

# 2014 Pension Trusts Annual Report



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## BALANCED FUND

**PHILLIPS, HAGER & NORTH  
BALANCED PENSION TRUST***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

**A Note on Forward-looking Statements**

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

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

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

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

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

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth and income by investing primarily in a strategic asset mix of Canadian and foreign equities, Canadian fixed income securities and money market instruments. Its asset mix is adjusted periodically to reflect changing economic and market conditions. The magnitude and timing of all rebalancing decisions within the Fund are made by a team of investment professionals who focus on determining the best asset mix in any given economic environment. To achieve the Fund's investment objective, we invest a significant portion or even all of the net asset value of the Fund in other funds managed by RBC GAM where the investment is consistent with the investment objectives and strategies of the Fund.

### Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value remained steady at \$1.3 billion as of December 31, 2014, from \$1.3 billion at the end of 2013. Of the change, \$153.5 million was due to investment returns, offset by \$124.8 million in net outflows.

Over the past year, the Fund's Series A units gained 12.0%, which outperformed the benchmark return of 10.6% and the broad-based index return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China's economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

The Fund was positioned to hold an overweight position in stocks and an underweight position in bonds, and this allocation had a neutral effect on performance in 2014.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds, had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts. The Fund's fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Bond Fund.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC's late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the "Fed") to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015. All of the Fund's equity holdings contributed positively, with the majority of the performance coming from the Phillips, Hager & North Canadian Equity Underlying Fund and the RBC QUBE Global Equity Fund.

### Recent Developments

The world's major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds. As a result, the portfolio manager has maintained overweight exposure to equities and an underweight position in bonds.

### **Related-Party Transactions**

#### ***Manager, Portfolio Advisor and Registrar***

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

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

#### ***Distributor***

RBC GAM is the principal distributor of the Fund.

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

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

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

#### ***Other Related-Party Transactions***

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as the Independent Review Committee with respect to one or more of the following transactions:

#### ***Related-Party Trading Activities***

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

#### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

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

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
<b>Series A</b>												
<b>Dec. 31, 2014</b>	<b>18.46</b>	<b>0.51</b>	<b>(0.11)</b>	<b>1.76</b>	<b>0.04</b>	<b>2.20</b>	<b>(0.19)</b>	<b>(0.24)</b>	<b>(0.85)</b>	–	<b>(1.28)</b>	<b>19.38</b>
Dec. 31, 2013	16.49	0.38	(0.10)	0.24	1.74	2.26	(0.16)	(0.14)	–	–	(0.30)	18.46
Dec. 31, 2012	15.65	0.45	(0.09)	(0.21)	1.09	1.24	(0.18)	(0.23)	–	–	(0.41)	16.49
Dec. 31, 2011	16.56	0.51	(0.09)	1.24	(2.15)	(0.49)	(0.22)	(0.18)	–	–	(0.40)	15.65
Dec. 31, 2010	15.62	0.51	(0.09)	0.26	0.66	1.34	(0.23)	(0.22)	–	–	(0.45)	16.56
<b>Series O</b>												
<b>Dec. 31, 2014</b>	<b>18.30</b>	<b>0.51</b>	–	<b>1.75</b>	<b>0.04</b>	<b>2.30</b>	<b>(0.23)</b>	<b>(0.28)</b>	<b>(0.85)</b>	–	<b>(1.36)</b>	<b>19.23</b>
Dec. 31, 2013	16.32	0.38	–	0.24	1.72	2.34	(0.19)	(0.17)	–	–	(0.36)	18.30
Dec. 31, 2012	15.48	0.45	–	(0.21)	1.08	1.32	(0.22)	(0.27)	–	–	(0.49)	16.32
Dec. 31, 2011	16.41	0.50	–	1.23	(2.13)	(0.40)	(0.29)	(0.23)	–	–	(0.52)	15.48
Dec. 31, 2010	15.48	0.50	–	0.26	0.66	1.42	(0.27)	(0.26)	–	–	(0.53)	16.41

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

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

**FINANCIAL HIGHLIGHTS (cont.)**

**Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series A</b>							
<b>Dec. 31, 2014</b>	<b>19.38</b>	<b>357 027</b>	<b>18 425</b>	<b>0.60</b>	<b>0.60</b>	<b>40.26</b>	<b>0.07</b>
Dec. 31, 2013	18.46	376 545	20 400	0.60	0.60	28.01	0.12
Dec. 31, 2012	16.49	318 627	19 324	0.60	0.60	14.62	0.12
Dec. 31, 2011	15.65	355 303	22 706	0.61	0.61	125.90	0.02
Dec. 31, 2010	16.57	424 343	25 605	0.58	0.58	60.78	0.11
<b>Series O</b>							
<b>Dec. 31, 2014</b>	<b>19.23</b>	<b>956 262</b>	<b>49 722</b>	<b>0.04</b>	<b>0.04</b>	<b>40.26</b>	<b>0.07</b>
Dec. 31, 2013	18.30	908 067	49 611	0.04	0.04	28.01	0.12
Dec. 31, 2012	16.32	906 186	55 526	0.04	0.04	14.62	0.12
Dec. 31, 2011	15.48	1 027 734	66 371	0.05	0.05	125.90	0.02
Dec. 31, 2010	16.43	1 209 761	73 629	0.04	0.04	60.78	0.11

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

<sup>2</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>3</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**Management Fees**

RBC GAM is the manager, portfolio advisor and registrar of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

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

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

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

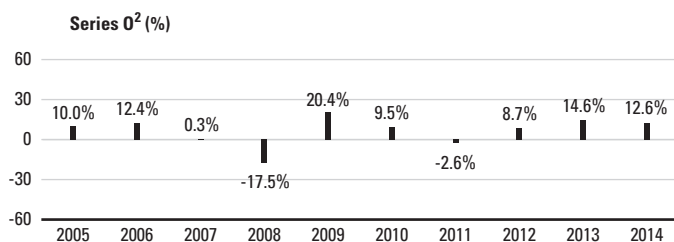
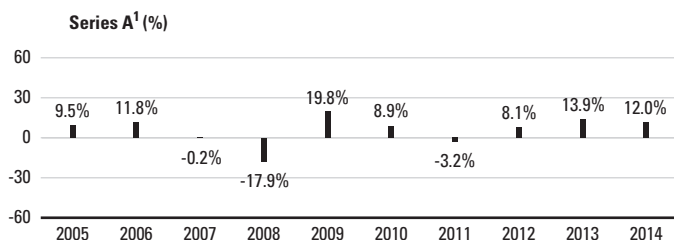


**PAST PERFORMANCE**

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

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

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

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

The new blended benchmark (the "New benchmark") is composed of:

- 38% FTSE TMX Canada Universe Bond Index
- 30% S&P/TSX Capped Composite Total Return Index
- 26% MSCI World Total Return Net Index (CAD)
- 4% MSCI Emerging Markets Total Return Net Index (CAD)
- 2% FTSE TMX Canada 30 Day TBill Index

The old blended benchmark (the "Old benchmark") is composed of:

- 35% FTSE TMX Canada Universe Bond Index
- 35% S&P/TSX Capped Composite Total Return Index
- 25% MSCI World ex Canada Total Return Net Index (CAD)
- 5% FTSE TMX Canada 30 Day TBill Index

The change in benchmark better reflects the composition of the Fund.

The broad-based index is the FTSE TMX Canada Universe Bond Index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A <sup>1</sup>	12.0	11.3	7.8	5.7	—
New benchmark	10.6	10.1	7.9	6.4	—
Old benchmark	10.5	10.0	7.9	6.3	—
Broad-based index	8.8	3.7	5.4	5.3	—
Series O <sup>2</sup>	12.6	11.9	8.4	6.3	—
New benchmark	10.6	10.1	7.9	6.4	—
Old benchmark	10.5	10.0	7.9	6.3	—
Broad-based index	8.8	3.7	5.4	5.3	—

The returns of each series may vary because of differences in management fees and expenses. The New benchmark, Old benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the New benchmark, Old benchmark and broad-based index.

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

<sup>2</sup> Inception date October 2002.

**INDEX DESCRIPTIONS**

**FTSE TMX Canada Universe Bond Index\*** This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**MSCI World Total Return Net Index (CAD)** This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**MSCI Emerging Markets Total Return Net Index (CAD)** This index is a broad measure of the Canadian dollar performance of emerging-market equities. As of May 2010, the index consisted of the following 21 emerging-market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, South Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**FTSE TMX Canada 30 Day TBill Index\*** This index is a measure of the performance of Canadian short-term cash investments.

**MSCI World ex Canada Total Return Net Index (CAD)** This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world (ex Canada). The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

\* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

## SUMMARY OF INVESTMENT PORTFOLIO

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

*As at December 31, 2014*

### Investment Mix

	% of Net Asset Value
Bonds	32.4
Canadian Equities	31.7
United States Equities	16.2
Overseas Equities	14.2
Mortgages	0.2
Cash/Other	5.3

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	33.3
Phillips, Hager & North Canadian Equity Underlying Fund	27.5
RBC Global Equity Focus Fund	13.9
RBC QUBE Global Equity Fund	12.6
Cash & Cash Equivalents	5.3
RBC Emerging Markets Equity Fund	3.9
RBC High Yield Bond Fund	2.0
RBC Institutional Cash Fund	1.5
<b>Total</b>	<b>100.0</b>

\* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at [www.rbcgam.com/reports](http://www.rbcgam.com/reports).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY PENSION TRUST***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

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

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*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 ("Royal Bank").*

**MANAGEMENT DISCUSSION OF FUND PERFORMANCE****Investment Objective and Strategies**

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

**Risk**

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value increased to \$130.6 million as of December 31, 2014, from \$48.7 million at the end of 2013. Of the change, \$75.6 million was due to net inflows and \$6.2 million to investment returns.

Over the past year, the Fund's Series O units gained 12.3%, which outperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Capped Composite Index maintained its positive momentum from last year and rallied over 10% during 2014. In the Fund, the portfolio manager added value in seven out of 10 sectors, with Materials, Consumer Staples and Consumer Discretionary contributing the most to relative performance.

The Materials sector was the most significant contributor to performance over the year, driven by an underweight position in the sector and strong stock selection. In terms of security selection, an overweight position in specialty packaging company CCL Industries contributed to performance. Within the Consumer Discretionary sector, the Fund held an overweight position in Tim Hortons, which was subject to a takeover by Burger King at a large premium. Within the Consumer Staples sector, an overweight position in Alimentation Couche-Tard contributed significantly to performance.

The Industrials sector was the largest detractor to relative performance during the reporting period due to not holding Canadian Pacific Railway over valuation concerns. Overweight positions in Trilogy Energy, Crescent Point Energy and Cenovus Energy hurt performance as oil prices fell dramatically during the second half of 2014.

**Recent Developments**

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

**Related-Party Transactions*****Manager, Portfolio Advisor and Registrar***

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

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

***Distributor***

RBC GAM is the principal distributor of the Fund.

***Trustee and Custodian***

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

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

***Brokerage***

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$5,000 (2013 – \$2,000), or 8% (2013 – 7%) of the total transaction costs paid for this Fund.

***Other Related-Party Transactions***

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as the Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

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

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
<b>Series 0</b>												
<b>Dec. 31, 2014</b>	<b>7.01</b>	<b>0.21</b>	–	<b>0.53</b>	<b>(0.02)</b>	<b>0.72</b>	<b>(0.01)</b>	<b>(0.10)</b>	<b>(0.24)</b>	–	<b>(0.35)</b>	<b>7.53</b>
Dec. 31, 2013	6.00	0.17	–	0.17	0.84	1.18	(0.01)	(0.18)	–	–	(0.19)	7.01
Dec. 31, 2012	5.59	0.15	–	–	0.45	0.60	–	(0.16)	–	–	(0.16)	6.00
Dec. 31, 2011	10.54	0.24	–	1.37	(2.28)	(0.67)	(0.03)	(0.65)	(3.21)	–	(3.89)	5.59
Dec. 31, 2010	9.51	0.24	–	0.62	0.37	1.23	(0.02)	(0.28)	–	–	(0.30)	10.54

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

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

**Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series 0</b>							
<b>Dec. 31, 2014</b>	<b>7.53</b>	<b>130 555</b>	<b>17 343</b>	<b>0.04</b>	<b>0.04</b>	<b>47.43</b>	<b>0.11</b>
Dec. 31, 2013	7.01	48 746	6 951	0.04	0.04	35.43	0.08
Dec. 31, 2012	6.01	43 696	7 274	0.04	0.04	52.49	0.16
Dec. 31, 2011	5.60	41 321	7 382	0.04	0.04	80.84	0.17
Dec. 31, 2010	10.56	179 736	17 016	0.03	0.03	37.88	0.14

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

<sup>2</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>3</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**Management Fees**

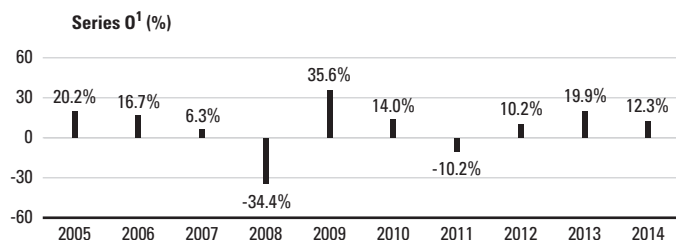
RBC GAM is the manager, portfolio advisor and registrar of the Fund. No management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

**PAST PERFORMANCE**

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

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

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

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0 <sup>1</sup>	12.3	14.0	8.7	7.2	-
Benchmark	10.6	10.2	7.5	7.6	-

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

<sup>1</sup> Inception date June 2004.

Although Series 0 units of the Fund were created in March 1998, units were not offered for sale under a simplified prospectus until June 2004. We are therefore not permitted to disclose performance data for this Fund for any period prior to June 2004.

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2014

**Investment Mix**

	% of Net Asset Value
Financials	34.8
Energy	22.9
Materials	9.2
Industrials	8.2
Consumer Discretionary	7.9
Health Care	4.2
Consumer Staples	3.6
Information Technology	2.9
Telecommunication Services	2.9
Index Funds	1.6
Utilities	0.6
Cash/Other	1.2

**Top 25 Holdings**

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	12.0
Toronto-Dominion Bank	7.4
Royal Bank of Canada	7.2
Bank of Nova Scotia	5.8
Enbridge Inc.	4.0
Canadian National Railway Co.	3.8
Manulife Financial Corporation	3.2
Valeant Pharmaceuticals International Inc.	3.2
Canadian Natural Resources Ltd.	3.0
Suncor Energy Inc.	2.9
Brookfield Asset Management Inc., Class A	2.7
TransCanada Corp.	2.3
Cenovus Energy Inc.	2.0
Bank of Montreal	2.0
Potash Corporation of Saskatchewan Inc.	1.9
TELUS Corp.	1.7
Alimentation Couche-Tard Inc.	1.6
iShares S&P/TSX 60 Index Fund	1.6
Crescent Point Energy Corp.	1.5
ARC Resources Ltd.	1.3
Magna International Inc., Class A	1.3
CGI Group Inc., Class A	1.2
Rogers Communications Inc., Class B	1.2
Encana Corp.	1.2
Canadian Imperial Bank of Commerce	1.2
<b>Top 25 Holdings</b>	<b>77.2</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at [www.rbcgam.com/reports](http://www.rbcgam.com/reports).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
SMALL FLOAT FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

**A Note on Forward-looking Statements**

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

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

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

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

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



## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

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

### Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value declined to \$262.7 million as of December 31, 2014, from \$323.6 million at the end of 2013. Of the change, \$26.1 million was due to investment returns, offset by \$86.9 million of net outflows.

Over the past year, the Fund's Series A units gained 6.6%, which underperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Capped Composite Index maintained its positive momentum from last year and rallied over 10% during 2014. In the Fund, the portfolio manager added value in three out of 10 sectors, with Materials, Information Technology and Financials contributing the most to relative performance.

The Materials sector was the most significant contributor to performance over the year, driven by an underweight position in the sector and strong stock selection. In terms of security selection, an overweight position in specialty packaging company CCL Industries contributed to performance. In terms of stock selection within the Fund, Linamar performed well on excellent earnings results driven by the global auto sector recovery, improving plant efficiencies and market share gains. An overweight position in collision repair centres Boyd Group Income Fund and software and services provider Constellation Software all added to performance.

The Energy sector was the largest detractor to relative performance due to stock selection as oil prices fell dramatically during the second half of the year. Energy equipment and services companies were hit especially hard as oil and gas companies scaled back their capital expenditure forecasts for the coming year, which hurt Trinidad Drilling and Calfrac Well Services.

### Recent Developments

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

### Related-Party Transactions

#### *Manager, Portfolio Advisor and Registrar*

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

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

#### *Distributor*

RBC GAM is the principal distributor of the Fund.

#### *Trustee and Custodian*

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

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

#### *Brokerage*

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$33,000 (2013 – \$72,000), or 9% (2013 – 15%) of the total transaction costs paid for this Fund.

