

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

We have maintained appropriate procedures and controls to ensure that timely 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.

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



**Damon G. Williams, FSA, FCIA, CFA**  
Chief Executive Officer  
RBC Global Asset Management Inc.

March 11, 2019



**Heidi Johnston, CPA, CA**  
Chief Financial Officer  
RBC GAM Funds

To the Unitholders and Trustee of

**RBC FUNDS & RBC PRIVATE POOLS**

RBC Canadian T-Bill Fund  
 RBC Canadian Money Market Fund  
 RBC Premium Money Market Fund  
 RBC \$U.S. Money Market Fund  
 RBC Premium \$U.S. Money Market Fund  
 RBC Canadian Short-Term Income Fund  
 RBC \$U.S. Short-Term Corporate Bond Fund  
 RBC Monthly Income Bond Fund  
 RBC Canadian Bond Index Fund  
 RBC Canadian Government Bond Index Fund  
 RBC Bond Fund  
 RBC Vision Bond Fund  
 RBC Global Bond Fund  
 RBC Global Bond & Currency Fund  
 RBC \$U.S. Investment Grade Corporate Bond Fund  
 RBC Global Corporate Bond Fund  
 RBC High Yield Bond Fund  
 RBC \$U.S. High Yield Bond Fund  
 RBC Global High Yield Bond Fund  
 RBC Strategic Income Bond Fund  
 RBC \$U.S. Strategic Income Bond Fund  
 RBC Emerging Markets Foreign Exchange Fund  
 RBC Emerging Markets Bond Fund  
 RBC Emerging Markets Bond Fund (CAD Hedged)  
 BlueBay Global Monthly Income Bond Fund  
 BlueBay Global Sovereign Bond Fund (Canada)  
 BlueBay Global Investment Grade Corporate Bond Fund (Canada)  
 BlueBay European High Yield Bond Fund (Canada)  
 BlueBay Emerging Markets Bond Fund (Canada)  
 BlueBay Emerging Markets Local Currency Bond Fund (Canada)  
 BlueBay Emerging Markets Corporate Bond Fund  
 BlueBay Global Convertible Bond Fund (Canada)  
 BlueBay \$U.S. Global Convertible Bond Fund (Canada)  
 RBC Conservative Bond Pool  
 RBC Core Bond Pool  
 RBC Core Plus Bond Pool  
 RBC Managed Payout Solution  
 RBC Managed Payout Solution – Enhanced  
 RBC Managed Payout Solution – Enhanced Plus  
 RBC Monthly Income Fund  
 RBC U.S. Monthly Income Fund  
 RBC Balanced Fund  
 RBC Global Balanced Fund  
 RBC Vision Balanced Fund  
 RBC Conservative Growth & Income Fund  
 RBC Balanced Growth & Income Fund  
 RBC Global Growth & Income Fund  
 RBC Retirement Income Solution  
 RBC Retirement 2020 Portfolio  
 RBC Retirement 2025 Portfolio  
 RBC Retirement 2030 Portfolio  
 RBC Retirement 2035 Portfolio  
 RBC Retirement 2040 Portfolio  
 RBC Retirement 2045 Portfolio  
 RBC Retirement 2050 Portfolio  
 RBC Select Very Conservative Portfolio  
 RBC Select Conservative Portfolio  
 RBC Select Balanced Portfolio  
 RBC Select Growth Portfolio  
 RBC Select Aggressive Growth Portfolio  
 RBC Select Choices Conservative Portfolio  
 RBC Select Choices Balanced Portfolio  
 RBC Select Choices Growth Portfolio  
 RBC Select Choices Aggressive Growth Portfolio  
 RBC Target 2020 Education Fund

RBC Target 2025 Education Fund  
 RBC Target 2030 Education Fund  
 RBC Target 2035 Education Fund  
 RBC Canadian Dividend Fund  
 RBC Canadian Equity Fund  
 RBC QUBE Canadian Equity Fund  
 RBC QUBE Low Volatility Canadian Equity Fund  
 RBC Trend Canadian Equity Fund  
 RBC Vision Canadian Equity Fund  
 RBC Canadian Index Fund  
 RBC O'Shaughnessy Canadian Equity Fund  
 RBC O'Shaughnessy All-Canadian Equity Fund  
 RBC Canadian Equity Income Fund  
 RBC Canadian Small & Mid-Cap Resources Fund  
 RBC North American Value Fund  
 RBC North American Growth Fund  
 RBC U.S. Dividend Fund  
 RBC U.S. Dividend Currency Neutral Fund  
 RBC U.S. Equity Fund  
 RBC U.S. Equity Currency Neutral Fund  
 RBC QUBE U.S. Equity Fund  
 RBC QUBE Low Volatility U.S. Equity Fund  
 RBC QUBE Low Volatility U.S. Equity Currency Neutral Fund  
 RBC U.S. Equity Value Fund  
 RBC U.S. Index Fund  
 RBC U.S. Index Currency Neutral Fund  
 RBC O'Shaughnessy U.S. Value Fund (Unhedged)  
 RBC O'Shaughnessy U.S. Value Fund  
 RBC U.S. Mid-Cap Growth Equity Fund  
 RBC U.S. Mid-Cap Growth Equity Currency Neutral Fund  
 RBC U.S. Mid-Cap Value Equity Fund  
 RBC U.S. Small-Cap Core Equity Fund  
 RBC U.S. Small-Cap Value Equity Fund  
 RBC O'Shaughnessy U.S. Growth Fund  
 RBC O'Shaughnessy U.S. Growth Fund II  
 RBC Life Science and Technology Fund  
 RBC International Dividend Growth Fund  
 RBC International Equity Fund  
 RBC International Equity Currency Neutral Fund  
 RBC International Index Currency Neutral Fund  
 RBC O'Shaughnessy International Equity Fund  
 RBC European Dividend Fund  
 RBC European Equity Fund  
 RBC European Mid-Cap Equity Fund  
 RBC Asian Equity Fund  
 RBC Asia Pacific ex-Japan Equity Fund  
 RBC Japanese Equity Fund  
 RBC Emerging Markets Multi-Strategy Equity Fund  
 RBC Emerging Markets Dividend Fund  
 RBC Emerging Markets Equity Fund  
 RBC Emerging Markets Small-Cap Equity Fund  
 RBC Global Dividend Growth Fund  
 RBC Global Dividend Growth Currency Neutral Fund  
 RBC Global Equity Fund  
 RBC Global Equity Focus Fund  
 RBC Global Equity Focus Currency Neutral Fund  
 RBC QUBE Global Equity Fund  
 RBC QUBE Low Volatility Global Equity Fund  
 RBC QUBE Low Volatility Global Equity Currency Neutral Fund  
 RBC Vision Global Equity Fund  
 RBC Vision Fossil Fuel Free Global Equity Fund  
 RBC O'Shaughnessy Global Equity Fund  
 RBC QUBE All Country World Equity Fund  
 RBC QUBE Low Volatility All Country World Equity Fund  
 RBC Global Energy Fund  
 RBC Global Precious Metals Fund  
 RBC Global Resources Fund  
 RBC Global Technology Fund

RBC Private Short-Term Income Pool  
 RBC Private Canadian Corporate Bond Pool  
 RBC Private Income Pool  
 RBC Private Canadian Dividend Pool  
 RBC Private Canadian Growth and Income Equity Pool (renamed RBC Private Fundamental Canadian Equity Pool)  
 RBC Private Canadian Equity Pool  
 RBC Private Canadian Growth Equity Pool  
 RBC Private Canadian Mid-Cap Equity Pool  
 RBC Private U.S. Large-Cap Value Equity Pool  
 RBC Private U.S. Large-Cap Value Equity Currency Neutral Pool  
 RBC Private U.S. Growth Equity Pool  
 RBC Private U.S. Large-Cap Core Equity Pool  
 RBC Private U.S. Large-Cap Core Equity Currency Neutral Pool  
 RBC Private U.S. Small-Cap Equity Pool  
 RBC Private EAFE Equity Pool  
 RBC Private Overseas Equity Pool  
 RBC Private World Equity Pool