***Other Related-Party Transactions***

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as the Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

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

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
<b>Series A</b>												
<b>Dec. 31, 2014</b>	<b>24.26</b>	<b>0.37</b>	<b>(0.29)</b>	<b>7.96</b>	<b>(5.98)</b>	<b>2.06</b>	<b>(0.01)</b>	<b>(0.13)</b>	–	–	<b>(0.14)</b>	<b>25.73</b>
Dec. 31, 2013	16.45	0.31	(0.21)	3.43	4.14	7.67	–	(0.10)	–	–	(0.10)	24.23
Dec. 31, 2012	14.62	0.26	(0.17)	1.01	0.87	1.97	–	(0.08)	–	–	(0.08)	16.45
Dec. 31, 2011	15.33	0.38	(0.16)	4.01	(4.27)	(0.04)	–	(0.41)	–	–	(0.41)	14.62
Dec. 31, 2010	13.09	0.22	(0.14)	1.82	0.38	2.28	(0.01)	(0.10)	–	–	(0.11)	15.33
<b>Series O</b>												
<b>Dec. 31, 2014</b>	<b>23.42</b>	<b>0.35</b>	–	<b>7.66</b>	<b>(5.76)</b>	<b>2.25</b>	<b>(0.02)</b>	<b>(0.38)</b>	–	–	<b>(0.40)</b>	<b>24.85</b>
Dec. 31, 2013	15.88	0.30	–	3.35	4.04	7.69	(0.01)	(0.34)	–	–	(0.35)	23.39
Dec. 31, 2012	14.12	0.25	–	0.97	0.84	2.06	–	(0.26)	–	–	(0.26)	15.88
Dec. 31, 2011	14.80	0.36	–	3.78	(4.02)	0.12	(0.01)	(0.55)	–	–	(0.56)	14.12
Dec. 31, 2010	12.65	0.22	–	1.77	0.36	2.35	(0.02)	(0.25)	–	–	(0.27)	14.80

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

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

**FINANCIAL HIGHLIGHTS (cont.)**

**Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series A</b>							
<b>Dec. 31, 2014</b>	<b>25.73</b>	<b>813</b>	<b>32</b>	<b>1.09</b>	<b>1.09</b>	<b>55.46</b>	<b>0.13</b>
Dec. 31, 2013	24.26	848	35	1.09	1.09	40.65	0.16
Dec. 31, 2012	16.53	1 102	67	1.12	1.12	59.72	0.27
Dec. 31, 2011	14.69	863	59	1.12	1.12	106.15	0.48
Dec. 31, 2010	15.35	1 016	66	1.08	1.08	108.14	0.35
<b>Series O</b>							
<b>Dec. 31, 2014</b>	<b>24.85</b>	<b>261 900</b>	<b>10 540</b>	—	—	<b>55.46</b>	<b>0.13</b>
Dec. 31, 2013	23.42	322 707	13 780	—	—	40.65	0.16
Dec. 31, 2012	15.96	285 213	17 866	—	—	59.72	0.27
Dec. 31, 2011	14.18	311 248	21 942	—	—	106.15	0.48
Dec. 31, 2010	14.83	645 701	43 553	—	—	108.14	0.35

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

<sup>2</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>3</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**Management Fees**

RBC GAM is the manager, portfolio advisor and registrar of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

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

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

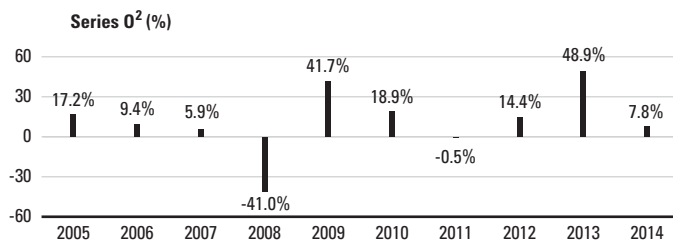
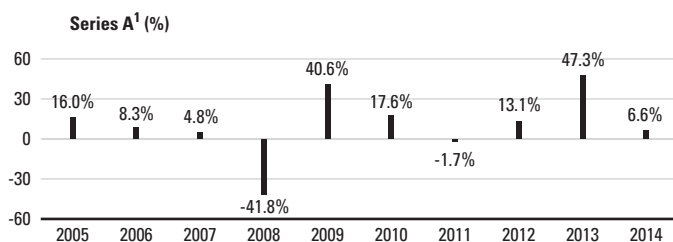
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

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

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



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A <sup>1</sup>	6.6	21.1	15.5	8.3	—
Benchmark	10.6	10.2	7.5	7.6	—
Series O <sup>2</sup>	7.8	22.4	16.8	9.4	—
Benchmark	10.6	10.2	7.5	7.6	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

<sup>1</sup> Inception date October 2002.

<sup>2</sup> Inception date July 2002.

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

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2014*

**Investment Mix**

	% of Net Asset Value
Consumer Discretionary	24.1
Industrials	20.3
Financials	16.9
Energy	14.1
Information Technology	10.3
Materials	8.3
Consumer Staples	2.1
Cash/Other	3.9

**Top 25 Holdings**

	% of Net Asset Value
RONA Inc.	7.4
Element Financial Corp.	5.6
Badger Daylighting Ltd.	5.2
Quebecor Inc., Class B	4.8
Trinidad Drilling Ltd.	4.7
Home Capital Group Inc.	3.8
Cash & Cash Equivalents	3.7
CCL Industries, Class B	3.3
Constellation Software Inc.	3.2
Calfrac Well Services Ltd.	3.1
Boyd Group Income Fund	3.0
Richelieu Hardware Ltd.	3.0
MacDonald Dettwiler & Associates Ltd.	2.8
Cineplex Inc.	2.7
Descartes Systems Group Inc.	2.7
DH Corp.	2.6
WSP Global Inc.	2.6
Linamar Corp.	2.4
PrairieSky Royalty Ltd.	2.3
Leon's Furniture Ltd.	2.1
Maple Leaf Foods Inc.	2.1
Altus Group Ltd.	2.1
BRP Inc.	2.1
Stella-Jones Inc.	2.0
Polaris Minerals Corp.	2.0
<b>Top 25 Holdings</b>	<b>81.3</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at [www.rbcgam.com/reports](http://www.rbcgam.com/reports).

## CANADIAN EQUITY FUND

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

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*December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

**A Note on Forward-looking Statements**

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

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

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

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

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

**MANAGEMENT DISCUSSION OF FUND PERFORMANCE****Investment Objective and Strategies**

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

**Risk**

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value increased to \$155.7 million as of December 31, 2014, from \$150.2 million at the end of 2013. Of the change, \$18.6 million was due to investment returns, offset by \$13.1 million of net outflows.

Over the past year, the Fund's Series A units gained 12.1%, which outperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Capped Composite Index maintained its positive momentum from last year and rallied over 10% during 2014. In the Fund, the portfolio manager added value in eight out of 10 sectors, with Materials, Information Technology and Energy contributing the most to relative performance.

The Information Technology sector was the most significant contributor to performance over the year, driven by an overweight position in U.S.-based technology companies Microsoft, Oracle and Cisco Systems. Within the Materials sector, an overweight position in specialty packaging company CCL Industries contributed to performance.

The Industrials sector was the largest detractor to relative performance during the reporting period due to not holding Canadian Pacific Railway over valuation concerns. Overweight positions in Trilogy Energy, Trinidad Drilling and ARC Resources hurt performance as oil prices fell dramatically during the second half of 2014.

**Recent Developments**

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

**Related-Party Transactions*****Manager, Portfolio Advisor and Registrar***

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

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

***Distributor***

RBC GAM is the principal distributor of the Fund.

***Trustee and Custodian***

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

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

***Brokerage***

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$9,000 (2013 – \$5,000), or 10% (2013 – 8%) of the total transaction costs paid for this Fund.



***Other Related-Party Transactions***

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as the Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

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

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

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

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
<b>Series A</b>												
<b>Dec. 31, 2014</b>	<b>70.00</b>	<b>1.83</b>	<b>(0.48)</b>	<b>5.14</b>	<b>2.06</b>	<b>8.55</b>	<b>(0.06)</b>	<b>(1.39)</b>	–	–	<b>(1.45)</b>	<b>77.00</b>
Dec. 31, 2013	58.94	1.60	(0.40)	1.43	9.64	12.27	(0.07)	(1.21)	–	–	(1.28)	69.99
Dec. 31, 2012	55.13	1.47	(0.37)	6.50	(1.93)	5.67	–	(1.85)	–	–	(1.85)	58.94
Dec. 31, 2011	62.55	1.48	(0.36)	1.78	(8.87)	(5.97)	–	(1.33)	–	–	(1.33)	55.13
Dec. 31, 2010	56.37	1.40	(0.34)	5.03	0.70	6.79	(0.10)	(1.18)	–	–	(1.28)	62.55
<b>Series O</b>												
<b>Dec. 31, 2014</b>	<b>86.05</b>	<b>2.26</b>	<b>(0.03)</b>	<b>6.33</b>	<b>2.54</b>	<b>11.10</b>	<b>(0.09)</b>	<b>(2.26)</b>	–	–	<b>(2.35)</b>	<b>94.65</b>
Dec. 31, 2013	72.48	1.97	(0.03)	1.76	11.88	15.58	(0.11)	(2.00)	–	–	(2.11)	86.03
Dec. 31, 2012	67.79	1.73	(0.02)	7.66	(2.28)	7.09	–	(2.71)	–	–	(2.71)	72.48
Dec. 31, 2011	76.92	1.82	(0.02)	2.19	(10.90)	(6.91)	–	(2.06)	–	–	(2.06)	67.79
Dec. 31, 2010	69.34	1.73	(0.02)	6.22	0.87	8.80	(0.16)	(1.88)	–	–	(2.04)	76.92

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

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

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY  
PLUS PENSION TRUST**
**FINANCIAL HIGHLIGHTS (cont.)**
**Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series A</b>							
<b>Dec. 31, 2014</b>	<b>77.00</b>	<b>5 994</b>	<b>78</b>	<b>0.63</b>	<b>0.63</b>	<b>26.75</b>	<b>0.07</b>
Dec. 31, 2013	70.00	5 288	76	0.62	0.62	18.07	0.07
Dec. 31, 2012	59.02	4 357	74	0.64	0.64	45.24	0.19
Dec. 31, 2011	55.20	5 088	92	0.64	0.64	51.97	0.13
Dec. 31, 2010	62.64	5 850	93	0.60	0.60	49.20	0.17
<b>Series O</b>							
<b>Dec. 31, 2014</b>	<b>94.65</b>	<b>149 694</b>	<b>1 582</b>	<b>0.03</b>	<b>0.03</b>	<b>26.75</b>	<b>0.07</b>
Dec. 31, 2013	86.05	144 957	1 685	0.03	0.03	18.07	0.07
Dec. 31, 2012	72.58	133 758	1 843	0.04	0.04	45.24	0.19
Dec. 31, 2011	67.88	261 282	3 849	0.03	0.03	51.97	0.13
Dec. 31, 2010	77.03	350 249	4 547	0.03	0.03	49.20	0.17

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

<sup>2</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>3</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**Management Fees**

RBC GAM is the manager, portfolio advisor and registrar of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

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

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

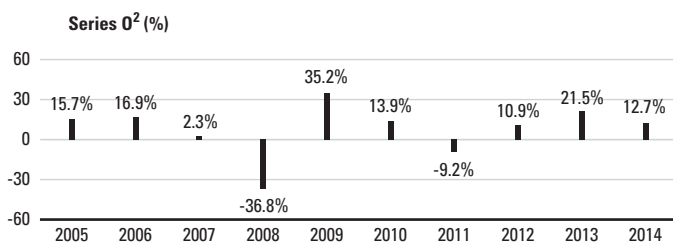
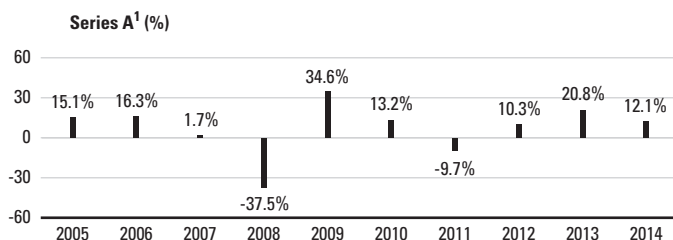
\* Includes all costs related to management, investment advisory services, general administration and profit.

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

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

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

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


**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A <sup>1</sup>	12.1	14.3	8.8	5.7	—
Benchmark	10.6	10.2	7.5	7.6	—
Series O <sup>2</sup>	12.7	15.0	9.5	6.4	—
Benchmark	10.6	10.2	7.5	7.6	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

<sup>1</sup> Inception date February 1967.

<sup>2</sup> Inception date October 2002.

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY PLUS PENSION TRUST****SUMMARY OF INVESTMENT PORTFOLIO***(after consideration of derivative products, if any)**As at December 31, 2014***Investment Mix**

	% of Net Asset Value
Financials	30.9
Energy	19.1
Industrials	11.9
Materials	7.6
Information Technology	7.2
Consumer Discretionary	6.7
Health Care	6.1
Consumer Staples	5.7
Telecommunication Services	2.2
Index Funds	0.6
Utilities	0.5
Cash/Other	1.5

**Top 25 Holdings**

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	10.0
Toronto-Dominion Bank	6.1
Royal Bank of Canada	5.9
Bank of Nova Scotia	4.9
Enbridge Inc.	3.3
Canadian National Railway Co.	3.1
PepsiCo Inc.	2.7
Valeant Pharmaceuticals International Inc.	2.7
Manulife Financial Corporation	2.6
Suncor Energy Inc.	2.5
Canadian Natural Resources Ltd.	2.5
Brookfield Asset Management Inc., Class A	2.3
United Technologies Corp.	2.2
Wells Fargo & Company	2.0
TransCanada Corp.	2.0
Microsoft Corp.	1.8
Cash & Cash Equivalents	1.8
Cenovus Energy Inc.	1.7
Bank of Montreal	1.7
Potash Corporation of Saskatchewan Inc.	1.7
Cisco Systems Inc.	1.6
Emerson Electric Co.	1.6
Johnson & Johnson	1.5
Oracle Corporation	1.4
Illinois Tool Works Inc.	1.4
<b>Top 25 Holdings</b>	<b>71.0</b>

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at [www.rbcgam.com/reports](http://www.rbcgam.com/reports).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
OVERSEAS EQUITY PENSION TRUST***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

Sub-Advisor: RBC Global Asset Management (UK) Limited

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

**A Note on Forward-looking Statements**

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

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

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

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

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

**MANAGEMENT DISCUSSION OF FUND PERFORMANCE****Investment Objective and Strategies**

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

**Risk**

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value decreased to \$99.0 million as of December 31, 2014, from \$486.1 million at the end of 2013. Of the change, \$19.0 million was due to investment returns, offset by \$406.2 million of net outflows.

Over the past year, the Fund's Series O units rose 6.4%, which outperformed the 3.7% rise in the benchmark. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Global markets made steady progress over the first six months of 2014 as the economic recovery became more robust. Economic reforms in Europe and moves by the Japanese government to raise productivity all contributed to a strengthening backdrop. In reaction, stocks generally rose during the first half of the year. However, a number of issues emerged in the second half of 2014 to challenge this consensus, including the spread of the Ebola virus in West Africa and an armed conflict in Ukraine. More recently, buoyant harvests and lower fuel prices, which in theory are good news for consumers, led to fears that deflation could imperil the recovery by prompting consumers to defer spending. In this environment, stocks proved less able to cope, and the second half was characterized by increased volatility.

The Fund's top-performing sectors in 2014 were Consumer Discretionary, Telecommunication Services and Energy. The worst-performing sectors were Health Care, Utilities and Materials.

Portfolio stocks that performed best in 2014 were ASML, Nippon Telegraph & Telephone and Liberty Global. The portfolio stocks that performed worst were GlaxoSmithKline, Oil Search and Mitsui Co.

On August 11, 2014, the portfolio-management responsibilities for the Fund were transitioned to RBC Global Asset Management (UK) Limited and its London-based global equity team.

**Recent Developments**

Investors have enjoyed a strong stock-market rebound in recent years, characterized by unusually low volatility. The conditions that have led to this situation – loose monetary policies, low interest rates and improving consumer sentiment – remain largely in place. However, other considerations may soon challenge the prevailing economic consensus. For example, the recent fall in the price of oil will benefit some countries and penalize others, while rising U.S. interest rates will likely lead to a stronger U.S. dollar, posing problems for emerging markets whose currencies are pegged to the U.S. dollar.

At the corporate level, the sub-advisor continues to see attractive investment opportunities, and is focused on finding companies with strong competitive advantages and prospects that are under-appreciated by the market.

RBC GAM has appointed RBC Global Asset Management (UK) Limited, an affiliate of RBC GAM, as sub-advisor for the Fund effective mid-August, 2014. RBC GAM will continue to provide investment management oversight for the Fund.

**Related-Party Transactions*****Manager, Portfolio Advisor and Registrar***

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

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

**Sub-Advisor**

RBC Global Asset Management (UK) Limited is the sub-advisor and provides investment advice for the Fund.

**Distributor**

RBC GAM is the principal distributor of the Fund.

**Trustee and Custodian**

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

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

**Brokerage**

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$12,000 (2013 – \$0), or 1% (2013 – 0%) of the total transaction costs paid for this Fund.

**Other Related-Party Transactions**

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as the Independent Review Committee with respect to one or more of the following transactions:

**Related-Party Trading Activities**

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

**Inter-Fund Trading**

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.



**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

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

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
<b>Series 0</b>												
<b>Dec. 31, 2014</b>	<b>10.26</b>	<b>0.39</b>	<b>(0.01)</b>	<b>3.01</b>	<b>(2.76)</b>	<b>0.63</b>	–	<b>(1.27)</b>	–	–	<b>(1.27)</b>	<b>9.64</b>
Dec. 31, 2013	8.40	0.28	(0.01)	0.57	1.25	2.09	–	(0.35)	–	–	(0.35)	10.26
Dec. 31, 2012	7.36	0.27	(0.01)	(0.90)	1.97	1.33	–	(0.31)	–	–	(0.31)	8.40
Dec. 31, 2011	9.67	0.35	(0.01)	(0.43)	(1.86)	(1.95)	(0.38)	–	–	–	(0.38)	7.36
Dec. 31, 2010	9.41	0.28	(0.01)	0.65	(0.37)	0.55	–	(0.26)	–	–	(0.26)	9.67

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

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

**Ratios and Supplemental Data**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series 0</b>							
<b>Dec. 31, 2014</b>	<b>9.64</b>	<b>98 955</b>	<b>10 267</b>	<b>0.09</b>	<b>0.09</b>	<b>150.38</b>	<b>0.48</b>
Dec. 31, 2013	10.26	486 141	47 396	0.09	0.09	88.92	0.41
Dec. 31, 2012	8.40	544 953	64 893	0.09	0.09	87.75	0.39
Dec. 31, 2011	7.36	566 285	76 914	0.09	0.09	66.40	0.35
Dec. 31, 2010	9.67	670 281	69 315	0.09	0.09	82.31	0.35

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

<sup>2</sup> The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>3</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

**Management Fees**

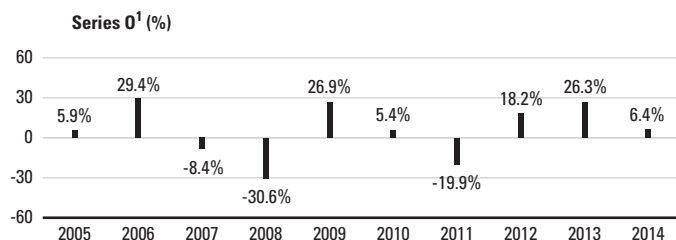
RBC GAM is the manager, portfolio advisor and registrar of the Fund. No management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

**PAST PERFORMANCE**

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

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

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

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

**MSCI EAFE Total Return Net Index (CAD)**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0 <sup>1</sup>	6.4	16.7	6.0	4.0	–
Benchmark	3.7	15.9	7.5	4.1	–

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

<sup>1</sup> Inception date October 2002.