**PHILLIPS, HAGER & NORTH INVESTMENT FUNDS**

Phillips, Hager & North Canadian Money Market Fund  
 Phillips, Hager & North \$U.S. Money Market Fund  
 Phillips, Hager & North Short Term Bond & Mortgage Fund  
 Phillips, Hager & North Bond Fund  
 Phillips, Hager & North Total Return Bond Fund  
 Phillips, Hager & North Inflation-Linked Bond Fund  
 Phillips, Hager & North High Yield Bond Fund  
 Phillips, Hager & North Long Inflation-linked Bond Fund  
 Phillips, Hager & North Monthly Income Fund  
 Phillips, Hager & North Balanced Fund  
 Phillips, Hager & North Dividend Income Fund  
 Phillips, Hager & North Canadian Equity Fund  
 Phillips, Hager & North Canadian Equity Value Fund  
 Phillips, Hager & North Canadian Equity Underlying Fund  
 Phillips, Hager & North Canadian Equity Underlying Fund II  
 Phillips, Hager & North Canadian Growth Fund  
 Phillips, Hager & North Canadian Income Fund  
 Phillips, Hager & North Vintage Fund  
 Phillips, Hager & North U.S. Dividend Income Fund  
 Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund  
 Phillips, Hager & North U.S. Equity Fund  
 Phillips, Hager & North Currency-Hedged U.S. Equity Fund  
 Phillips, Hager & North U.S. Growth Fund  
 Phillips, Hager & North Overseas Equity Fund  
 Phillips, Hager & North Currency-Hedged Overseas Equity Fund  
 Phillips, Hager & North Global Equity Fund  
 Phillips, Hager & North LifeTime 2015 Fund  
 Phillips, Hager & North LifeTime 2020 Fund  
 Phillips, Hager & North LifeTime 2025 Fund  
 Phillips, Hager & North LifeTime 2030 Fund  
 Phillips, Hager & North LifeTime 2035 Fund  
 Phillips, Hager & North LifeTime 2040 Fund  
 Phillips, Hager & North LifeTime 2045 Fund  
 Phillips, Hager & North LifeTime 2050 Fund  
 Phillips, Hager & North LifeTime 2055 Fund  
 Phillips, Hager & North Balanced Pension Trust  
 Phillips, Hager & North Conservative Equity Income Fund  
 Phillips, Hager & North Canadian Equity Pension Trust  
 Phillips, Hager & North Small Float Fund  
 Phillips, Hager & North Canadian Equity Plus Pension Trust

(collectively, the "Funds", individually the "Fund")

## Our opinion

In our opinion, the accompanying December 31, 2018 annual financial statements of each of the Funds present fairly, in all material respects, the financial position of each Fund, its financial performance and its cash flows as at and for the periods indicated in note 2 in accordance with International Financial Reporting Standards ("IFRS").

### *What we have audited*

The financial statements of each of the Funds comprise:

- the statements of financial position as at the period-end dates indicated in note 2;
- the statements of comprehensive income for the periods indicated in note 2;
- the statements of cash flow for the periods indicated in note 2;
- the statements of changes in net assets attributable to holders of redeemable units ("NAV") for the periods indicated in note 2; and
- the notes to the financial statements, which include a summary of significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

### *Independence*

We are independent of each of the Funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

## Other information

Management is responsible for the other information of each of the Funds. The other information comprises the 2018 Annual Management Report of Fund Performance of each of the Funds.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of each of the Funds, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of each of the Funds or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements of each of the Funds in accordance with 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.

In preparing the financial statements, management is responsible for assessing the ability of each of the Funds to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate any of the Funds or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of each of the Funds.

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## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole for each Fund are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements of each of the Funds.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of each of the Funds, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of each of the Funds.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of each of the Funds to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of each of the Funds or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause any of the Funds to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of each of the Funds, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

March 11, 2019



SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

PHILLIPS, HAGER & NORTH CANADIAN EQUITY  
PLUS PENSION TRUST

December 31, 2018

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>EQUITIES</b>				
<b>CANADIAN EQUITIES</b>				
<b>Communication Services</b>				
24 820	Quebecor Inc., Class B	\$ 472	\$ 713	
5 250	Rogers Communications Inc., Class B	172	367	
61 580	Shaw Communications Inc., Class B	1 666	1 522	
9 700	TELUS Corp.	254	439	
		2 564	3 041	<b>3.4</b>
<b>Consumer Discretionary</b>				
29 670	Dollarama Inc.	657	963	
18 700	Gildan Activewear Inc., Class A	603	775	
5 465	Restaurant Brands International Inc.	236	390	
		1 496	2 128	<b>2.4</b>
<b>Consumer Staples</b>				
27 860	Alimentation Couche-Tard Inc.	862	1 892	
		862	1 892	<b>2.1</b>
<b>Energy</b>				
63 000	ARC Resources Ltd.	1 048	510	
64 963	Baytex Energy Corp.	281	157	
15 640	Cameco Corp.	441	242	
62 270	Canadian Natural Resources Ltd.	2 437	2 051	
88 304	Cenovus Energy Inc.	1 305	848	
89 920	Enbridge Inc.	4 274	3 814	
17 952	Keyera Corp.	605	463	
29 170	Pembina Pipeline Corp.	1 200	1 182	
32 700	PrairieSky Royalty Ltd.	833	578	
54 782	Suncor Energy Inc.	2 278	2 089	
32 002	Tourmaline Oil Corp.	901	542	
32 945	TransCanada Corp.	1 885	1 605	
73 700	Whitecap Resources Inc.	646	320	
		18 134	14 401	<b>16.0</b>
<b>Financials</b>				
28 230	Bank of Montreal	2 517	2 518	
49 570	Bank of Nova Scotia	2 909	3 373	
52 210	Brookfield Asset Management Inc., Class A	1 581	2 732	
8 960	Canadian Imperial Bank of Commerce	948	911	
43 370	Element Fleet Management Corp.	549	300	
1 780	Fairfax Financial Holdings Ltd.	1 068	1 070	
9 283	Intact Financial Corp.	884	921	
106 150	Manulife Financial Corporation	2 005	2 056	
62 820	Royal Bank of Canada*	3 653	5 870	
38 870	Sun Life Financial Inc.	1 899	1 760	
75 030	Toronto-Dominion Bank	2 142	5 092	
		20 155	26 603	<b>29.5</b>

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>Industrials</b>				
78 400	Bombardier Inc., Class B	\$ 313	\$ 159	
29 090	Canadian National Railway Co.	1 607	2 941	
3 360	Canadian Pacific Railway Ltd.	662	814	
18 200	SNC-Lavalin Group Inc.	1 023	836	
10 760	Stantec Inc.	374	322	
10 740	Thomson Reuters Corp.	429	708	
10 380	Waste Connections Inc.	673	1 052	
		5 081	6 832	<b>7.6</b>
<b>Information Technology</b>				
18 600	CGI Group Inc., Class A	856	1 553	
590	Constellation Software Inc.	320	516	
22 736	Open Text Corp.	855	1 012	
		2 031	3 081	<b>3.4</b>
<b>Materials</b>				
10 672	Agnico Eagle Mines Ltd.	451	587	
17 524	Alamos Gold Inc., Class A	143	86	
78 834	B2Gold Corp.	306	315	
27 070	Barrick Gold Corp.	520	499	
33 930	Belo Sun Mining Corp.	29	13	
4 450	CCL Industries, Class B	238	223	
15 540	Continental Gold Inc.	100	35	
11 870	Detour Gold Corp.	203	137	
9 715	Endeavour Mining Corp.	196	217	
57 790	First Quantum Minerals Ltd.	784	638	
4 550	Franco-Nevada Corp.	348	436	
20 270	Goldcorp Inc.	474	271	
15 976	IAMGOLD Corporation	116	80	
19 380	Kinross Gold Corp.	101	85	
16 170	Kirkland Lake Gold Ltd.	268	576	
22 284	Nutrien Ltd.	1 407	1 429	
36 050	OceanaGold Corp.	146	180	
14 010	Semafo Inc.	54	41	
17 920	Teck Resources Ltd., Class B	522	527	
11 630	Torex Gold Resources Inc.	227	151	
32 040	Turquoise Hill Resources Ltd.	207	72	
12 110	Wheaton Precious Metals Corp.	339	323	
		7 179	6 921	<b>7.7</b>
<b>Real Estate</b>				
27 710	Brookfield Property Partners LP	757	610	
19 790	First Capital Realty Inc.	396	373	
		1 153	983	<b>1.1</b>
<b>Utilities</b>				
12 610	Brookfield Infrastructure Partners LP	492	595	
21 100	Fortis Inc.	874	960	
		1 366	1 555	<b>1.7</b>
<b>TOTAL CANADIAN EQUITIES</b>		<b>60 021</b>	<b>67 437</b>	<b>74.9</b>