**INDEX DESCRIPTION**

**MSCI EAFE Total Return Net Index (CAD)** This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2014

**Investment Mix – Sectors**

	% of Net Asset Value
Financials	26.4
Consumer Discretionary	17.1
Industrials	13.3
Health Care	11.3
Consumer Staples	10.5
Information Technology	7.0
Materials	6.9
Energy	4.5
Telecommunication Services	1.7
Cash/Other	1.3

**Investment Mix – Countries/Regions**

	% of Net Asset Value
Europe ex-United Kingdom Equities	45.3
United Kingdom Equities	19.8
Japan Equities	16.1
Pacific Rim ex-Japan Equities	13.9
Middle East & Africa Equities	3.6
Cash/Other	1.3

**SUMMARY OF INVESTMENT PORTFOLIO (cont.)***(after consideration of derivative products, if any)**As at December 31, 2014***Top 25 Holdings**

	% of Net Asset Value
Deutsche Post AG	4.4
InBev N.V.	4.4
Toyota Motor Corp.	4.3
Roche Holdings AG Genussscheine	4.1
Safran S.A.	4.0
AIA Group Ltd.	3.8
Naspers Ltd.	3.6
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3.5
Continental AG	3.2
SMC Corp.	3.2
Lloyds TSB Group Plc.	3.1
ASML Holding N.V.	3.1
BNP Paribas S.A.	2.9
Royal Dutch Shell Plc., B Shares	2.9
UBS Group AG	2.9
Santen Pharmaceutical Co. Ltd.	2.8
Liberty Global Plc.	2.7
Aryzta AG	2.6
Svenska Cellulosa AB	2.5
Rio Tinto Plc.	2.5
St James's Place Plc.	2.4
Astellas Pharma Inc.	2.4
Syngenta AG	2.3
Air Liquide S.A.	2.2
HDFC Bank Ltd. ADR	2.2
<b>Top 25 Holdings</b>	<b>78.0</b>


The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at [www.rbcgam.com/reports](http://www.rbcgam.com/reports).

The accompanying financial statements have been prepared by RBC Global Asset Management Inc. ("RBC GAM"), as manager of the Phillips, Hager & North Investment Funds (the "Funds") and approved by the Board of Directors of RBC GAM. We are responsible for the information contained within these financial statements.

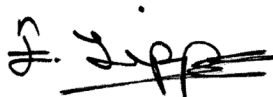
We have maintained appropriate procedures and controls to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") (and they include certain amounts that are based on estimates and judgments). The significant accounting policies, which we believe are appropriate for the Funds, are described in Note 3 to the financial statements.

Although the Board of Directors of RBC GAM is solely responsible for approving the financial statements and overseeing management's financial reporting responsibilities, in 2014 the Financial Advisory Committee of the Board of Governors provided advice to RBC GAM concerning financial reporting, the audit process and internal controls. Please see *The Role of the Board of Governors* at the end of this report.

Deloitte LLP, Independent Chartered Professional Accountants, Chartered Accountants, have performed an independent audit of the financial statements in accordance with IFRS. Their report is set out on the next page.



**John S. Montalbano, CFA**  
Chief Executive Officer  
RBC Global Asset Management Inc.



**Frank Lippa, CPA, CA**  
Chief Financial Officer and Chief Operating Officer  
RBC Global Asset Management Inc.

March 5, 2015

To the Unitholders of:

**Phillips, Hager & North Balanced Pension Trust**  
**Phillips, Hager & North Canadian Equity Pension Trust**  
**Phillips, Hager & North Small Float Fund**  
**Phillips, Hager & North Canadian Equity Plus Pension Trust**  
**Phillips, Hager & North Overseas Equity Pension Trust**  
(collectively referred to as the "Funds")

We have audited the accompanying financial statements of each of the Funds, which comprise the schedule of investment portfolio as at December 31, 2014, the statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013 (as applicable) and the statements of comprehensive income, statements of cash flow and statements of changes in net assets attributable to holders of redeemable units for the years or periods (since establishment of the Funds) then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards ("GAAS"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of each of the Funds as at December 31, 2014, December 31, 2013 and January 1, 2013 (as applicable), and the results of their operations, their cash flows and changes in their net assets for the years or periods (since establishment of the Funds) then ended in accordance with IFRS.

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized, cursive script followed by "LLP" in a simpler, bold font.

Chartered Professional Accountants, Chartered Accountants, Licensed Public Accountants

March 5, 2015  
Toronto, Ontario

## SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

## PHILLIPS, HAGER &amp; NORTH BALANCED PENSION TRUST

December 31, 2014

Number of Units	Security	Cost	Fair Value	% of Net Assets
<b>MUTUAL FUND UNITS</b>				
1 947 579	RBC Institutional Cash Fund*	\$ 19 476	\$ 19 476	
40 979 378	Phillips, Hager & North Bond Fund*	427 887	437 147	
2 436 023	RBC High Yield Bond Fund*	25 879	25 974	
36 862 621	Phillips, Hager & North Canadian Equity Underlying Fund*	380 919	407 745	
3 858 728	RBC Emerging Markets Equity Fund*	50 847	51 600	
16 246 063	RBC Global Equity Focus Fund*	172 273	184 196	
14 390 314	RBC QUBE Global Equity Fund*	158 872	180 778	
<b>TOTAL MUTUAL FUND UNITS</b>		1 236 153	1 306 916	<b>99.5</b>
<b>SHORT-TERM INVESTMENTS†</b>		8 377	8 377	<b>0.6</b>
<b>TOTAL INVESTMENTS</b>		<u>\$ 1 244 530</u>	<u>1 315 293</u>	<b>100.1</b>
<b>OTHER NET ASSETS (LIABILITIES) ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			(2 004)	<b>(0.1)</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<u>\$ 1 313 289</u>	<b>100.0</b>

\* Investment in related party (see note 7 in the generic notes).

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 1.00% to 1.23% and mature between January 2, 2015 and January 14, 2015.

**Statements of Financial Position** *(in \$000s except per unit amounts)*

<i>(see note 2 and note 8 in the generic notes)</i>	<b>December 31 2014</b>	December 31 2013	January 1 2013
<b>ASSETS</b>			
Investments at fair value	<b>\$ 1 315 293</b>	\$ 1 284 795	\$ 1 225 050
Cash	<b>14</b>	3	4
Due from investment dealers	<b>5 000</b>	539	1 957
Subscriptions receivable	<b>416</b>	724	531
Dividends receivable, interest accrued and other assets	<b>10</b>	8	7
<b>TOTAL ASSETS</b>	<b>1 320 733</b>	1 286 069	1 227 549
<b>LIABILITIES</b>			
Due to investment dealers	<b>6 500</b>	460	280
Redemptions payable	<b>751</b>	807	2 294
Accounts payable and accrued expenses	<b>193</b>	190	161
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>7 444</b>	1 457	2 735
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>	<b>\$ 1 313 289</b>	\$ 1 284 612	\$ 1 224 814
Investments at cost	<b>\$ 1 244 530</b>	\$ 1 216 912	\$ 1 282 690
<b>NAV</b>			
<b>SERIES A</b>	<b>\$ 357 027</b>	\$ 376 545	\$ 318 628
<b>SERIES O</b>	<b>\$ 956 262</b>	\$ 908 067	\$ 906 186
<b>NAV PER UNIT</b>			
<b>SERIES A</b>	<b>\$ 19.38</b>	\$ 18.46	\$ 16.49
<b>SERIES O</b>	<b>\$ 19.23</b>	\$ 18.30	\$ 16.32

The accompanying notes are an integral part of these financial statements.

**Statements of Comprehensive Income***(in \$000s except per unit amounts)*

For the periods ended December 31 (see note 2 in the generic notes)	2014	2013
<b>INCOME (see note 3 in the generic notes)</b>		
Interest for distribution purposes	\$ 65	\$ 61
Other income received from underlying funds	34 459	27 341
Capital gains received from underlying funds	47 978	6 426
Net realized gain (loss) on investments	70 359	11 268
Net gain (loss) on foreign currencies and other net assets	1	1
Change in unrealized gain (loss) on investments	2 880	125 523
<b>TOTAL INCOME (LOSS)</b>	<b>155 742</b>	<b>170 620</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Management fees	1 895	1 750
Administration fees	133	125
Board of Governors costs	3	3
GST/HST	236	229
<b>TOTAL EXPENSES</b>	<b>2 267</b>	<b>2 107</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ 153 475</b>	<b>\$ 168 513</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>SERIES A</b>	<b>\$ 42 780</b>	<b>\$ 45 866</b>
<b>SERIES O</b>	<b>\$ 110 695</b>	<b>\$ 122 647</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>PER REDEEMABLE UNIT</b>		
<b>SERIES A</b>	<b>\$ 2.20</b>	<b>\$ 2.26</b>
<b>SERIES O</b>	<b>\$ 2.30</b>	<b>\$ 2.34</b>

**Statements of Cash Flow** *(in \$000s)*For the periods ended December 31  
(see note 2 in the generic notes)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in NAV	\$ 153 475	\$ 168 513
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY OPERATIONS</b>		
Net realized loss (gain) on investments	(70 297)	(11 229)
Change in unrealized loss (gain) on investments	(2 880)	(125 523)
(Increase) decrease in accrued receivables	(4 463)	1 417
Increase (decrease) in accrued payables	6 043	209
Cost of investments purchased	(885 234)	(624 749)
Proceeds on sales of investments	927 913	701 756
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>124 557</b>	<b>110 394</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	88 501	91 489
Cash paid on redemption of redeemable units	(213 036)	(201 878)
Distributions paid to holders of redeemable units	(11)	(6)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>\$ (124 546)</b>	<b>\$ (110 395)</b>
Net increase (decrease) in cash for the year	11	(1)
Cash (bank overdraft), beginning of period	3	4
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 14</b>	<b>\$ 3</b>
Interest received	\$ 68	\$ 59
Dividends received, net of withholding taxes	\$ –	\$ –

Cash consists of cash and futures contracts margin receivable/payable, as applicable.



**Statements of Changes in NAV** (in \$000s)

For the periods ended December 31 (see note 2 in the generic notes)	Series A		Series O		Total	
	2014	2013	2014	2013	2014	2013
<b>NAV AT BEGINNING OF PERIOD</b>	\$ 376 545	\$ 318 628	\$ 908 067	\$ 906 186	\$ 1 284 612	\$ 1 224 814
<b>INCREASE (DECREASE) IN NAV</b>	<b>42 780</b>	<b>45 866</b>	<b>110 695</b>	<b>122 647</b>	<b>153 475</b>	<b>168 513</b>
Early redemption fees	—	—	—	—	—	—
Proceeds from redeemable units issued	12 424	35 204	75 769	56 478	88 193	91 682
Reinvestments of distributions to holders of redeemable units	22 827	6 025	64 140	18 978	86 967	25 003
Redemption of redeemable units	(74 716)	(23 147)	(138 264)	(177 244)	(212 980)	(200 391)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>(39 465)</b>	<b>18 082</b>	<b>1 645</b>	<b>(101 788)</b>	<b>(37 820)</b>	<b>(83 706)</b>
Distributions from net income	(7 955)	(6 031)	(24 129)	(18 978)	(32 084)	(25 009)
Distributions from net gains	(14 878)	—	(40 016)	—	(54 894)	—
Distributions from capital	—	—	—	—	—	—
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>(22 833)</b>	<b>(6 031)</b>	<b>(64 145)</b>	<b>(18 978)</b>	<b>(86 978)</b>	<b>(25 009)</b>
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>(19 518)</b>	<b>57 917</b>	<b>48 195</b>	<b>1 881</b>	<b>28 677</b>	<b>59 798</b>
<b>NAV AT END OF PERIOD</b>	<b>\$ 357 027</b>	<b>\$ 376 545</b>	<b>\$ 956 262</b>	<b>\$ 908 067</b>	<b>\$ 1 313 289</b>	<b>\$ 1 284 612</b>

The accompanying notes are an integral part of these financial statements.

December 31, 2014

**General information (see note 1 in the generic notes)**

The investment objective of the Fund is to provide investors with long-term capital growth and income by investing primarily in a strategic asset mix of Canadian and foreign equities, Canadian fixed income securities and money market instruments.

**Financial instrument risk and capital management (see note 4 in the generic notes)**

The Fund invests primarily in other mutual funds. The Fund's exposure to financial instrument risk is based on the underlying mutual fund asset mix.

**Credit risk (%)**

The Fund is exposed to credit risk from investments in underlying mutual funds. These underlying funds could invest in debt securities and could enter into over-the-counter derivative contracts.

**Concentration risk (%)**

The table below summarizes the Fund's investment portfolio (after consideration of derivative products, if any) as at:

	December 31 2014	December 31 2013	January 1 2013
Investment mix			
Bonds	32.4	28.4	26.0
Canadian Equities	31.7	35.2	34.4
United States Equities	16.2	14.1	13.9
Overseas Equities	14.2	11.2	12.6
Mortgages	0.2	0.2	0.3
Cash/Other	5.3	10.9	12.8

**Interest rate risk (%)**

As at December 31, 2014, had prevailing interest rates risen or lowered by 1%, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by approximately 2.5% (December 31, 2013 – 2.1%, January 1, 2013 – 2.0%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

**Currency risk (% of net assets)**

As at December 31, 2014, if the Canadian dollar had strengthened or weakened by 1% in relation to all other currencies, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by approximately 0.3% (December 31, 2013 – 0.3%, January 1, 2013 – 0.3%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

Please see the generic notes at the back of the financial statements.

**Other price risk (% impact on net assets)**

The table below shows the impact of a 1% change in the broad-based index (noted below) on the Fund's net assets, using a 36-month historical correlation of data of the Fund's return and the index, with all other factors kept constant, as at:

	December 31 2014	December 31 2013	January 1 2013
S&P/TSX Capped Composite			
Total Return Index	+ or - 0.5	+ or - 0.5	+ or - 0.5
MSCI World ex Canada Total			
Return Net Index (CAD)	+ or - 0.5	+ or - 0.5	+ or - 0.6

Since historical correlation may not be representative of future correlation, actual results could differ from this sensitivity analysis and the difference could be material.

**Fair value hierarchy (\$000s except % amounts) (see note 3 in the generic notes)**

The following is a summary of the inputs used as of December 31, 2014, December 31, 2013 and January 1, 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
<b>Equities</b>	–	–	–	–
<b>Mutual fund units</b>	1 306 916	–	–	1 306 916
<b>Fixed-income and debt securities</b>	–	–	–	–
<b>Short-term investments</b>	–	8 377	–	8 377
<b>Derivatives – assets</b>	–	–	–	–
<b>Derivatives – liabilities</b>	–	–	–	–
<b>Total financial instruments</b>	1 306 916	8 377	–	1 315 293
<b>% of total portfolio</b>	99.4	0.6	–	100.0

December 31, 2013	Level 1	Level 2	Level 3	Total
<b>Equities</b>	–	–	–	–
<b>Mutual fund units</b>	1 279 756	–	–	1 279 756
<b>Fixed-income and debt securities</b>	–	–	–	–
<b>Short-term investments</b>	–	5 039	–	5 039
<b>Derivatives – assets</b>	–	–	–	–
<b>Derivatives – liabilities</b>	–	–	–	–
<b>Total financial instruments</b>	1 279 756	5 039	–	1 284 795
<b>% of total portfolio</b>	99.6	0.4	–	100.0

December 31, 2014

January 1, 2013	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Mutual fund units	1 220 291	–	–	1 220 291
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	4 759	–	4 759
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	<b>1 220 291</b>	<b>4 759</b>	<b>–</b>	<b>1 225 050</b>
<b>% of total portfolio</b>	<b>99.6</b>	<b>0.4</b>	<b>–</b>	<b>100.0</b>

For the periods ended December 31, 2014, December 31, 2013 and January 1, 2013, there were no transfers of financial instruments between Level 1 or Level 2 and Level 3.

### Management fees (see note 7 in the generic notes)

No management fees are payable by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

Management fees of the other series of the Fund are payable to RBC GAM and calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

Series A	0.50%
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### Operating expenses (see note 7 in the generic notes)

Administration fees of each series of the Fund are payable to RBC GAM and calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

Series A	0.01%
Series O	0.01%

### Underlying mutual fund ownership interest (%)

The table below summarizes the Fund's interest in the underlying mutual funds as a percentage of net assets of the Fund ("NAV"), and the Fund's ownership interest as a percentage of the net assets of the underlying funds ("Ownership"). All underlying funds are established and conduct business in Canada, and have an associate relationship to the Fund.

	December 31, 2014		December 31, 2013	
	NAV	Ownership	NAV	Ownership
RBC Institutional Cash Fund	1.5	9.6	5.5	31.5
Phillips, Hager & North Bond Fund	33.3	5.1	32.9	4.3
RBC High Yield Bond Fund	2.0	1.9	–	–
Phillips, Hager & North Canadian Equity Underlying Fund	31.0	16.1	35.5	19.2
Phillips, Hager & North U.S. Equity Fund	–	–	6.8	10.5
Phillips, Hager & North Overseas Equity Pension Trust	–	–	6.0	15.8
RBC Emerging Markets Equity Fund	3.9	2.7	–	–
RBC Global Equity Focus Fund	14.0	17.5	–	–
RBC QUBE Global Equity Fund	13.8	49.5	12.9	70.3

	January 1, 2013	
	NAV	Ownership
RBC Institutional Cash Fund	4.4	26.4
Phillips, Hager & North Bond Fund	33.1	4.8
Phillips, Hager & North Canadian Equity Underlying Fund	35.0	64.6
Phillips, Hager & North U.S. Equity Fund	14.0	19.0
Phillips, Hager & North Overseas Equity Pension Trust	13.0	29.3

### Taxes (\$000s) (see note 5 in the generic notes)

The Fund had no capital or non-capital losses as at December 31, 2014.

December 31, 2014

**Unitholders' equity (000s)**

The unitholders' equity of the Fund includes amounts representing units, undistributed net income (loss), realized gain (loss) on investments and unrealized gain (loss) on investments. There is no limitation on the number of units available for issue. Units are purchased and redeemed at the NAV per unit.