December 31, 2018

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>UNITED STATES EQUITIES</b>				
<b>Consumer Staples</b>				
15 840	PepsiCo Inc.	\$ 1 050	\$ 2 389	
		1 050	2 389	<b>2.6</b>
<b>Financials</b>				
24 850	Wells Fargo & Company	603	1 564	
		603	1 564	<b>1.7</b>
<b>Health Care</b>				
6 240	Johnson & Johnson	407	1 099	
3 130	Varex Imaging Corp.	66	101	
6 440	Varian Medical Systems Inc.	387	996	
		860	2 196	<b>2.4</b>
<b>Industrials</b>				
17 730	Emerson Electric Co.	776	1 447	
3 770	Illinois Tool Works Inc.	173	652	
4 260	United Technologies Corp.	323	619	
		1 272	2 718	<b>3.0</b>
<b>Information Technology</b>				
12 670	Cisco Systems Inc.	336	751	
19 910	Microsoft Corp.	622	2 763	
21 880	Oracle Corporation	639	1 349	
		1 597	4 863	<b>5.4</b>
<b>TOTAL UNITED STATES EQUITIES</b>		<b>5 382</b>	<b>13 730</b>	<b>15.1</b>
<b>TOTAL EQUITIES</b>		<b>65 403</b>	<b>81 167</b>	<b>90.0</b>
<b>UNDERLYING FUNDS</b>				
272 723	Phillips, Hager & North Small Float Fund*	3 346	8 054	
<b>TOTAL UNDERLYING FUNDS</b>		<b>3 346</b>	<b>8 054</b>	<b>8.9</b>
<b>SHORT-TERM INVESTMENTS†</b>		<b>1 000</b>	<b>1 000</b>	<b>1.1</b>
<b>TOTAL INVESTMENTS</b>		<b>69 749</b>	<b>90 221</b>	<b>100.0</b>
<b>UNREALIZED GAIN ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)</b>				
		–	24	–
<b>UNREALIZED LOSS ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)</b>				
		–	(697)	<b>(0.8)</b>
<b>TOTAL PORTFOLIO</b>		<b>\$ 69 749</b>	<b>89 548</b>	<b>99.2</b>
<b>OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>737</b>	<b>0.8</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>\$ 90 285</b>	<b>100.0</b>

**SCHEDULE A**

**Foreign Exchange Contracts**

Contracts	Maturity Date	Unrealized Gain
Bought USD 300 Sold CAD 402 @ 0.7467	10-Jan-2019	\$ 8
Bought USD 350 Sold CAD 469 @ 0.7465	10-Jan-2019	9
Bought USD 200 Sold CAD 269 @ 0.7431	10-Jan-2019	3
Bought USD 300 Sold CAD 407 @ 0.7363	10-Jan-2019	2
Bought USD 130 Sold CAD 177 @ 0.7349	10-Jan-2019	1
Bought USD 130 Sold CAD 177 @ 0.7359	01-Feb-2019	1
		<b>\$ 24</b>
Contracts	Maturity Date	Unrealized Loss
Bought CAD 10 516 Sold USD 8 126 @ 1.2941	10-Jan-2019	\$ (576)
Bought CAD 268 Sold USD 203 @ 1.3191	10-Jan-2019	(9)
Bought CAD 721 Sold USD 551 @ 1.3089	01-Feb-2019	(30)
Bought CAD 224 Sold USD 170 @ 1.3158	01-Feb-2019	(8)
Bought CAD 3 281 Sold USD 2 461 @ 1.3333	26-Feb-2019	(74)
		<b>\$ (697)</b>
<b>TOTAL FOREIGN EXCHANGE</b>		<b>\$ (673)</b>

All counterparties have a credit rating of at least A.

\* Investment in related party (see note 8 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 1.95% to 2.07% and mature between January 3, 2019 and January 7, 2019.



**Statements of Financial Position**

(in \$000s except per unit amounts)

(see note 2 in the generic notes)	December 31 2018	December 31 2017
<b>ASSETS</b>		
Investments at fair value	\$ 90 221	\$ 112 888
Cash	457	627
Due from investment dealers	9	69
Subscriptions receivable	102	7
Unrealized gain on foreign exchange contracts	24	17
Dividends receivable, interest accrued and other assets	174	189
<b>TOTAL ASSETS</b>	<b>90 987</b>	<b>113 797</b>
<b>LIABILITIES</b>		
Due to investment dealers	–	25
Redemptions payable	1	160
Unrealized loss on foreign exchange contracts	697	93
Accounts payable and accrued expenses	4	5
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>702</b>	<b>283</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>	<b>\$ 90 285</b>	<b>\$ 113 514</b>
Investments at cost	\$ 69 749	\$ 75 672
<b>NAV</b>		
<b>SERIES F</b>	<b>\$ 180</b>	<b>\$ 1 513</b>
<b>SERIES O</b>	<b>\$ 90 105</b>	<b>\$ 112 001</b>
<b>NAV PER UNIT</b>		
<b>SERIES F</b>	<b>\$ 78.47</b>	<b>\$ 88.46</b>
<b>SERIES O</b>	<b>\$ 96.29</b>	<b>\$ 108.66</b>

**Statements of Comprehensive Income**

(in \$000s except per unit amounts)

For the periods ended December 31 (see note 2 in the generic notes)	2018	2017
<b>INCOME (see note 3 in the generic notes)</b>		
Dividends	\$ 2 735	\$ 2 798
Interest for distribution purposes	9	8
Income from investment trusts	124	123
Derivative income	(738)	965
Net realized gain (loss) on investments	6 710	8 194
Change in unrealized gain (loss) on investments	(17 341)	(1 897)
<b>TOTAL NET GAIN (LOSS) ON INVESTMENTS AND DERIVATIVES</b>	<b>(8 501)</b>	<b>10 191</b>
Securities lending revenue (see note 7 in the generic notes)	5	–
Net gain (loss) on foreign cash balances	24	(19)
<b>TOTAL OTHER INCOME (LOSS)</b>	<b>29</b>	<b>(19)</b>
<b>TOTAL INCOME (LOSS)</b>	<b>(8 472)</b>	<b>10 172</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Management fees	4	7
Administration fees	31	36
Independent Review Committee costs	2	3
GST/HST	3	4
Transaction costs	40	49
Withholding tax	51	57
<b>TOTAL EXPENSES</b>	<b>131</b>	<b>156</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ (8 603)</b>	<b>\$ 10 016</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>SERIES F</b>	<b>\$ (9)</b>	<b>\$ 118</b>
<b>SERIES O</b>	<b>\$ (8 594)</b>	<b>\$ 9 898</b>
<b>INCREASE (DECREASE) IN NAV PER UNIT</b>		
<b>SERIES F</b>	<b>\$ (0.88)</b>	<b>\$ 6.87</b>
<b>SERIES O</b>	<b>\$ (9.05)</b>	<b>\$ 8.95</b>



Statements of Cash Flow (in \$000s)

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

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in NAV	\$ (8 603)	\$ 10 016
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS</b>		
Interest for distribution purposes	–	–
Non-cash distributions from underlying funds	(124)	(123)
Net realized loss (gain) on investments	(6 652)	(8 143)
Change in unrealized loss (gain) on investments	17 341	1 897
(Increase) decrease in accrued receivables	15	8
Increase (decrease) in accrued payables	(1)	2
(Increase) decrease in margin accounts	–	–
Cost of investments purchased	(40 943)	(90 519)
Proceeds from sale and maturity of investments	53 677	103 206
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>14 710</b>	<b>16 344</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	4 889	5 346
Cash paid on redemption of redeemable units	(19 769)	(21 379)
Distributions paid to holders of redeemable units	–	–
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ (14 880)</b>	<b>\$ (16 033)</b>
Net increase (decrease) in cash for the period	(170)	311
Cash (bank overdraft), beginning of period	627	316
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 457</b>	<b>\$ 627</b>
Interest received (paid)	\$ 9	\$ 8
Dividends received, net of withholding taxes	\$ 2 699	\$ 2 749





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

For the periods ended December 31 (see note 2 in the generic notes)	Series F		Series O		Total	
	2018	2017	2018	2017	2018	2017
<b>NAV AT BEGINNING OF PERIOD</b>	\$ 1 513	\$ 1 456	\$ 112 001	\$ 117 394	\$ 113 514	\$ 118 850
<b>INCREASE (DECREASE) IN NAV</b>	(9)	118	(8 594)	9 898	(8 603)	10 016
Early redemption fees	—	—	—	—	—	—
Proceeds from redeemable units issued	362	21	4 622	5 273	4 984	5 294
Reinvestments of distributions to holders of redeemable units	4	29	2 784	2 809	2 788	2 838
Redemption of redeemable units	(1 686)	(82)	(17 924)	(20 564)	(19 610)	(20 646)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	(1 320)	(32)	(10 518)	(12 482)	(11 838)	(12 514)
Distributions from net income	(4)	(29)	(2 784)	(2 809)	(2 788)	(2 838)
Distributions from net gains	—	—	—	—	—	—
Distributions from capital	—	—	—	—	—	—
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	(4)	(29)	(2 784)	(2 809)	(2 788)	(2 838)
<b>NET INCREASE (DECREASE) IN NAV</b>	(1 333)	57	(21 896)	(5 393)	(23 229)	(5 336)
<b>NAV AT END OF PERIOD</b>	\$ 180	\$ 1 513	\$ 90 105	\$ 112 001	\$ 90 285	\$ 113 514



December 31, 2018

**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.

All outstanding Series A units were renamed Series F units effective June 28, 2018.