For the periods ended December 31  
 (see note 2 in the generic notes)

	2014	2013
<b>Series A</b>		
Opening units	20 400	19 324
Issued number of units	637	2 062
Reinvested number of units	1 177	353
Redeemed number of units	(3 789)	(1 339)
Ending number of units	18 425	20 400
<b>Series O</b>		
Opening units	49 611	55 526
Issued number of units	3 888	3 305
Reinvested number of units	3 331	1 124
Redeemed number of units	(7 108)	(10 344)
Ending number of units	49 722	49 611

**Transition to IFRS (\$000s) (see note 8 in the generic notes)**

Reconciliation of net assets and comprehensive income as previously reported under Canadian GAAP to IFRS:

	December 31 2013	January 1 2013
<b>Net assets</b>		
Net assets as reported under Canadian GAAP	1 284 612	1 224 814
Revaluation of investments at FVTPL	–	–
Net assets attributable to holders of redeemable units	1 284 612	1 224 814
December 31 2013		
<b>Comprehensive income</b>		
Comprehensive income as reported under Canadian GAAP		168 513
Revaluation of investments at FVTPL (see note 3 and note 8 in the generic notes)		–
Increase (decrease) in net assets attributable to holders of redeemable units		168 513

Please see the generic notes at the back of the financial statements.

## SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

## PHILLIPS, HAGER &amp; NORTH CANADIAN EQUITY PENSION TRUST

December 31, 2014

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>CANADIAN EQUITIES</b>				
<b>Consumer Discretionary</b>				
16 762	Dollarama Inc.	\$ 830	\$ 996	
11 999	Gildan Activewear Inc., Class A	659	788	
13 368	Magna International Inc., Class A	1 219	1 683	
15 154	Restaurant Brands International Inc.	646	690	
25 363	Shaw Communications Inc., Class B	665	795	
32 058	Thomson Corp.	1 260	1 503	
		5 279	6 455	<b>5.0</b>
<b>Consumer Staples</b>				
44 043	Alimentation Couche-Tard Inc.	1 278	2 144	
9 199	Empire Co. Ltd., Class A	708	806	
11 011	Loblaws Companies Ltd.	578	685	
20 392	Saputo Group Inc.	545	712	
		3 109	4 347	<b>3.3</b>
<b>Energy</b>				
70 031	ARC Resources Ltd.	1 859	1 763	
44 801	Cameco Corp.	990	854	
107 957	Canadian Natural Resources Ltd.	4 125	3 879	
111 325	Cenovus Energy Inc.	3 119	2 668	
71 048	Crescent Point Energy Corp.	2 628	1 912	
87 554	Enbridge Inc.	4 390	5 230	
96 448	Encana Corp.	1 929	1 560	
5 850	Keyera Corp.	471	474	
12 100	MEG Energy Corp.	277	237	
6 494	PrairieSky Royalty Ltd.	228	199	
89 700	Precision Drilling Corp.	699	633	
10 900	Seven Generations Energy Ltd.	203	191	
103 751	Suncor Energy Inc.	3 783	3 828	
67 298	Talisman Energy Inc.	671	612	
12 634	Tourmaline Oil Corp.	509	489	
53 453	TransCanada Corp.	2 827	3 052	
		28 708	27 581	<b>21.1</b>
<b>Financials</b>				
32 287	Bank of Montreal	2 447	2 653	
114 509	Bank of Nova Scotia	7 313	7 593	
60 590	Brookfield Asset Management Inc., Class A	2 785	3 528	
8 600	Brookfield Property Partners LP	213	227	
15 459	Canadian Imperial Bank of Commerce	1 491	1 543	
18 370	CI Financial Corp.	606	593	
17 939	Industrial Alliance Insurance & Financial Services Inc.	806	797	
9 104	Intact Financial Corp.	659	763	
189 602	Manulife Financial Corporation	3 819	4 205	
24 900	Manulife Financial Corporation, Subscription Receipts	534	551	
26 165	Power Corporation of Canada	762	831	
117 311	Royal Bank of Canada*	8 185	9 413	
10 306	Sun Life Financial Inc.	406	432	
173 283	Toronto-Dominion Bank	8 013	9 619	
		38 039	42 748	<b>32.7</b>

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>Health Care</b>				
21 359	Catamaran Corp.	\$ 1 074	\$ 1 284	
25 081	Valeant Pharmaceuticals International Inc.	2 968	4 172	
		4 042	5 456	<b>4.2</b>
<b>Industrials</b>				
62 022	Canadian National Railway Co.	3 638	4 963	
43 623	Finning International Inc.	1 136	1 101	
28 774	SNC-Lavalin Group Inc.	1 376	1 275	
		6 150	7 339	<b>5.6</b>
<b>Information Technology</b>				
35 801	CGI Group Inc., Class A	1 251	1 586	
7 624	Open Text Corp.	452	515	
		1 703	2 101	<b>1.6</b>
<b>Materials</b>				
20 324	Agnico Eagle Mines Ltd.	704	588	
13 958	Agrium Inc.	1 324	1 535	
99 526	B2Gold Corp.	269	189	
20 840	Barrick Gold Corp.	455	261	
22 690	Continental Gold Ltd.	109	42	
14 110	Detour Gold Corp.	182	134	
9 790	Dundee Precious Metals Inc.	58	27	
66 260	Eldorado Gold Corp.	631	469	
42 393	First Quantum Minerals Ltd.	860	700	
10 110	Franco-Nevada Corp.	561	578	
47 540	Goldcorp Inc.	1 470	1 023	
22 140	Mountain Province Diamonds Inc.	118	107	
30 910	New Gold Inc.	222	154	
6 938	Osisko Gold Royalties Ltd.	106	114	
61 430	Potash Corporation of Saskatchewan Inc.	2 253	2 523	
35 010	Primero Mining Corp.	220	156	
55 920	Rio Alto Mining Ltd.	156	158	
57 200	Semafo Inc.	224	170	
24 570	Silver Wheaton Corp.	699	581	
6 820	Tahoe Resources Inc.	146	110	
33 629	Teck Resources Ltd., Class B	943	534	
111 360	Torex Gold Resources Inc.	188	137	
89 036	Turquoise Hill Resources Ltd.	413	320	
		12 311	10 610	<b>8.1</b>
<b>Telecommunication Services</b>				
34 894	Rogers Communications Inc., Class B	1 421	1 576	
52 048	TELUS Corp.	1 870	2 180	
		3 291	3 756	<b>2.9</b>
<b>Utilities</b>				
19 199	Fortis Inc.	698	748	
		698	748	<b>0.6</b>

The accompanying notes are an integral part of the financial statements.

December 31, 2014

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>Other</b>				
97 500	iShares S&P/TSX 60 Index Fund	\$ 2 109	\$ 2 093	
		2 109	2 093	1.6
<b>TOTAL CANADIAN EQUITIES</b>		<b>105 439</b>	<b>113 234</b>	<b>86.7</b>
Number of Units	Security	Cost	Fair Value	% of Net Assets
<b>MUTUAL FUND UNITS</b>				
632 603	Phillips, Hager & North Small Float Fund*	\$ 14 022	\$ 15 718	
<b>TOTAL MUTUAL FUND UNITS</b>		<b>14 022</b>	<b>15 718</b>	<b>12.1</b>
<b>SHORT-TERM INVESTMENTS†</b>		<b>530</b>	<b>530</b>	<b>0.4</b>
<b>TOTAL INVESTMENTS</b>		<b>\$ 119 991</b>	<b>129 482</b>	<b>99.2</b>
<b>OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>1 073</b>	<b>0.8</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>\$ 130 555</b>	<b>100.0</b>

\* Investment in related party (see note 7 in the generic notes).

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 1.00% to 1.23% and mature on January 2, 2015.

**Statements of Financial Position** *(in \$000s except per unit amounts)*

<i>(see note 2 and note 8 in the generic notes)</i>	<b>December 31 2014</b>	December 31 2013	January 1 2013
<b>ASSETS</b>			
Investments at fair value	\$ 129 482	\$ 48 553	\$ 43 598
Cash	349	228	340
Due from investment dealers	626	13	–
Subscriptions receivable	76	–	–
Dividends receivable, interest accrued and other assets	168	69	89
<b>TOTAL ASSETS</b>	<b>130 701</b>	<b>48 863</b>	<b>44 027</b>
<b>LIABILITIES</b>			
Redemptions payable	87	78	297
Distributions payable	56	36	33
Accounts payable and accrued expenses	3	3	1
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>146</b>	<b>117</b>	<b>331</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>	<b>\$ 130 555</b>	<b>\$ 48 746</b>	<b>\$ 43 696</b>
Investments at cost	\$ 119 991	\$ 38 886	\$ 40 035
<b>NAV</b>			
<b>SERIES O</b>	<b>\$ 130 555</b>	<b>\$ 48 746</b>	<b>\$ 43 696</b>
<b>NAV PER UNIT</b>			
<b>SERIES O</b>	<b>\$ 7.53</b>	<b>\$ 7.01</b>	<b>\$ 6.01</b>

The accompanying notes are an integral part of these financial statements.

**Statements of Comprehensive Income***(in \$000s except per unit amounts)*

For the periods ended December 31 (see note 2 in the generic notes)	2014	2013
<b>INCOME (see note 3 in the generic notes)</b>		
Dividends	\$ 1 549	\$ 1 118
Interest for distribution purposes	4	1
Other income received from underlying funds	249	113
Net realized gain (loss) on investments	4 625	1 308
Net gain (loss) on foreign currencies and other net assets	(1)	–
Change in unrealized gain (loss) on investments	(176)	6 104
<b>TOTAL INCOME (LOSS)</b>	<b>6 250</b>	<b>8 644</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Administration fees	19	15
Board of Governors costs	3	3
GST/HST	3	2
Transaction costs	61	28
<b>TOTAL EXPENSES</b>	<b>86</b>	<b>48</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ 6 164</b>	<b>\$ 8 596</b>
<b>INCREASE (DECREASE) IN NAV SERIES 0</b>	<b>\$ 6 164</b>	<b>\$ 8 596</b>
<b>INCREASE (DECREASE) IN NAV PER REDEEMABLE UNIT SERIES 0</b>	<b>\$ 0.72</b>	<b>\$ 1.18</b>

**Statements of Cash Flow (in \$000s)**

For the periods ended December 31 (see note 2 in the generic notes)	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in NAV	\$ 6 164	\$ 8 596
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY OPERATIONS</b>		
Net realized loss (gain) on investments	(4 625)	(1 291)
Change in unrealized loss (gain) on investments	176	(6 104)
(Increase) decrease in accrued receivables	(712)	7
Increase (decrease) in accrued payables	–	2
Cost of investments purchased	(156 764)	(36 439)
Proceeds on sales of investments	80 284	38 879
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>(75 477)</b>	<b>3 650</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	88 748	7 376
Cash paid on redemption of redeemable units	(13 114)	(11 106)
Distributions paid to holders of redeemable units	(36)	(32)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>\$ 75 598</b>	<b>\$ (3 762)</b>
Net increase (decrease) in cash for the year	121	(112)
Cash (bank overdraft), beginning of period	228	340
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 349</b>	<b>\$ 228</b>
Interest received	\$ 4	\$ 1
Dividends received, net of withholding taxes	\$ 1 450	\$ 1 138

Cash consists of cash and futures contracts margin receivable/payable, as applicable.



**Statements of Changes in NAV** (in \$000s)

For the periods ended December 31 (see note 2 in the generic notes)*	Series 0	
	2014	2013
<b>EQUITY/NAV AT BEGINNING OF PERIOD</b>	<b>\$ 48 746</b>	<b>\$ 43 696</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>6 164</b>	<b>8 596</b>
Early redemption fees	–	–
Proceeds from redeemable units issued	<b>88 824</b>	7 376
Reinvestments of distributions to holders of redeemable units	<b>5 684</b>	1 234
Redemption of redeemable units	<b>(13 123)</b>	(10 887)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>81 385</b>	<b>(2 277)</b>
Distributions from net income	<b>(1 725)</b>	(1 269)
Distributions from net gains	<b>(4 015)</b>	–
Distributions from capital	–	–
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>(5 740)</b>	<b>(1 269)</b>
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>81 809</b>	<b>5 050</b>
<b>NAV AT END OF PERIOD</b>	<b>\$ 130 555</b>	<b>\$ 48 746</b>

\* The Fund's units meet all of the criteria in IFRS for classification as equity, and therefore continued to be classified as financial equity, similar to Canadian GAAP, as of January 1, 2013. During 2013, certain new series of units were introduced which had different features to the existing series of units. As a result, the Fund was no longer able to meet the IAS 32 requirements for classification of its units as equity, and the units were classified as financial liabilities as of December 31, 2013. The change in classification has not resulted in any contractual change in relationship with the unitholders, nor has it resulted in any change in the net asset value per unit. The above Statements of Changes in NAV presents the Fund's units as if they were financial liabilities for the entire 2013 year. The Fund's equity during the 2013 year comprised both retained earnings and unitholders' capital and has been presented together. Management believes the absence of separating retained earnings and unitholders' capital would not provide materially different information.

December 31, 2014

**General information (see note 1 in the generic notes)**

The investment objective of the Fund is to provide investors with long-term capital growth by investing primarily in common shares of Canadian companies, which are chosen primarily for their growth potential.

**Financial instrument risk and capital management (see note 4 in the generic notes)****Concentration risk (%)**

The table below summarizes the Fund's investment portfolio (after consideration of derivative products, if any) as at:

	December 31 2014	December 31 2013	January 1 2013
Investment mix			
Financials	34.8	35.3	31.0
Energy	22.9	23.5	23.6
Materials	9.2	10.3	16.8
Industrials	8.2	8.1	9.0
Consumer Discretionary	7.9	8.5	7.5
Health Care	4.2	3.1	2.0
Consumer Staples	3.6	3.6	2.1
Telecommunication Services	2.9	3.3	3.6
Information Technology	2.9	3.2	1.8
Index Funds	1.6	0.5	–
Utilities	0.6	–	–
Cash/Other	1.2	0.6	2.6

**Other price risk (% impact on net assets)**

The table below shows the impact of a 1% change in the broad-based index (noted below) on the Fund's net assets, using a 36-month historical correlation of data of the Fund's return and the index, with all other factors kept constant, as at:

	December 31 2014	December 31 2013	January 1 2013
S&P/TSX Capped Composite			
Total Return Index	+ or - 1.0	+ or - 1.1	+ or - 1.1

Since historical correlation may not be representative of future correlation, actual results could differ from this sensitivity analysis and the difference could be material.

**Fair value hierarchy (\$000s except % amounts) (see note 3 in the generic notes)**

The following is a summary of the inputs used as of December 31, 2014, December 31, 2013 and January 1, 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
Equities	113 234	–	–	113 234
Mutual fund units	15 718	–	–	15 718
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	530	–	530
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	<b>128 952</b>	<b>530</b>	<b>–</b>	<b>129 482</b>
<b>% of total portfolio</b>	<b>99.6</b>	<b>0.4</b>	<b>–</b>	<b>100.0</b>

December 31, 2013	Level 1	Level 2	Level 3	Total
Equities	40 823	–	–	40 823
Mutual fund units	7 730	–	–	7 730
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	–	–	–
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	<b>48 553</b>	<b>–</b>	<b>–</b>	<b>48 553</b>
<b>% of total portfolio</b>	<b>100.0</b>	<b>–</b>	<b>–</b>	<b>100.0</b>

January 1, 2013	Level 1	Level 2	Level 3	Total
Equities	36 521	–	–	36 521
Mutual fund units	6 340	–	–	6 340
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	737	–	737
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	<b>42 861</b>	<b>737</b>	<b>–</b>	<b>43 598</b>
<b>% of total portfolio</b>	<b>98.3</b>	<b>1.7</b>	<b>–</b>	<b>100.0</b>

For the periods ended December 31, 2014, December 31, 2013 and January 1, 2013, there were no transfers of financial instruments between Level 1 or Level 2 and Level 3.

**Management fees (see note 7 in the generic notes)**

No management fees are payable by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

December 31, 2014

**Operating expenses (see note 7 in the generic notes)**

Administration fees of Series O of the Fund are payable to RBC GAM and calculated at the following annual percentage, before GST/HST, of the daily net asset value of Series O of the Fund.

Series O	0.03%
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**Underlying mutual fund ownership interest (%)**

The table below summarizes the Fund's interest in the underlying mutual funds as a percentage of net assets of the Fund ("NAV"), and the Fund's ownership interest as a percentage of the net assets of the underlying funds ("Ownership"). All underlying funds are established and conduct business in Canada, and have an associate relationship to the Fund.

	December 31, 2014		December 31, 2013	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North Small Float Fund	12.1	6.0	15.9	2.4

	January 1, 2013	
	NAV	Ownership
Phillips, Hager & North Small Float Fund	14.5	2.2

**Taxes (\$000s) (see note 5 in the generic notes)**

The Fund had no capital or non-capital losses as at December 31, 2014.

**Unitholders' equity (000s)**

The unitholders' equity of the Fund includes amounts representing units, undistributed net income (loss), realized gain (loss) on investments and unrealized gain (loss) on investments. There is no limitation on the number of units available for issue. Units are purchased and redeemed at the NAV per unit.

For the periods ended December 31  
(see note 2 in the generic notes)

Series O	2014	2013
Opening units	6 951	7 274
Issued number of units	11 347	1 202
Reinvested number of units	755	176
Redeemed number of units	(1 710)	(1 701)
Ending number of units	17 343	6 951

**Transaction costs (\$000s except %)**

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31 2014		December 31 2013	
	\$	%	\$	%
Total transaction costs	61	100	28	100
Related-party brokerage commissions*	5	8	2	7
Commission arrangements†	2	3	1	4

\* See note 7 in the generic notes.

† Commission arrangements are part of commission amounts paid to dealers. The Fund uses commission arrangements (formerly known as "soft dollars") for research and/or order execution goods and services.

**Investments by other related investment funds (%) (see note 7 in the generic notes)**

The table below summarizes, as a percentage, the net assets of the Fund owned by other related investment funds as at:

	December 31 2014		December 31 2013	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North PRiM Balanced Fund	20.4	–	–	–
Total	20.4	–	–	–

**Transition to IFRS (\$000s) (see note 8 in the generic notes)**

Reconciliation of net assets and comprehensive income as previously reported under Canadian GAAP to IFRS:

	December 31 2013	January 1 2013
<b>Net assets</b>		
Net assets as reported under Canadian GAAP	48 733	43 630
Revaluation of investments at FVTPL	13	66
Net assets attributable to holders of redeemable units	48 746	43 696

	December 31 2013
<b>Comprehensive income</b>	
Comprehensive income as reported under Canadian GAAP	8 649
Revaluation of investments at FVTPL (see note 3 and note 8 in the generic notes)	(53)
Increase (decrease) in net assets attributable to holders of redeemable units	8 596

Please see the generic notes at the back of the financial statements.

## SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

## PHILLIPS, HAGER &amp; NORTH SMALL FLOAT FUND

December 31, 2014

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>CANADIAN EQUITIES</b>				
<b>Consumer Discretionary</b>				
225 750	BRP Inc.	\$ 5 202	\$ 5 465	
158 896	Cineplex Inc.	4 417	7 123	
163 000	easyhome Ltd.	3 832	3 270	
145 800	Great Canadian Gaming Corp.	1 437	3 011	
310 100	Leon's Furniture Ltd.	3 955	5 551	
90 429	Linamar Corp.	1 873	6 416	
393 100	Quebecor Inc., Class B	8 465	12 556	
1 412 900	RONA Inc.	17 486	19 569	
		<u>46 667</u>	<u>62 961</u>	<u>24.0</u>
<b>Consumer Staples</b>				
281 600	Maple Leaf Foods Inc.	3 422	5 483	
		<u>3 422</u>	<u>5 483</u>	<u>2.1</u>
<b>Energy</b>				
809 014	Calfrac Well Services Ltd.	11 900	8 098	
198 300	PrairieSky Royalty Ltd.	6 266	6 068	
246 500	Secure Energy Services Inc.	3 750	4 183	
127 300	Seven Generations Energy Ltd.	2 353	2 226	
542 000	Trilogy Energy Corp.	14 247	4 287	
2 359 600	Trinidad Drilling Ltd.	18 888	12 270	
		<u>57 404</u>	<u>37 132</u>	<u>14.1</u>
<b>Financials</b>				
98 400	Allied Properties Real Estate Investment Trust	3 455	3 684	
263 200	Altus Group Ltd.	5 344	5 477	
370 500	Canaccord Genuity Group Inc.	2 711	2 894	
1 036 900	Element Financial Corp.	8 985	14 662	
69 829	First Service Corp.	2 181	4 139	
209 796	Home Capital Group Inc.	4 221	10 068	
1 143 800	The Westaim Corp.	3 031	3 489	
		<u>29 928</u>	<u>44 413</u>	<u>16.9</u>
<b>Industrials</b>				
512 800	Badger Daylighting Ltd.	8 548	13 564	
165 800	Boyd Group Income Fund	5 353	7 892	
78 500	MacDonald Dettwiler & Associates Ltd.	5 380	7 454	
136 392	Richelieu Hardware Ltd.	2 466	7 774	
115 432	Stantec Inc.	1 748	3 686	
173 631	Toromont Industries Ltd.	2 398	4 950	
197 200	WSP Global Inc.	7 070	6 874	
		<u>32 963</u>	<u>52 194</u>	<u>19.9</u>
<b>Information Technology</b>				
24 100	Constellation Software Inc.	2 970	8 325	
412 400	Descartes Systems Group Inc.	6 082	7 114	
189 100	DH Corp.	5 132	6 934	
259 600	Kinaxis Inc.	3 375	4 803	
		<u>17 559</u>	<u>27 176</u>	<u>10.3</u>

Holdings	Security	Cost	Fair Value	% of Net Assets	
<b>Materials</b>					
68 835	CCL Industries, Class B	\$ 2 345	\$ 8 664		
2 257 000	Polaris Minerals Corp.	3 342	5 123		
966 300	Sherritt International Corp.	4 566	2 899		
158 900	Stella-Jones Inc.	2 739	5 202		
		<u>12 992</u>	<u>21 888</u>	<u>8.3</u>	
<b>Utilities</b>					
95 300	Superior Plus Corp.	1 087	1 143		
		<u>1 087</u>	<u>1 143</u>	<u>0.4</u>	
<b>TOTAL CANADIAN EQUITIES</b>			<u>202 022</u>	<u>252 390</u>	<u>96.0</u>
<b>SHORT-TERM INVESTMENTS*</b>			<u>9 322</u>	<u>9 322</u>	<u>3.6</u>
<b>TOTAL INVESTMENTS</b>			<u>\$ 211 344</u>	<u>261 712</u>	<u>99.6</u>
<b>OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				<u>1 001</u>	<u>0.4</u>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				<u>\$ 262 713</u>	<u>100.0</u>

\* Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 1.16% to 1.23% and mature between January 2, 2015 and January 6, 2015.

The accompanying notes are an integral part of the financial statements.

**Statements of Financial Position** *(in \$000s except per unit amounts)*

<i>(see note 2 and note 8 in the generic notes)</i>	<b>December 31 2014</b>	December 31 2013	January 1 2013
<b>ASSETS</b>			
Investments at fair value	\$ 261 712	\$ 322 600	\$ 285 721
Cash	119	107	135
Due from investment dealers	279	318	–
Subscriptions receivable	57	69	51
Dividends receivable, interest accrued and other assets	548	462	408
<b>TOTAL ASSETS</b>	<b>262 715</b>	<b>323 556</b>	<b>286 315</b>
<b>LIABILITIES</b>			
Due to investment dealers	1	–	–
Accounts payable and accrued expenses	1	1	1
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>2</b>	<b>1</b>	<b>1</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>	<b>\$ 262 713</b>	<b>\$ 323 555</b>	<b>\$ 286 314</b>
Investments at cost	\$ 211 344	\$ 205 611	\$ 231 685
<b>NAV</b>			
<b>SERIES A</b>	<b>\$ 813</b>	<b>\$ 848</b>	<b>\$ 1 102</b>
<b>SERIES O</b>	<b>\$ 261 900</b>	<b>\$ 322 707</b>	<b>\$ 285 212</b>
<b>NAV PER UNIT</b>			
<b>SERIES A</b>	<b>\$ 25.73</b>	<b>\$ 24.26</b>	<b>\$ 16.53</b>
<b>SERIES O</b>	<b>\$ 24.85</b>	<b>\$ 23.42</b>	<b>\$ 15.96</b>

The accompanying notes are an integral part of these financial statements.

**Statements of Comprehensive Income***(in \$000s except per unit amounts)*

For the periods ended December 31 (see note 2 in the generic notes)	2014	2013
<b>INCOME (see note 3 in the generic notes)</b>		
Dividends	\$ 3 813	\$ 4 601
Interest for distribution purposes	103	120
Other income (loss)	147	2
Net realized gain (loss) on investments	89 019	53 498
Net gain (loss) on foreign currencies and other net assets	–	4
Change in unrealized gain (loss) on investments	(66 621)	62 953
<b>TOTAL INCOME (LOSS)</b>	<b>26 461</b>	<b>121 178</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Management fees	10	8
GST/HST	1	1
Transaction costs	388	472
<b>TOTAL EXPENSES</b>	<b>399</b>	<b>481</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ 26 062</b>	<b>\$ 120 697</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>SERIES A</b>	<b>\$ 61</b>	<b>\$ 316</b>
<b>SERIES O</b>	<b>\$ 26 001</b>	<b>\$ 120 381</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>PER REDEEMABLE UNIT</b>		
<b>SERIES A</b>	<b>\$ 2.06</b>	<b>\$ 7.67</b>
<b>SERIES O</b>	<b>\$ 2.25</b>	<b>\$ 7.69</b>

**Statements of Cash Flow** *(in \$000s)*

For the periods ended December 31 (see note 2 in the generic notes)	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in NAV	\$ 26 062	\$ 120 697
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY OPERATIONS</b>		
Net realized loss (gain) on investments	(89 016)	(53 423)
Change in unrealized loss (gain) on investments	66 621	(62 953)
(Increase) decrease in accrued receivables	(47)	(372)
Increase (decrease) in accrued payables	1	–
Cost of investments purchased	(924 993)	(985 391)
Proceeds on sales of investments	1 008 276	1 064 888
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>86 904</b>	<b>83 446</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	26 765	14 116
Cash paid on redemption of redeemable units	(113 631)	(97 575)
Distributions paid to holders of redeemable units	(26)	(15)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>\$ (86 892)</b>	<b>\$ (83 474)</b>
Net increase (decrease) in cash for the year	12	(28)
Cash (bank overdraft), beginning of period	107	135
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 119</b>	<b>\$ 107</b>
Interest received	\$ 101	\$ 121
Dividends received, net of withholding taxes	\$ 3 876	\$ 4 549

Cash consists of cash and futures contracts margin receivable/payable, as applicable.

**Statements of Changes in NAV** (in \$000s)

For the periods ended December 31 (see note 2 in the generic notes)	Series A		Series O		Total	
	2014	2013	2014	2013	2014	2013
<b>NAV AT BEGINNING OF PERIOD</b>	\$ 848	\$ 1 102	\$ 322 707	\$ 285 212	\$ 323 555	\$ 286 314
<b>INCREASE (DECREASE) IN NAV</b>	<b>61</b>	<b>316</b>	<b>26 001</b>	<b>120 381</b>	<b>26 062</b>	<b>120 697</b>
Early redemption fees	—	—	—	—	—	—
Proceeds from redeemable units issued	1	99	26 752	14 035	26 753	14 134
Reinvestments of distributions to holders of redeemable units	4	3	4 123	4 718	4 127	4 721
Redemption of redeemable units	(97)	(669)	(113 534)	(96 906)	(113 631)	(97 575)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>(92)</b>	<b>(567)</b>	<b>(82 659)</b>	<b>(78 153)</b>	<b>(82 751)</b>	<b>(78 720)</b>
Distributions from net income	(4)	(3)	(4 149)	(4 733)	(4 153)	(4 736)
Distributions from net gains	—	—	—	—	—	—
Distributions from capital	—	—	—	—	—	—
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>(4)</b>	<b>(3)</b>	<b>(4 149)</b>	<b>(4 733)</b>	<b>(4 153)</b>	<b>(4 736)</b>
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>(35)</b>	<b>(254)</b>	<b>(60 807)</b>	<b>37 495</b>	<b>(60 842)</b>	<b>37 241</b>
<b>NAV AT END OF PERIOD</b>	<b>\$ 813</b>	<b>\$ 848</b>	<b>\$ 261 900</b>	<b>\$ 322 707</b>	<b>\$ 262 713</b>	<b>\$ 323 555</b>

The accompanying notes are an integral part of these financial statements.

December 31, 2014

**General information (see note 1 in the generic notes)**

The investment objective of the Fund is to provide investors with long-term capital growth by investing generally in a diversified portfolio of common stocks of small-float, high-quality Canadian companies.

**Financial instrument risk and capital management (see note 4 in the generic notes)****Liquidity risk (%)**

Any securities deemed to be illiquid are identified in the Schedule of Investment Portfolio. Illiquid securities represent approximately 0.0% (December 31, 2013 – 0.0%, January 1, 2013 – 3.2%) of the net assets of the Fund.

**Concentration risk (%)**

The table below summarizes the Fund's investment portfolio (after consideration of derivative products, if any) as at:

	December 31 2014	December 31 2013	January 1 2013
Investment mix			
Consumer Discretionary	24.1	26.4	20.2
Industrials	20.3	18.1	22.0
Financials	16.9	17.5	14.6
Energy	14.1	12.3	22.1
Information Technology	10.3	8.7	5.2
Materials	8.3	9.2	11.9
Consumer Staples	2.1	2.9	2.4
Index Funds	–	3.1	–
Cash/Other	3.9	1.8	1.6

**Other price risk (% impact on net assets)**

The table below shows the impact of a 1% change in the broad-based index (noted below) on the Fund's net assets, using a 36-month historical correlation of data of the Fund's return and the index, with all other factors kept constant, as at:

	December 31 2014	December 31 2013	January 1 2013
S&P/TSX Capped Composite			
Total Return Index	+ or - 1.0	+ or - 1.1	+ or - 1.0

Since historical correlation may not be representative of future correlation, actual results could differ from this sensitivity analysis and the difference could be material.

**Fair value hierarchy (\$000s except % amounts) (see note 3 in the generic notes)**

The following is a summary of the inputs used as of December 31, 2014, December 31, 2013 and January 1, 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
Equities	252 390	–	–	252 390
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	9 322	–	9 322
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	<b>252 390</b>	<b>9 322</b>	<b>–</b>	<b>261 712</b>
<b>% of total portfolio</b>	<b>96.4</b>	<b>3.6</b>	<b>–</b>	<b>100.0</b>

December 31, 2013	Level 1	Level 2	Level 3	Total
Equities	317 651	–	–	317 651
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	4 949	–	4 949
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	<b>317 651</b>	<b>4 949</b>	<b>–</b>	<b>322 600</b>
<b>% of total portfolio</b>	<b>98.5</b>	<b>1.5</b>	<b>–</b>	<b>100.0</b>

January 1, 2013	Level 1	Level 2	Level 3	Total
Equities	273 062	8 760	–	281 822
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	3 899	–	3 899
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	<b>273 062</b>	<b>12 659</b>	<b>–</b>	<b>285 721</b>
<b>% of total portfolio</b>	<b>95.6</b>	<b>4.4</b>	<b>–</b>	<b>100.0</b>

For the periods ended December 31, 2014, December 31, 2013 and January 1, 2013, there were no transfers of financial instruments between Level 1 or Level 2 and Level 3.

**Management fees (see note 7 in the generic notes)**

No management fees are payable by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

Management fees of the other series of the Fund are payable to RBC GAM and calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

Series A	1.00%
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December 31, 2014

**Operating expenses (see note 7 in the generic notes)**

Administration fees of each series of the Fund are payable to RBC GAM and calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

Series A	0.0%
Series O	0.0%

**Investments by related parties (\$000s except unit amounts)**

Royal Bank of Canada, or one of its subsidiaries, held the following investments in the Fund as at:

	December 31 2014	December 31 2013
<b>Units held</b>		
Series A	38	38
Series O	42	41
<b>Value of all units</b>	2	2

**Taxes (\$000s) (see note 5 in the generic notes)**

The non-capital and capital losses as at December 31, 2014 for the Fund were approximately:

Capital losses	23 033
Non-capital losses	–

**Unitholders' equity (000s)**

The unitholders' equity of the Fund includes amounts representing units, undistributed net income (loss), realized gain (loss) on investments and unrealized gain (loss) on investments. There is no limitation on the number of units available for issue. Units are purchased and redeemed at the NAV per unit.

For the periods ended December 31  
(see note 2 in the generic notes)

	2014	2013
<b>Series A</b>		
Opening units	35	67
Issued number of units	1	5
Reinvested number of units	–	–
Redeemed number of units	(4)	(37)
Ending number of units	32	35
<b>Series O</b>		
Opening units	13 780	17 866
Issued number of units	1 041	703
Reinvested number of units	165	204
Redeemed number of units	(4 446)	(4 993)
Ending number of units	10 540	13 780

**Transaction costs (\$000s except %)**

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31 2014		December 31 2013	
	\$	%	\$	%
Total transaction costs	388	100	472	100
Related-party brokerage commissions*	33	9	72	15
Commission arrangements†	52	13	40	8

\* See note 7 in the generic notes.

† Commission arrangements are part of commission amounts paid to dealers. The Fund uses commission arrangements (formerly known as "soft dollars") for research and/or order execution goods and services.

**Investments by other related investment funds (%) (see note 7 in the generic notes)**

The table below summarizes, as a percentage, the net assets of the Fund owned by other related investment funds as at:

	December 31 2014	December 31 2013
Phillips, Hager & North Canadian Equity Fund	56.7	60.9
Phillips, Hager & North Canadian Equity Pension Trust	6.0	2.4
Phillips, Hager & North Canadian Equity Plus Pension Trust	5.9	6.2
<b>Total</b>	<b>68.6</b>	<b>69.5</b>

**Transition to IFRS (\$000s) (see note 8 in the generic notes)**

Reconciliation of net assets and comprehensive income as previously reported under Canadian GAAP to IFRS:

	December 31 2013	January 1 2013
<b>Net assets</b>		
Net assets as reported under Canadian GAAP	323 121	284 865
Revaluation of investments at FVTPL	434	1 449
Net assets attributable to holders of redeemable units	323 555	286 314
		December 31 2013
<b>Comprehensive income</b>		
Comprehensive income as reported under Canadian GAAP		121 712
Revaluation of investments at FVTPL (see note 3 and note 8 in the generic notes)		(1 015)
Increase (decrease) in net assets attributable to holders of redeemable units		120 697

Please see the generic notes at the back of the financial statements.

## SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

## PHILLIPS, HAGER &amp; NORTH CANADIAN EQUITY PLUS PENSION TRUST

December 31, 2014

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>CANADIAN EQUITIES</b>				
<b>Consumer Discretionary</b>				
18 800	Dollarama Inc.	\$ 870	\$ 1 117	
12 200	Gildan Activewear Inc., Class A	468	802	
13 800	Magna International Inc., Class A	442	1 737	
14 635	Restaurant Brands International Inc.	620	666	
23 900	Shaw Communications Inc., Class B	497	749	
30 300	Thomson Corp.	1 035	1 420	
		3 932	6 491	<b>4.2</b>
<b>Consumer Staples</b>				
43 400	Alimentation Couche-Tard Inc.	718	2 113	
9 400	Empire Co. Ltd., Class A	669	824	
11 100	Loblaw Companies Ltd.	488	690	
18 600	Saputo Group Inc.	245	650	
		2 120	4 277	<b>2.8</b>
<b>Energy</b>				
69 000	ARC Resources Ltd.	1 647	1 735	
43 500	Cameco Corp.	1 292	829	
107 300	Canadian Natural Resources Ltd.	3 824	3 854	
111 754	Cenovus Energy Inc.	3 007	2 679	
70 200	Crescent Point Energy Corp.	2 894	1 889	
85 900	Enbridge Inc.	3 767	5 132	
96 354	Encana Corp.	2 000	1 558	
5 800	Keyera Corp.	428	470	
12 100	MEG Energy Corp.	298	237	
6 800	PrairieSky Royalty Ltd.	240	208	
87 200	Precision Drilling Corp.	713	616	
10 900	Seven Generations Energy Ltd.	201	191	
104 812	Suncor Energy Inc.	3 397	3 868	
67 000	Talisman Energy Inc.	893	610	
13 200	Tourmaline Oil Corp.	442	511	
53 500	TransCanada Corp.	2 632	3 055	
		27 675	27 442	<b>17.6</b>
<b>Financials</b>				
32 600	Bank of Montreal	2 182	2 679	
114 500	Bank of Nova Scotia	6 004	7 592	
60 400	Brookfield Asset Management Inc., Class A	1 875	3 516	
8 700	Brookfield Property Partners LP	210	230	
15 300	Canadian Imperial Bank of Commerce	1 367	1 528	
18 300	CI Financial Corp.	588	591	
17 900	Industrial Alliance Insurance & Financial Services Inc.	798	795	
8 500	Intact Financial Corp.	548	713	
183 900	Manulife Financial Corporation	3 192	4 079	
24 800	Manulife Financial Corporation, Subscription Receipts	533	549	
26 100	Power Corporation of Canada	665	829	
115 300	Royal Bank of Canada*	4 927	9 252	
10 200	Sun Life Financial Inc.	376	428	
170 500	Toronto-Dominion Bank	3 344	9 464	
		26 609	42 245	<b>27.1</b>

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>Health Care</b>				
20 200	Catamaran Corp.	\$ 905	\$ 1 214	
24 900	Valeant Pharmaceuticals International Inc.	1 758	4 142	
		2 663	5 356	<b>3.4</b>
<b>Industrials</b>				
60 400	Canadian National Railway Co.	1 611	4 833	
43 400	Finning International Inc.	1 027	1 095	
28 500	SNC-Lavalin Group Inc.	1 423	1 263	
		4 061	7 191	<b>4.6</b>
<b>Information Technology</b>				
34 500	CGI Group Inc., Class A	939	1 528	
7 600	Open Text Corp.	399	514	
		1 338	2 042	<b>1.3</b>
<b>Materials</b>				
19 812	Agnico Eagle Mines Ltd.	711	573	
13 900	Agrium Inc.	924	1 529	
92 684	B2Gold Corp.	299	176	
20 560	Barrick Gold Corp.	624	257	
22 840	Continental Gold Ltd.	179	42	
13 630	Detour Gold Corp.	234	129	
9 520	Dundee Precious Metals Inc.	96	26	
64 620	Eldorado Gold Corp.	796	458	
41 700	First Quantum Minerals Ltd.	828	688	
9 750	Franco-Nevada Corp.	433	558	
45 160	Goldcorp Inc.	1 865	971	
24 300	Mountain Province Diamonds Inc.	128	118	
30 810	New Gold Inc.	307	153	
6 361	Osisko Gold Royalties Ltd.	101	104	
62 900	Potash Corporation of Saskatchewan Inc.	1 716	2 583	
35 010	Primero Mining Corp.	228	156	
53 950	Rio Alto Mining Ltd.	153	152	
54 030	Semafo Inc.	205	161	
24 440	Silver Wheaton Corp.	815	578	
6 780	Tahoe Resources Inc.	132	109	
34 500	Teck Resources Ltd., Class B	1 587	548	
121 080	Torex Gold Resources Inc.	243	149	
85 760	Turquoise Hill Resources Ltd.	578	308	
		13 182	10 526	<b>6.8</b>
<b>Telecommunication Services</b>				
31 500	Rogers Communications Inc., Class B	934	1 423	
48 400	TELUS Corp.	1 142	2 027	
		2 076	3 450	<b>2.2</b>
<b>Utilities</b>				
18 900	Fortis Inc.	653	736	
		653	736	<b>0.5</b>

The accompanying notes are an integral part of the financial statements.