**Financial instrument risk and capital management (see note 5 in the generic notes)**

**Concentration risk (%)**

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

	December 31 2018	December 31 2017
Investment mix		
Financials	31.2	33.7
Energy	16.0	18.6
Industrials	10.6	8.2
Underlying Funds	8.9	9.3
Information Technology	8.8	7.6
Materials	7.7	5.9
Consumer Staples	4.7	4.7
Communication Services	3.4	0.8
Consumer Discretionary	2.4	5.1
Health Care	2.4	2.2
Utilities	1.7	1.3
Real Estate	1.1	1.5
Cash/Other	1.1	1.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Currency risk (% of NAV)**

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 NAV)**

The table below shows the impact of a 1% change in the broad-based index (noted below) on the Fund's NAV, 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 2018	December 31 2017
S&P/TSX Capped Composite		
Total Return Index	+ or - 1.0	+ 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, 2018 and 2017.

December 31, 2018	Level 1	Level 2	Level 3	Total
<b>Equities</b>	<b>81 167</b>	–	–	<b>81 167</b>
<b>Underlying funds</b>	<b>8 054</b>	–	–	<b>8 054</b>
<b>Fixed-income and debt securities</b>	–	–	–	–
<b>Short-term investments</b>	–	<b>1 000</b>	–	<b>1 000</b>
<b>Derivatives – assets</b>	–	<b>24</b>	–	<b>24</b>
<b>Derivatives – liabilities</b>	–	<b>(697)</b>	–	<b>(697)</b>
<b>Total financial instruments</b>	<b>89 221</b>	<b>327</b>	–	<b>89 548</b>
<b>% of total portfolio</b>	<b>99.6</b>	<b>0.4</b>	–	<b>100.0</b>

December 31, 2017	Level 1	Level 2	Level 3	Total
Equities	101 757	–	–	101 757
Underlying funds	10 506	–	–	10 506
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	625	–	625
Derivatives – assets	–	17	–	17
Derivatives – liabilities	–	(93)	–	(93)
<b>Total financial instruments</b>	<b>112 263</b>	<b>549</b>	–	<b>112 812</b>
<b>% of total portfolio</b>	<b>99.5</b>	<b>0.5</b>	–	<b>100.0</b>

For the periods ended December 31, 2018 and 2017, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

**Management fees and administration fees (see note 8 in the generic notes)**

Management fees and 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 NAV of each series of the Fund.

	Management fees	Administration fees
Series F	0.50%	0.06%
Series O	n/a*	0.03%

\* Series O unitholders pay a negotiated management fee directly to RBC GAM for investment-counselling services.



December 31, 2018

**Unconsolidated structured entities (%)**  
(see note 3 in the generic notes)

The table below summarizes the Fund's interest in the sponsored funds as a percentage of NAV, and the Fund's ownership interest as a percentage of NAV of the sponsored funds ("Ownership"). All sponsored funds are established and conduct business in Canada.

	December 31 2018		December 31 2017	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North				
Small Float Fund	8.9	3.5	9.3	3.6

**Taxes (\$000s) (see note 6 in the generic notes)**

The non-capital and capital losses as at December 31, 2018 for the Fund were approximately:

Capital losses	12 562
Non-capital losses	–

**Redeemable units (000s)**

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)

	2018	2017
<b>Series F</b>		
Opening units	17	17
Issued number of units	4	1
Reinvested number of units	–	–
Redeemed number of units	(19)	(1)
Ending number of units	2	17
<b>Series O</b>		
Opening units	1 031	1 147
Issued number of units	43	51
Reinvested number of units	29	26
Redeemed number of units	(167)	(193)
Ending number of units	936	1 031

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

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

	December 31 2018		December 31 2017	
	\$	%	\$	%
Total transaction costs	40	100	49	100
Related-party brokerage commissions*	4	10	3	6
Commission arrangements <sup>†</sup>	2	5	2	4

\* See note 8 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.