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

December 31, 2014

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>Other</b>				
42 700	iShares S&P/TSX 60 Index Fund	\$ 924	\$ 917	
		924	917	<b>0.6</b>
<b>TOTAL CANADIAN EQUITIES</b>		<b>85 233</b>	<b>110 673</b>	<b>71.1</b>
<b>UNITED STATES EQUITIES</b>				
<b>Consumer Staples</b>				
38 200	PepsiCo Inc.	2 532	4 197	
		2 532	4 197	<b>2.7</b>
<b>Financials</b>				
48 300	Wells Fargo & Company	1 173	3 076	
		1 173	3 076	<b>2.0</b>
<b>Health Care</b>				
19 400	Johnson & Johnson	1 267	2 357	
18 500	Varian Medical Systems Inc.	1 267	1 859	
		2 534	4 216	<b>2.7</b>
<b>Industrials</b>				
34 200	Emerson Electric Co.	1 496	2 452	
20 100	Illinois Tool Works Inc.	925	2 211	
25 400	United Technologies Corp.	1 927	3 394	
		4 348	8 057	<b>5.2</b>
<b>Information Technology</b>				
76 800	Cisco Systems Inc.	2 039	2 482	
51 900	Microsoft Corp.	1 622	2 801	
43 200	Oracle Corporation	1 262	2 257	
		4 923	7 540	<b>4.8</b>
<b>TOTAL UNITED STATES EQUITIES</b>		<b>15 510</b>	<b>27 086</b>	<b>17.4</b>
<b>Number of Units</b>	<b>Security</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
<b>MUTUAL FUND UNITS</b>				
627 430	Phillips, Hager & North Small Float Fund*	\$ 6 821	\$ 15 590	
<b>TOTAL MUTUAL FUND UNITS</b>		<b>6 821</b>	<b>15 590</b>	<b>10.0</b>
<b>SHORT-TERM INVESTMENTS†</b>		<b>1 609</b>	<b>1 609</b>	<b>1.0</b>
<b>TOTAL INVESTMENTS</b>		<b>109 173</b>	<b>154 958</b>	<b>99.5</b>
<b>UNREALIZED LOSS ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)</b>				
		–	(660)	<b>(0.4)</b>
<b>TOTAL PORTFOLIO</b>		<b>\$ 109 173</b>	<b>154 298</b>	<b>99.1</b>
<b>OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>1 390</b>	<b>0.9</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>\$ 155 688</b>	<b>100.0</b>

\* Investment in related party (see note 7 in the generic notes).

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 1.00% to 1.23% and mature between January 2, 2015 and January 5, 2015.

**SCHEDULE A**
**Foreign Exchange Contracts**

Contracts	Maturity Date	Unrealized Loss
Bought CAD 17 746 Sold USD 15 656 @ 1.1335	26-Jan-15	\$ (453)
Bought CAD 1 142 Sold USD 1 007 @ 1.1337	03-Feb-15	(29)
Bought CAD 2 898 Sold USD 2 556 @ 1.1337	03-Feb-15	(74)
Bought CAD 3 660 Sold USD 3 215 @ 1.1385	03-Feb-15	(78)
Bought CAD 570 Sold USD 500 @ 1.1405	03-Feb-15	(11)
Bought CAD 566 Sold USD 500 @ 1.1321	03-Feb-15	(15)
<b>TOTAL FOREIGN EXCHANGE</b>		<b>\$ (660)</b>

All counterparties have a credit rating of at least A.

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY  
PLUS PENSION TRUST**
**Statements of Financial Position** *(in \$000s except per unit amounts)*

<i>(see note 2 and note 8 in the generic notes)</i>	<b>December 31 2014</b>	December 31 2013	January 1 2013
<b>ASSETS</b>			
Investments at fair value	\$ 154 958	\$ 150 173	\$ 138 114
Cash	552	333	221
Due from investment dealers	664	35	–
Subscriptions receivable	18	129	10
Unrealized gain on foreign exchange contracts	–	1	23
Dividends receivable, interest accrued and other assets	209	206	273
<b>TOTAL ASSETS</b>	<b>156 401</b>	<b>150 877</b>	<b>138 641</b>
<b>LIABILITIES</b>			
Redemptions payable	46	107	483
Unrealized loss on foreign exchange contracts	660	517	37
Accounts payable and accrued expenses	7	7	6
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>713</b>	<b>631</b>	<b>526</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>	<b>\$ 155 688</b>	<b>\$ 150 246</b>	<b>\$ 138 115</b>
Investments at cost	\$ 109 173	\$ 108 796	\$ 118 340
<b>NAV</b>			
<b>SERIES A</b>	<b>\$ 5 994</b>	<b>\$ 5 288</b>	<b>\$ 4 357</b>
<b>SERIES O</b>	<b>\$ 149 694</b>	<b>\$ 144 958</b>	<b>\$ 133 758</b>
<b>NAV PER UNIT</b>			
<b>SERIES A</b>	<b>\$ 77.00</b>	<b>\$ 70.00</b>	<b>\$ 59.02</b>
<b>SERIES O</b>	<b>\$ 94.65</b>	<b>\$ 86.05</b>	<b>\$ 72.58</b>

The accompanying notes are an integral part of these financial statements.

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY  
PLUS PENSION TRUST**
**Statements of Comprehensive Income**
*(in \$000s except per unit amounts)*

For the periods ended December 31 (see note 2 in the generic notes)	2014	2013
<b>INCOME (see note 3 in the generic notes)</b>		
Dividends	\$ 3 620	\$ 3 295
Interest for distribution purposes	11	6
Other income received from underlying funds	247	296
Net realized gain (loss) on investments	12 617	4 017
Net gain (loss) on foreign currencies and other net assets	(1 903)	(801)
Change in unrealized gain (loss) on investments	4 264	21 101
<b>TOTAL INCOME (LOSS)</b>	<b>18 856</b>	<b>27 914</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Management fees	29	24
Administration fees	50	42
Board of Governors costs	3	3
GST/HST	8	7
Transaction costs	89	65
Withholding tax	87	73
<b>TOTAL EXPENSES</b>	<b>266</b>	<b>214</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ 18 590</b>	<b>\$ 27 700</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>SERIES A</b>	<b>\$ 623</b>	<b>\$ 908</b>
<b>SERIES O</b>	<b>\$ 17 967</b>	<b>\$ 26 792</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>PER REDEEMABLE UNIT</b>		
<b>SERIES A</b>	<b>\$ 8.55</b>	<b>\$ 12.27</b>
<b>SERIES O</b>	<b>\$ 11.10</b>	<b>\$ 15.58</b>

**Statements of Cash Flow (in \$000s)**

For the periods ended December 31 (see note 2 in the generic notes)	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in NAV	\$ 18 590	\$ 27 700
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY OPERATIONS</b>		
Net realized loss (gain) on investments	(12 580)	(3 992)
Change in unrealized loss (gain) on investments	(4 264)	(21 101)
(Increase) decrease in accrued receivables	(632)	32
Increase (decrease) in accrued payables	–	1
Cost of investments purchased	(184 741)	(138 555)
Proceeds on sales of investments	196 944	152 091
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>13 317</b>	<b>16 176</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	6 568	5 607
Cash paid on redemption of redeemable units	(19 666)	(21 671)
Distributions paid to holders of redeemable units	–	–
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>\$ (13 098)</b>	<b>\$ (16 064)</b>
Net increase (decrease) in cash for the year	219	112
Cash (bank overdraft), beginning of period	333	221
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 552</b>	<b>\$ 333</b>
Interest received	\$ 13	\$ 6
Dividends received, net of withholding taxes	\$ 3 531	\$ 3 289

Cash consists of cash and futures contracts margin receivable/payable, as applicable.

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY  
PLUS PENSION TRUST**
**Statements of Changes in NAV** *(in \$000s)*

For the periods ended December 31 (see note 2 in the generic notes)	Series A		Series O		Total	
	2014	2013	2014	2013	2014	2013
<b>NAV AT BEGINNING OF PERIOD</b>	\$ 5 288	\$ 4 357	\$ 144 958	\$ 133 758	\$ 150 246	\$ 138 115
<b>INCREASE (DECREASE) IN NAV</b>	<b>623</b>	<b>908</b>	<b>17 967</b>	<b>26 792</b>	<b>18 590</b>	<b>27 700</b>
Early redemption fees	–	–	–	–	–	–
Proceeds from redeemable units issued	561	279	5 896	5 447	6 457	5 726
Reinvestments of distributions to holders of redeemable units	111	95	3 617	3 464	3 728	3 559
Redemption of redeemable units	(478)	(256)	(19 127)	(21 039)	(19 605)	(21 295)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>194</b>	<b>118</b>	<b>(9 614)</b>	<b>(12 128)</b>	<b>(9 420)</b>	<b>(12 010)</b>
Distributions from net income	(111)	(95)	(3 617)	(3 464)	(3 728)	(3 559)
Distributions from net gains	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>(111)</b>	<b>(95)</b>	<b>(3 617)</b>	<b>(3 464)</b>	<b>(3 728)</b>	<b>(3 559)</b>
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>706</b>	<b>931</b>	<b>4 736</b>	<b>11 200</b>	<b>5 442</b>	<b>12 131</b>
<b>NAV AT END OF PERIOD</b>	<b>\$ 5 994</b>	<b>\$ 5 288</b>	<b>\$ 149 694</b>	<b>\$ 144 958</b>	<b>\$ 155 688</b>	<b>\$ 150 246</b>

The accompanying notes are an integral part of these financial statements.

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

December 31, 2014

**General information (see note 1 in the generic notes)**

The investment objective of the Fund is to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks that are qualified investments for registered Canadian pension plans. The Fund may also invest a portion of its assets in U.S. and international securities.

**Financial instrument risk and capital management (see note 4 in the generic notes)****Concentration risk (%)**

The table below summarizes the Fund's investment portfolio (after consideration of derivative products, if any) as at:

	December 31 2014	December 31 2013	January 1 2013
Investment mix			
Financials	30.9	31.5	28.6
Energy	19.1	19.9	20.4
Industrials	11.9	12.0	12.7
Materials	7.6	8.6	14.5
Information Technology	7.2	6.8	5.1
Consumer Discretionary	6.7	7.2	6.4
Health Care	6.1	5.0	3.8
Consumer Staples	5.7	5.5	3.9
Telecommunication Services	2.2	2.6	2.9
Index Funds	0.6	0.4	–
Utilities	0.5	–	–
Cash/Other	1.5	0.5	1.7

**Currency risk (% of net assets)**

Since the currency risk of the Fund has been hedged using foreign exchange contracts, the Fund has minimal sensitivity to changes in foreign exchange rates.

**Other price risk (% impact on net assets)**

The table below shows the impact of a 1% change in the broad-based index (noted below) on the Fund's net assets, using a 36-month historical correlation of data of the Fund's return and the index, with all other factors kept constant, as at:

	December 31 2014	December 31 2013	January 1 2013
S&P/TSX Capped Composite			
Total Return Index	+ or - 1.0	+ or - 1.1	+ or - 1.1

Since historical correlation may not be representative of future correlation, actual results could differ from this sensitivity analysis and the difference could be material.

Please see the generic notes at the back of the financial statements.

**Fair value hierarchy (\$000s except % amounts) (see note 3 in the generic notes)**

The following is a summary of the inputs used as of December 31, 2014, December 31, 2013 and January 1, 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
<b>Equities</b>	<b>137 759</b>	–	–	<b>137 759</b>
<b>Mutual fund units</b>	<b>15 590</b>	–	–	<b>15 590</b>
<b>Fixed-income and debt securities</b>	–	–	–	–
<b>Short-term investments</b>	–	<b>1 609</b>	–	<b>1 609</b>
<b>Derivatives – assets</b>	–	–	–	–
<b>Derivatives – liabilities</b>	–	<b>(660)</b>	–	<b>(660)</b>
<b>Total financial instruments</b>	<b>153 349</b>	<b>949</b>	–	<b>154 298</b>
<b>% of total portfolio</b>	<b>99.4</b>	<b>0.6</b>	–	<b>100.0</b>

December 31, 2013	Level 1	Level 2	Level 3	Total
Equities	129 171	–	–	129 171
Mutual fund units	20 202	–	–	20 202
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	800	–	800
Derivatives – assets	–	1	–	1
Derivatives – liabilities	–	(517)	–	(517)
Total financial instruments	149 373	284	–	149 657
% of total portfolio	99.8	0.2	–	100.0

January 1, 2013	Level 1	Level 2	Level 3	Total
Equities	118 248	–	–	118 248
Mutual fund units	17 512	–	–	17 512
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	2 354	–	2 354
Derivatives – assets	–	23	–	23
Derivatives – liabilities	–	(37)	–	(37)
Total financial instruments	135 760	2 340	–	138 100
% of total portfolio	98.3	1.7	–	100.0

For the periods ended December 31, 2014, December 31, 2013 and January 1, 2013, there were no transfers of financial instruments between Level 1 or Level 2 and Level 3.

**Management fees (see note 7 in the generic notes)**

No management fees are payable by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

Management fees of the other series of the Fund are payable to RBC GAM and calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

Series A	0.50%
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**PHILLIPS, HAGER & NORTH CANADIAN EQUITY PLUS PENSION TRUST**

December 31, 2014

**Operating expenses (see note 7 in the generic notes)**

Administration fees of each series of the Fund are payable to RBC GAM and calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

Series A	0.06%
Series O	0.03%

**Underlying mutual fund ownership interest (%)**

The table below summarizes the Fund's interest in the underlying mutual funds as a percentage of net assets of the Fund ("NAV"), and the Fund's ownership interest as a percentage of the net assets of the underlying funds ("Ownership"). All underlying funds are established and conduct business in Canada, and have an associate relationship to the Fund.

	December 31, 2014		December 31, 2013	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North				
Small Float Fund	10.0	5.9	13.4	6.2
			January 1, 2013	
			NAV	Ownership
Phillips, Hager & North				
Small Float Fund			12.7	6.1

**Taxes (\$000s) (see note 5 in the generic notes)**

The non-capital and capital losses as at December 31, 2014 for the Fund were approximately:

Capital losses	43 091
Non-capital losses	–

**Unitholders' equity (000s)**

The unitholders' equity of the Fund includes amounts representing units, undistributed net income (loss), realized gain (loss) on investments and unrealized gain (loss) on investments. There is no limitation on the number of units available for issue. Units are purchased and redeemed at the NAV per unit.

For the periods ended December 31  
(see note 2 in the generic notes)

	2014	2013
<b>Series A</b>		
Opening units	76	74
Issued number of units	7	5
Reinvested number of units	1	1
Redeemed number of units	(6)	(4)
Ending number of units	78	76
<b>Series O</b>		
Opening units	1 685	1 843
Issued number of units	64	69
Reinvested number of units	38	41
Redeemed number of units	(205)	(268)
Ending number of units	1 582	1 685

**Transaction costs (\$000s except %)**

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31		December 31	
	2014		2013	
	\$	%	\$	%
Total transaction costs	89	100	65	100
Related-party brokerage commissions*	9	10	5	8
Commission arrangements <sup>†</sup>	4	4	3	5

\* See note 7 in the generic notes.

<sup>†</sup> Commission arrangements are part of commission amounts paid to dealers. The Fund uses commission arrangements (formerly known as "soft dollars") for research and/or order execution goods and services.

**Transition to IFRS (\$000s) (see note 8 in the generic notes)**

Reconciliation of net assets and comprehensive income as previously reported under Canadian GAAP to IFRS:

	December 31	January 1
	2013	2013
<b>Net assets</b>		
Net assets as reported under Canadian GAAP	150 209	137 935
Revaluation of investments at FVTPL	37	180
Net assets attributable to holders of redeemable units	150 246	138 115
		December 31
		2013
<b>Comprehensive income</b>		
Comprehensive income as reported under Canadian GAAP		27 843
Revaluation of investments at FVTPL (see note 3 and note 8 in the generic notes)		(143)
Increase (decrease) in net assets attributable to holders of redeemable units		27 700

Please see the generic notes at the back of the financial statements.



## SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

## PHILLIPS, HAGER &amp; NORTH OVERSEAS EQUITY PENSION TRUST

December 31, 2014

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>INTERNATIONAL EQUITIES</b>				
<b>Australia</b>				
209 645	Oil Search Ltd.	\$ 1 987	\$ 1 562	
		1 987	1 562	<b>1.6</b>
<b>Belgium</b>				
33 212	InBev N.V.	3 938	4 342	
		3 938	4 342	<b>4.4</b>
<b>France</b>				
15 263	Air Liquide S.A.	2 103	2 194	
42 394	BNP Paribas S.A.	2 860	2 908	
54 601	Safran S.A.	3 721	3 914	
		8 684	9 016	<b>9.1</b>
<b>Germany</b>				
13 080	Continental AG	3 042	3 212	
116 066	Deutsche Post AG	4 051	4 390	
39 983	Drillisch AG	1 620	1 662	
		8 713	9 264	<b>9.4</b>
<b>Hong Kong</b>				
592 601	AIA Group Ltd.	3 558	3 797	
		3 558	3 797	<b>3.8</b>
<b>India</b>				
44 338	HDFC Bank Ltd.	676	890	
36 193	HDFC Bank Ltd. ADR	1 914	2 135	
		2 590	3 025	<b>3.1</b>
<b>Japan</b>				
143 777	Astellas Pharma Inc.	2 230	2 326	
22 536	Nidec Corp.	1 594	1 691	
44 161	Santen Pharmaceutical Co. Ltd.	2 923	2 762	
10 473	SMC Corp.	3 077	3 191	
39 693	Sumitomo Mitsui Financial Group Inc.	1 723	1 667	
59 102	Toyota Motor Corp.	3 793	4 279	
		15 340	15 916	<b>16.1</b>
<b>Netherlands</b>				
24 263	ASML Holding N.V.	2 465	3 046	
		2 465	3 046	<b>3.1</b>
<b>South Africa</b>				
23 659	Naspers Ltd.	3 422	3 556	
		3 422	3 556	<b>3.6</b>
<b>Spain</b>				
264 138	CaixaBank S.A.	1 610	1 608	
		1 610	1 608	<b>1.6</b>
<b>Sweden</b>				
97 577	Svenska Cellulosa AB	2 595	2 444	
		2 595	2 444	<b>2.5</b>

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>Switzerland</b>				
28 502	Aryzta AG	\$ 2 786	\$ 2 545	
19 077	Novartis AG	1 912	2 056	
3 057	Partners Group Holding AG	996	1 033	
12 880	Roche Holdings AG Genussscheine	3 099	4 054	
5 977	Syngenta AG	2 341	2 234	
9 390	Temenos Group AG	396	388	
141 821	UBS Group AG	2 773	2 832	
		14 303	15 142	<b>15.3</b>
<b>Taiwan</b>				
134 445	Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3 066	3 496	
		3 066	3 496	<b>3.5</b>
<b>Thailand</b>				
235 289	Kasikornbank PCL	1 861	1 892	
		1 861	1 892	<b>1.9</b>
<b>United Kingdom</b>				
82 569	Admiral Group Plc.	2 092	1 968	
84 682	Britvic Plc.	1 029	1 029	
262 298	Kingfisher Plc.	1 441	1 611	
45 353	Liberty Global Plc.	2 110	2 645	
2 231 991	Lloyds TSB Group Plc.	3 001	3 050	
45 565	Rio Tinto Plc.	2 868	2 440	
71 708	Royal Dutch Shell Plc., B Shares	3 167	2 878	
158 890	St James's Place Plc.	2 162	2 328	
68 388	WPP Plc.	1 523	1 652	
		19 393	19 601	<b>19.8</b>
<b>TOTAL INTERNATIONAL EQUITIES</b>				
<b>SHORT-TERM INVESTMENTS*</b>				
		93 525	97 707	<b>98.8</b>
<b>TOTAL INVESTMENTS</b>				
		1 319	1 319	<b>1.3</b>
<b>TOTAL INVESTMENTS</b>				
		94 844	99 026	<b>100.1</b>
<b>UNREALIZED GAIN ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)</b>				
		–	2	–
<b>UNREALIZED LOSS ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)</b>				
		–	(1)	–
<b>TOTAL PORTFOLIO</b>				
		\$ 94 844	99 027	<b>100.1</b>
<b>OTHER NET ASSETS (LIABILITIES) ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				
			(72)	<b>(0.1)</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				
		\$ 98 955		<b>100.0</b>

\* Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 1.20% to 1.23% and mature between January 5, 2015 and January 15, 2015.

The accompanying notes are an integral part of the financial statements.

December 31, 2014

**SCHEDULE A****Foreign Exchange Contracts**

<b>Contracts</b>	<b>Maturity Date</b>	<b>Unrealized Gain</b>
Bought ZAR 3 550 Sold CAD 355 @ 0.1000	06-Jan-15	\$ 2
Bought CAD 125 Sold JPY 12 889 @ 0.0097	07-Jan-15	–
		<u>\$ 2</u>
<b>Contracts</b>	<b>Maturity Date</b>	<b>Unrealized Loss</b>
Bought CAD 473 Sold HKD 3 163 @ 0.1496	05-Jan-15	\$ (1)
		<u>\$ (1)</u>
<b>TOTAL FOREIGN EXCHANGE</b>		<u>\$ 1</u>

All counterparties have a credit rating of at least A.

**Statements of Financial Position** *(in \$000s except per unit amounts)*

<i>(see note 2 and note 8 in the generic notes)</i>	<b>December 31 2014</b>	December 31 2013	January 1 2013
<b>ASSETS</b>			
Investments at fair value	<b>\$ 99 026</b>	\$ 463 036	\$ 535 253
Cash	<b>44</b>	23 310	7 774
Due from investment dealers	<b>599</b>	–	2 626
Subscriptions receivable	<b>26</b>	73	85
Unrealized gain on foreign exchange contracts	<b>2</b>	–	11
Dividends receivable, interest accrued and other assets	<b>70</b>	185	419
<b>TOTAL ASSETS</b>	<b>99 767</b>	486 604	546 168
<b>LIABILITIES</b>			
Due to investment dealers	<b>357</b>	–	–
Redemptions payable	–	296	1 059
Unrealized loss on foreign exchange contracts	<b>1</b>	–	–
Distributions payable	<b>446</b>	132	115
Accounts payable and accrued expenses	<b>8</b>	35	41
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>812</b>	463	1 215
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>	<b>\$ 98 955</b>	\$ 486 141	\$ 544 953
Investments at cost	<b>\$ 94 844</b>	\$ 376 486	\$ 518 814
<b>NAV</b>			
<b>SERIES 0</b>	<b>\$ 98 955</b>	\$ 486 141	\$ 544 953
<b>NAV PER UNIT</b>			
<b>SERIES 0</b>	<b>\$ 9.64</b>	\$ 10.26	\$ 8.40

The accompanying notes are an integral part of these financial statements.

**Statements of Comprehensive Income***(in \$000s except per unit amounts)*

For the periods ended December 31 (see note 2 in the generic notes)	2014	2013
<b>INCOME (see note 3 in the generic notes)</b>		
Dividends	\$ 13 223	\$ 17 446
Interest for distribution purposes	14	(9)
Securities lending revenue (see note 6 in the generic notes)	274	537
Net realized gain (loss) on investments	91 791	34 435
Net gain (loss) on foreign currencies and other net assets	(389)	(293)
Change in unrealized gain (loss) on investments	(82 367)	70 100
<b>TOTAL INCOME (LOSS)</b>	<b>22 546</b>	<b>122 216</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Administration fees	255	405
Board of Governors costs	3	3
GST/HST	30	46
Transaction costs	1 514	2 070
Withholding tax	1 742	2 056
<b>TOTAL EXPENSES</b>	<b>3 544</b>	<b>4 580</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ 19 002</b>	<b>\$ 117 636</b>
<b>INCREASE (DECREASE) IN NAV SERIES O</b>	<b>\$ 19 002</b>	<b>\$ 117 636</b>
<b>INCREASE (DECREASE) IN NAV PER REDEEMABLE UNIT SERIES O</b>	<b>\$ 0.63</b>	<b>\$ 2.09</b>

**Statements of Cash Flow (in \$000s)**For the periods ended December 31  
(see note 2 in the generic notes)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in NAV	\$ 19 002	\$ 117 636
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY OPERATIONS</b>		
Net realized loss (gain) on investments	(91 800)	(34 435)
Change in unrealized loss (gain) on investments	82 367	(70 100)
(Increase) decrease in accrued receivables	(484)	2 860
Increase (decrease) in accrued payables	330	(6)
Cost of investments purchased	(665 530)	(432 966)
Proceeds on sales of investments	1 038 972	609 729
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>382 857</b>	<b>192 718</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	20 053	23 591
Cash paid on redemption of redeemable units	(426 044)	(200 658)
Distributions paid to holders of redeemable units	(132)	(115)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>\$ (406 123)</b>	<b>\$ (177 182)</b>
Net increase (decrease) in cash for the year	(23 266)	15 536
Cash (bank overdraft), beginning of period	23 310	7 774
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 44</b>	<b>\$ 23 310</b>
Interest received	\$ 99	\$ (9)
Dividends received, net of withholding taxes	\$ 11 559	\$ 15 624

Cash consists of cash and futures contracts margin receivable/payable, as applicable.

**Statements of Changes in NAV** (in \$000s)

For the periods ended December 31 (see note 2 in the generic notes)*	Series 0	
	2014	2013
<b>EQUITY/NAV AT BEGINNING OF PERIOD</b>	<b>\$ 486 141</b>	<b>\$ 544 953</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>19 002</b>	<b>117 636</b>
Early redemption fees	–	–
Proceeds from redeemable units issued	<b>20 006</b>	23 579
Reinvestments of distributions to holders of redeemable units	<b>11 142</b>	15 875
Redemption of redeemable units	<b>(425 748)</b>	(199 895)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>(394 600)</b>	(160 441)
Distributions from net income	<b>(11 588)</b>	(16 007)
Distributions from net gains	–	–
Distributions from capital	–	–
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>(11 588)</b>	(16 007)
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>(387 186)</b>	(58 812)
<b>NAV AT END OF PERIOD</b>	<b>\$ 98 955</b>	<b>\$ 486 141</b>

\* The Fund's units meet all of the criteria in IFRS for classification as equity, and therefore continued to be classified as financial equity, similar to Canadian GAAP, as of January 1, 2013. During 2013, certain new series of units were introduced which had different features to the existing series of units. As a result, the Fund was no longer able to meet the IAS 32 requirements for classification of its units as equity, and the units were classified as financial liabilities as of December 31, 2013. The change in classification has not resulted in any contractual change in relationship with the unitholders, nor has it resulted in any change in the net asset value per unit. The above Statements of Changes in NAV presents the Fund's units as if they were financial liabilities for the entire 2013 year. The Fund's equity during the 2013 year comprised both retained earnings and unitholders' capital and has been presented together. Management believes the absence of separating retained earnings and unitholders' capital would not provide materially different information.

December 31, 2014

**General information (see note 1 in the generic notes)**

The investment objective of the Fund is to provide investors with long-term capital growth and international diversification by investing in common stocks of companies in Europe and the Far East (including Japan and Australia).

**Financial instrument risk and capital management (see note 4 in the generic notes)****Concentration risk (%)**

The table below summarizes the Fund's investment portfolio (after consideration of derivative products, if any) as at:

Investment mix	December 31 2014	December 31 2013	January 1 2013
Europe ex-United Kingdom Equities	45.3	47.4	44.9
United Kingdom Equities	19.8	21.8	21.8
Japan Equities	16.1	17.8	12.5
Pacific Rim ex-Japan Equities	13.9	6.2	15.3
Middle East & Africa Equities	3.6	–	0.3
Latin America Equities	–	1.1	1.6
United States Equities	–	0.9	1.7
Cash/Other	1.3	4.8	1.9

**Currency risk (% of net assets)**

The table below summarizes the Fund's net exposure (after hedging, if any) to currency risk as at:

Currency	December 31 2014	December 31 2013	January 1 2013
Euro	27.5	36.5	27.3
Pound sterling	17.1	19.9	18.9
Japanese yen	16.0	17.8	12.5
Swiss franc	15.3	11.3	15.7
United States dollar	8.3	1.9	7.5
Hong Kong dollar	3.8	3.5	9.1
South African rand	3.6	–	–
Swedish krona	2.5	0.9	–
Thailand baht	1.9	–	–
Australian dollar	1.6	1.0	1.0
Indian rupee	0.9	–	0.5
Singapore dollar	–	0.6	3.7
Norwegian krone	–	0.5	1.0
South Korean won	–	0.5	0.5
Brazilian real	–	–	0.5
Other currencies	–	0.7	–
<b>Total</b>	<b>98.5</b>	<b>95.1</b>	<b>98.2</b>

As at December 31, 2014, if the Canadian dollar had strengthened or weakened by 1% in relation to the above currencies, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by approximately 1.0% (December 31, 2013 – 1.0%, January 1, 2013 – 1.0%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

**Other price risk (% impact on net assets)**

The table below shows the impact of a 1% change in the broad-based index (noted below) on the Fund's net assets, using a 36-month historical correlation of data of the Fund's return and the index, with all other factors kept constant, as at:

	December 31 2014	December 31 2013	January 1 2013
MSCI EAFE Total Return			
Net Index (CAD)	+ or - 0.9	+ or - 1.0	+ or - 1.0

Since historical correlation may not be representative of future correlation, actual results could differ from this sensitivity analysis and the difference could be material.

**Fair value hierarchy (\$000s except % amounts) (see note 3 in the generic notes)**

The following is a summary of the inputs used as of December 31, 2014, December 31, 2013 and January 1, 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
<b>Equities</b>	<b>8 276</b>	<b>89 431</b>	–	<b>97 707</b>
<b>Mutual fund units</b>	–	–	–	–
<b>Fixed-income and debt securities</b>	–	–	–	–
<b>Short-term investments</b>	–	<b>1 319</b>	–	<b>1 319</b>
<b>Derivatives – assets</b>	–	<b>2</b>	–	<b>2</b>
<b>Derivatives – liabilities</b>	–	<b>(1)</b>	–	<b>(1)</b>
<b>Total financial instruments</b>	<b>8 276</b>	<b>90 751</b>	–	<b>99 027</b>
<b>% of total portfolio</b>	<b>8.4</b>	<b>91.6</b>	–	<b>100.0</b>

December 31, 2013	Level 1	Level 2	Level 3	Total
Equities	9 218	453 818	–	463 036
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	–	–	–
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	<b>9 218</b>	<b>453 818</b>	–	<b>463 036</b>
<b>% of total portfolio</b>	<b>2.0</b>	<b>98.0</b>	–	<b>100.0</b>

Please see the generic notes at the back of the financial statements.

December 31, 2014

January 1, 2013	Level 1	Level 2	Level 3	Total
Equities	40 826	494 427	–	535 253
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	–	–	–
Derivatives – assets	–	11	–	11
Derivatives – liabilities	–	–	–	–
Total financial instruments	40 826	494 438	–	535 264
% of total portfolio	7.6	92.4	–	100.0

For the periods ended December 31, 2014, December 31, 2013 and January 1, 2013, there were no transfers of financial instruments between Level 1 or Level 2 and Level 3.

### Management fees (see note 7 in the generic notes)

No management fees are payable by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

### Operating expenses (see note 7 in the generic notes)

Administration fees of Series O of the Fund are payable to RBC GAM and calculated at the following annual percentage, before GST/HST, of the daily net asset value of Series O of the Fund.

Series O	0.08%
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### Taxes (\$000s) (see note 5 in the generic notes)

The non-capital and capital losses as at December 31, 2014 for the Fund were approximately:

Capital losses	210 409
Non-capital losses	–

### Unitholders' equity (000s)

The unitholders' equity of the Fund includes amounts representing units, undistributed net income (loss), realized gain (loss) on investments and unrealized gain (loss) on investments. There is no limitation on the number of units available for issue. Units are purchased and redeemed at the NAV per unit.

For the periods ended December 31  
(see note 2 in the generic notes)

	2014	2013
<b>Series O</b>		
Opening units	47 396	64 893
Issued number of units	1 885	2 614
Reinvested number of units	1 156	1 548
Redeemed number of units	(40 170)	(21 659)
Ending number of units	10 267	47 396

Please see the generic notes at the back of the financial statements.

### Transaction costs (\$000s except %)

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31 2014		December 31 2013	
	\$	%	\$	%
Total transaction costs	1 514	100	2 070	100
Related-party brokerage commissions*	12	1	–	–
Commission arrangements†	–	–	–	–

\* See note 7 in the generic notes.

† Commission arrangements are part of commission amounts paid to dealers. The Fund uses commission arrangements (formerly known as "soft dollars") for research and/or order execution goods and services.

### Securities lending revenue (\$000s) (see note 6 in the generic notes)

Fair value of securities on loan and collateral received as at:

	December 31 2014	December 31 2013
Fair value of securities loaned	6 476	77 959
Fair value of collateral received	6 606	81 857

### Investments by other related investment funds (%) (see note 7 in the generic notes)

The table below summarizes, as a percentage, the net assets of the Fund owned by other related investment funds as at:

	December 31 2014	December 31 2013
Phillips, Hager & North Balanced Fund	–	17.3
Phillips, Hager & North Balanced Pension Trust	–	15.8
Phillips, Hager & North Global Equity Fund	–	9.6
Total	–	42.7

December 31, 2014

**Transition to IFRS (\$000s) (see note 8 in the generic notes)**

Reconciliation of net assets and comprehensive income as previously reported under Canadian GAAP to IFRS:

	December 31 2013	January 1 2013
<b>Net assets</b>		
Net assets as reported under Canadian GAAP	486 141	544 950
Revaluation of investments at FVTPL	–	3
Net assets attributable to holders of redeemable units	486 141	544 953
		December 31 2013
<b>Comprehensive income</b>		
Comprehensive income as reported under Canadian GAAP		117 639
Revaluation of investments at FVTPL (see note 3 and note 8 in the generic notes)		(3)
Increase (decrease) in net assets attributable to holders of redeemable units		117 636

Please see the generic notes at the back of the financial statements.



## 1. The Funds

The mutual funds (“Fund” or “Funds”) are open-ended mutual fund trusts governed by the laws of the Province of British Columbia and governed by a Master Declaration of Trust. RBC GAM is the manager, portfolio advisor, distributor and one of the registrars of the Funds and its head office is located at 155 Wellington Street West, 22nd Floor, Toronto, Ontario. These financial statements were approved for issuance by the Board of Directors of RBC GAM on March 5, 2015.

The Funds may issue an unlimited number of units in some or both of Series A and Series O.

Series A units are available to all investors and may be purchased, switched or redeemed through RBC GAM or other authorized dealers.

Series O units are only available to large private or institutional investors as may be determined from time to time on a case-by-case basis. Series O units may only be purchased, switched or redeemed through RBC GAM or, in certain circumstances, Phillips, Hager & North Investment Funds Ltd.

## 2. Financial year/period

The information provided in these financial statements and notes thereto is for the 12-month periods ended or as at December 31, 2014, December 31, 2013 and January 1, 2013. In the year a Fund or series is established, “period” represents the period from inception to December 31 of that fiscal year.

## 3. Summary of significant accounting policies

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”), which include estimates and assumptions made by management that may affect the reported amounts of assets (primarily valuation of investments), liabilities, income and expenses during the reported periods. Actual results may differ from estimates. The significant accounting policies of the Funds, which are investment entities, are as follows:

**Fair Value Option** Financial instruments are designated as fair value through profit and loss (“FVTPL”) on their initial recognition (the fair value option). Derivative financial instruments are held for trading (“HFT”) and are required to be classified as FVTPL by nature. Other non-derivative financial instruments can be designated as FVTPL if they have a reliably measurable fair value and satisfy some criteria such as (i) it eliminates or significantly reduces an accounting mismatch and (ii) it is part of a portfolio that is

managed and its performance is evaluated on a fair value basis. Management’s judgment is that all non-derivative financial instruments are designated as FVTPL since all Funds satisfy the above criteria. The Funds’ financial assets and liabilities are not offset and the gross amounts are reported in the Statements of Financial Position, even if there is a legally enforceable right to offset the recognized amounts. The Funds may enter into various master netting or similar agreements with counterparties.

Redeemable units are measured at their respective redemption values. All other assets and liabilities are measured at amortized cost.

**Determination of Fair Value** The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm’s-length transaction between knowledgeable and willing parties under no compulsion to act. In determining fair value, a three-tier hierarchy based on inputs is used to value the Funds’ financial instruments. The hierarchy of inputs is summarized below:

*Level 1* – quoted prices (unadjusted) in active markets for identical assets or liabilities;

*Level 2* – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), including broker quotes, vendor prices and vendor fair value factors; and

*Level 3* – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment’s assigned level.

The three-tier hierarchy of investments and derivatives is included in “Notes to Financial Statements – Fund Specific Information.”

Investments are recorded at fair value, which is determined as follows:

*Equities* – Common shares, preferred shares and exchange-traded funds are valued at the closing price recorded by the security exchange on which the security is principally traded.

*Fixed-Income and Debt Securities* – Bonds, mortgage-backed securities and debentures are valued at the closing price quoted by major dealers or independent pricing vendors in such securities.

December 31, 2014

**Short-Term Investments** – Short-term investments are valued at fair value, which is approximated at cost plus accrued interest.

**Forward Contracts** – Forward contracts are valued at the gain or loss that would arise as a result of closing the position at the valuation date. Any gain or loss at the close of business on each valuation date is recorded in the Statements of Comprehensive Income. The receivable/payable on forward contracts is recorded separately in the Statements of Financial Position. Realized gain (loss) on foreign exchange contracts is included in “Net gain (loss) on foreign currencies and other net assets” in the Statements of Comprehensive Income.

**Mutual Fund Unit Valuation** – Units of Funds are valued at their respective net asset value per unit from fund companies on the relevant valuation dates.

**Fair Valuation of Investments (including unlisted securities)** – If the valuation methods described above are not appropriate, RBC GAM will estimate the fair value of an investment using established fair valuation procedures, such as consideration of public information, broker quotes, valuation models, fundamental analysis, matrix pricing, discounts from market prices of similar securities or discounts applied due to restrictions on the disposition of securities, and external fair value service providers.

Procedures are in place to determine the fair value of foreign securities traded in countries outside North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market. This fair valuation process takes into account the last quoted price of the security and adjusts the price based on inputs such as related indices, changes in foreign markets and American Depositary Receipts (“ADR”) prices. These securities are classified as Level 2.

**Foreign Exchange** The value of investments and other assets and liabilities in foreign currencies is translated into Canadian dollars at the rate of exchange on each valuation date. Purchases and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. Realized foreign exchange gains/losses are included in “Net gain (loss) on foreign currencies and other net assets” in the Statements of Comprehensive Income.

**Valuation of Series** A different net asset value is calculated for each series of units of a Fund. The net asset value of a particular series of units is computed by calculating the value of the series’ proportionate share of the assets and liabilities of the Fund common to all series less the liabilities of the Fund attributable only to that series. Expenses directly attributable to a series are charged to that series. Other expenses are allocated proportionately to each series based upon the relative net asset value of each series. Expenses are accrued daily.

**Investment Transactions** Investment transactions are accounted for as of the trade date. Transaction costs, such as brokerage commissions, incurred by the Funds are recorded in the Statements of Comprehensive Income for the period. The unrealized gain and loss on investments is the difference between fair value and average cost for the period. The basis of determining the cost of portfolio assets, realized and unrealized gains and losses on investments is average cost which does not include amortization of premiums or discounts on fixed income and debt securities with the exception of zero coupon bonds.

**Income Recognition** Dividend income is recognized on the ex-dividend date and interest for distribution purposes is coupon interest recognized on an accrual basis and/or imputed interest on zero coupon bonds. “Other income (loss)” includes income from income trusts. Distributions received from income trusts are recognized based on the nature of the underlying components, such as income, capital gains and return of capital. “Other income received from underlying funds” includes income earned by a Fund from investments in underlying funds.

**Increase (Decrease) in NAV per Redeemable Unit** Increase (decrease) in NAV per redeemable unit in the Statements of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units by series, divided by the average units outstanding per series during the period.

**Early Redemption Fees** Early redemption fees (short-term trading fees) are paid directly to a Fund and are designed to deter excessive trading and its associated costs. With the exception of money market funds, a Fund may apply a fee of 2% of the current value of units if the unitholder redeems or switches out units within seven days of purchasing or previously switching into a Fund. These amounts are included in the Statements of Changes in NAV.

**Foreign Currencies** The following is a list of abbreviations used in the Schedule of Investment Portfolio:

CAD – Canadian Dollar	USD – United States Dollar
HKD – Hong Kong Dollar	ZAR – South African Rand
JPY – Japanese Yen	

#### 4. Financial instrument risk and capital management

RBC GAM is responsible for managing each Fund's capital, which is its net assets and consists primarily of its financial instruments.

A Fund's investment activities expose it to a variety of financial risks. RBC GAM seeks to minimize potential adverse effects of these risks on a Fund's performance by employing professional, experienced portfolio advisors, daily monitoring of the Fund's holdings and market events, diversifying its investment portfolio within the constraints of its investment objectives, and, in some cases, periodically hedging certain risk exposures through the use of derivatives. To assist in managing risks, RBC GAM also uses internal guidelines, maintains a governance structure that oversees each Fund's investment activities and monitors compliance with the Fund's investment strategies, internal guidelines and securities regulations.

Financial instrument risk, as applicable to a Fund, is disclosed in its "Notes to Financial Statements – Fund Specific Information."

##### **Liquidity risk**

Liquidity risk is the possibility that investments in a Fund cannot be readily converted into cash when required. A Fund is exposed to daily cash redemptions of redeemable units. Liquidity risk is managed by investing the majority of a Fund's assets in investments that are traded in an active market and that can be readily disposed. In accordance with securities regulations, a Fund must maintain at least 90% of its assets in liquid investments. In addition, a Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity, and has the ability to borrow up to 5% of its net assets for the purpose of funding redemptions. All non-derivative financial liabilities, other than redeemable units, are due within 90 days.

##### **Credit risk**

Credit risk is the risk that a loss could arise from a security issuer or counterparty not being able to meet its financial obligations. The carrying amount of investments and other assets represents the maximum credit risk exposure

as disclosed in a Fund's Statements of Financial Position. The fair value of fixed-income and debt securities includes a consideration of the credit worthiness of the debt issuer. Credit risk exposure to over-the-counter derivative instruments is based on a Fund's unrealized gain on the contractual obligations with the counterparty. Credit risk exposure is mitigated for those Funds participating in a securities lending program (see note 6). RBC GAM monitors each Fund's credit exposure and counterparty ratings daily.

##### **Concentration risk**

Concentration risk arises as a result of net financial instrument exposures to the same category such as, geographical region, asset type, industry sector or market segment. Financial instruments in the same category have similar characteristics and may be affected similarly by changes in economic or other conditions.

##### **Interest rate risk**

Interest rate risk is the risk that the fair value of a Fund's interest-bearing investments will fluctuate due to changes in market interest rates. The value of fixed-income and debt securities, such as bonds, debentures, mortgages or other income-producing securities, is affected by interest rates. Generally, the value of these securities increases if interest rates fall and decreases if interest rates rise.

##### **Currency risk**

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of a Fund, will fluctuate due to changes in foreign exchange rates. The value of investments denominated in a currency other than Canadian dollars is affected by changes in the value of the Canadian dollar or a Fund's functional currency, in relation to the value of the currency in which the investment is denominated. When the value of the Canadian dollar falls in relation to foreign currencies, then the value of foreign investments rises. When the value of the Canadian dollar rises, the value of foreign investments falls.

##### **Other price risk**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment.

## 5. Taxes

The Funds qualify as open-ended mutual fund trusts or unit trusts under the *Income Tax Act* (Canada). In general, the Funds are subject to income tax, however, no income tax is payable on net income and/or net realized capital gains which are distributed to unitholders. In addition, for mutual fund trusts, income taxes payable on net realized capital gains are refundable on a formula basis when units of the Funds are redeemed.

Capital losses are available to be carried forward indefinitely and applied against future capital gains. Non-capital losses may be carried forward to reduce future taxable income for up to 10 years, with the exception of non-capital losses realized in 2006 and later years, which may be carried forward up to 20 years.

## 6. Securities lending revenue

Certain of the Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the Statements of Comprehensive Income of a Fund. Each such Fund will have entered into a securities lending program with its custodian, RBC Investor Services Trust ("RBC IS"). The aggregate market value of all securities loaned by a Fund cannot exceed 50% of the assets of a Fund. The Fund receives collateral, with an approved credit rating of at least A, of at least 102% of the value of securities on loan. The Fund is indemnified by RBC IS for any collateral credit or market loss. As such, the credit risk associated with securities lending is considered minimal.

## 7. Administrative and other related-party transactions

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

RBC GAM is an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank"). RBC GAM is the manager, portfolio advisor, distributor and registrar of the Funds. RBC GAM is responsible for the day-to-day operations of, and provides investment advice and portfolio management services to, the Funds. RBC GAM, as registrar also keeps records of who owns units of the Funds. RBC GAM is paid a management fee by the Funds as compensation for its services. No management fees are paid by the Funds with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

The Funds pay a fixed administration fee to RBC GAM. RBC GAM in turn pays certain operating expenses of the Funds. These expenses include regulatory filing fees and other day-to-day operating expenses including, but not limited to, recordkeeping, accounting and fund valuation costs, custody fees, audit and legal fees, and the costs of preparing and distributing annual and semi-annual reports, prospectuses, statements and investor communications.

Notwithstanding the fixed administration fee, the Funds also pay certain operating expenses directly, including the costs related to the Board of Governors ("BoG") of the Funds and the cost of any new government or regulatory requirements introduced and any borrowing costs (collectively, *other fund costs*), and taxes (including, but not limited to, GST/HST). Other Fund costs will be allocated among each series of units of a fund in accordance with the services used. RBC GAM may, in some years and in certain cases, absorb a portion of operating expenses. The decision to absorb the operating expenses is reviewed annually and determined at the discretion of RBC GAM, without notice to unitholders.

Certain Funds may invest in units of other Funds managed by RBC GAM or its affiliates ("underlying mutual funds"). The Fund's ownership interest in underlying mutual funds is disclosed in the Fund Specific Information.

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

### **Sub-Advisor**

RBC Global Asset Management (UK) Limited, a wholly owned subsidiary of Royal Bank, is the sub-advisor for the Phillips, Hager & North Overseas Equity Pension Trust.

### **Brokerage**

The Funds have established standard brokerage agreements at market rates with related-party dealers.

### **Trustee and Custodian**

RBC IS is the trustee and custodian of the Funds. RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Funds.

### **Other Related-Party Transactions**

Pursuant to applicable securities legislation, the Funds relied on the standing instructions from the BoG in its capacity as the Independent Review Committee with respect to one or more of the following related-party transactions:



*Related-Party Trading Activities*

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

*Inter-Fund Trading*

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities: (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Funds, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Funds. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**8. Transition to IFRS**

The effect of the Funds' transition to IFRS from Canadian generally accepted accounting principles ("GAAP") is summarized as follows:

*Statements of cash flows* – All Funds are required under IFRS to provide cash flow statements. Under Canadian GAAP most Funds were exempt from this requirement.

*Revaluation of investments as FVTPL* – Under Canadian GAAP, the fair value of investments was generally required to use bid prices for long positions and ask prices for short positions. Under IFRS, the fair value of investments is generally measured using closing prices – that is, in the same manner

in which the daily net asset value per unit is measured for unitholder transaction purposes. As a result, upon adoption of IFRS, adjustments were recognized at January 1, 2013 and December 31, 2013.

All financial assets and financial liabilities were classified as FVTPL upon transition to IFRS. Previously financial assets and financial liabilities were carried at fair value under Canadian GAAP.

Reconciliation of net assets and comprehensive income previously reported under Canadian GAAP to IFRS are disclosed in the Fund Specific Information.

*Classification of redeemable units of the Fund* – Management has determined that the Funds' units do not meet all the criteria in IAS 32, Financial Instruments Presentation to be classified as equity and, therefore, by exception to those criteria, have been reclassified as financial liabilities upon transition to IFRS. Under Canadian GAAP the units were accounted for as equity.

*Investment entity* – Management has determined that the Funds meet the definition of "investment entity" and as a result, investments in other mutual funds managed by RBC GAM are measured at FVTPL. An investment entity is an entity that: obtains funds from one or more investors for the purpose of providing them with investment management services; commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and measures and evaluates the performance of substantially all of its investments on a fair value basis. The most significant judgment that has been made in determining that the Funds meet this definition is that fair value is used as the primary measurement attribute to measure and evaluate the performance of substantially all of their investments.

**9. Future accounting changes**

The following IFRS standard has been issued, but is not yet in effect:

*IFRS 9* – Financial Instruments. IFRS 9 replaces parts of IAS 39 related to the classification and measurement of financial assets and liabilities.

The new standard is not expected to have a significant impact on the Funds.

December 31, 2014

On January 1, 2011, the Board of Governors became the independent review committee of the Phillips, Hager & North investment funds. The Board of Governors was first established in 1994 to provide advice to RBC Global Asset Management Inc. regarding conflicts of interest in fund management. All of the members of the Board of Governors are independent of RBC Global Asset Management Inc. and RBC Financial Group.

In its capacity as the independent review committee, the Board of Governors provides input on conflict of interest matters in respect of RBC Global Asset Management Inc. and the Phillips, Hager & North investment funds. At least once per year, the Board of Governors reviews and assesses the adequacy and effectiveness of the fund manager's policies and procedures relating to conflict of interest matters.

The Board of Governors is responsible for reviewing and assessing the independence of its members, the compensation of its members, and the effectiveness of the Board of Governors, its subcommittees and its members. Effective July 1, 2015, the Board of Governors will be referred to as the Independent Review Committee ("IRC") and will no longer be using a subcommittee structure. The IRC will continue to review advisory matters relating to conflicts of interest. This change in structure will have no impact on its ability to effectively fulfill all IRC responsibilities.

The annual report of the Board of Governors describing its activities as the independent review committee of the Phillips, Hager & North Pension Trust is available under Mutual Fund Governance at [www.rbcgam.com/investorinfo](http://www.rbcgam.com/investorinfo) and on SEDAR at [www.sedar.com](http://www.sedar.com).

If you have any questions or comments about the Board of Governors or its subcommittees, please let us know by contacting Melanie Adams, Secretary to the Board of Governors, at the address below.



**Lloyd R. McGinnis, OC, PEng**  
Chair of the Board of Governors

**Board of Governors**  
Attention: Melanie Adams  
RBC Global Asset Management Inc.  
P.O. Box 7500, Station A  
Toronto, Ontario M5W 1P9

## Board of Governors

**Lloyd R. McGinnis**  
**Chair of the Board of Governors**  
Director  
Airport Site Development  
Winnipeg Airports Authority

**Michael G. Thorley<sup>1,4</sup>**  
**Vice Chair of the Board of Governors**  
Retired Lawyer  
Toronto, Ontario

**Paul K. Bates<sup>6</sup>**  
Academic and Former Investment  
Industry Executive  
Millgrove, Ontario

**Selwyn B. Kossuth<sup>1,3</sup>**  
Financial Consultant  
Mississauga, Ontario

**Charles F. Macfarlane<sup>1,3</sup>**  
Board Director and  
Former Investment Industry  
Executive and Regulator  
Toronto, Ontario

**Linda S. Petch<sup>1,3</sup>**  
Principal  
Linda S. Petch Governance Services  
Victoria, British Columbia

**Élaine Cousineau Phénix<sup>5</sup>**  
President  
Phénix Capital Inc.  
Montreal, Quebec

**Mary C. Ritchie<sup>2,3</sup>**  
President  
Richford Holdings Ltd.  
Edmonton, Alberta

**Joseph P. Shannon<sup>6</sup>**  
President  
Atlantic Corporation  
Port Hawkesbury, Nova Scotia

**James W. Yuel<sup>6</sup>**  
Chair  
PIC Investment Group Inc.  
Saskatoon, Saskatchewan

- <sup>1</sup> Member of the Financial Advisory Committee
- <sup>2</sup> Chair of the Financial Advisory Committee
- <sup>3</sup> Member of the Investment Conflicts Committee
- <sup>4</sup> Chair of the Investment Conflicts Committee
- <sup>5</sup> Chair of the Governance Committee
- <sup>6</sup> Member of the Governance Committee

If you have questions regarding Phillips, Hager & North Pension Trust, please contact us using the following options:

**By Phone**

Toll-Free: **1-855-408-6111**

**On the Internet**

Visit our website at:

**[www.rbcgam.com/funds](http://www.rbcgam.com/funds)**

Email us at:

**[institutions@phn.com](mailto:institutions@phn.com)**

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For general enquiries, write to:

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**RBC Global  
Asset Management**