**Securities lending revenue (\$000s except %)**  
(see note 7 in the generic notes)

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

	December 31 2018		December 31 2017	
	\$	%	\$	%
Fair value of securities loaned	2 399		2 770	
Fair value of collateral received	2 447		2 825	

The table below provides a reconciliation of the gross revenue generated from the securities lending transactions of the Fund to the securities lending revenue disclosed in the Statements of Comprehensive Income.

	December 31 2018		December 31 2017	
	\$	%	\$	%
Gross revenue	6	100	1	100
RBC IS (paid)	(1)	(25)	–	(25)
Tax withheld	–	–	–	–
Fund revenue	5	75	1	75



December 31, 2018

**Offsetting financial assets and liabilities (\$000s)**  
**(see note 3 in the generic notes)**

The following is a summary of the amounts for which the Fund has a legal right to offset in the event of default, insolvency or bankruptcy. “Net amount” represents the impact to the Fund if all set-off rights were to be exercised.

December 31, 2018	Assets	Liabilities
Gross amounts – assets (liabilities)	24	(697)
Amounts set-off in the Statements of Financial Position	–	–
Net amounts presented in the Statements of Financial Position	24	(697)
Related amounts not set-off	(24)	24
Collateral (received) pledged	–	–
<b>Net amount</b>	<b>–</b>	<b>(673)</b>

December 31, 2017	Assets	Liabilities
Gross amounts – assets (liabilities)	17	(93)
Amounts set-off in the Statements of Financial Position	–	–
Net amounts presented in the Statements of Financial Position	17	(93)
Related amounts not set-off	(1)	1
Collateral (received) pledged	–	–
<b>Net amount</b>	<b>16</b>	<b>(92)</b>

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## 1. The Funds

The Funds (“Fund” or “Funds”) are open-ended mutual fund trusts governed by the laws of the Province of Ontario or British Columbia. RBC GAM is the manager and portfolio manager of the Funds and its head office is located at 155 Wellington Street West, 22nd Floor, Toronto, Ontario. RBC GAM is also the trustee of those Funds governed by the laws of the Province of Ontario. These financial statements were approved for issuance by the Board of Directors of RBC GAM on March 11, 2019.

The Funds may issue an unlimited number of units in some or all of Series A, Advisor Series, Advisor T5 Series, Series T5, Series T8, Series H, Series D, Series DZ, Series F, Series FT5, Series FT8, Series I, Series N and Series O.

Series A units have no sales charges and are available to all investors through authorized dealers.

Advisor Series units and Advisor T5 Series units are available to all investors through authorized dealers with an initial sales charge or low-load sales charge option. For certain of the Funds, Advisor Series units and Advisor T5 Series units are available with a deferred sales charge option. Under the initial sales charge option, investors pay a sales charge ranging from 0% to 5% of the amount invested. Under the deferred sales charge or low-load sales charge option, sales charges may be applicable, as described in the Simplified Prospectus.

Series T5 units and Series T8 units have no sales charges and are available to all investors through authorized dealers.

Series H units have no sales charges, have lower fees than Series A units and are only available to investors who invest and maintain the required minimum balance through authorized dealers.

Series D units and Series DZ units have no sales charges and have lower fees than Series A units. Series D units and Series DZ units may be available to investors who have accounts with RBC Direct Investing Inc., Phillips, Hager & North Investment Funds Ltd. (“PH&N IF”) or certain other authorized dealers (primarily discount brokers).

Series F units, Series FT5 units and Series FT8 units have no sales charges and have lower fees than Series A units. Series F units, Series FT5 units and Series FT8 units are only available to investors who have fee-based accounts with their dealer.

Series I units have no sales charges, have lower fees than Series F units, Series FT5 units and Series FT8 units and are only available to investors who invest and maintain the required minimum balance and who have accounts with dealers who have signed a fee-based agreement with RBC GAM.

Series N units are only available to related mutual funds.

Series O units are only available to large private or institutional investors or dealers. No management fees are payable by the Funds in respect to Series O units. Unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

## 2. Financial year

The information provided in these financial statements and notes thereto is as at December 31, 2018 and December 31, 2017, as applicable, and for the 12-month periods ended December 31, 2018 and December 31, 2017, as applicable, except for Funds or series established during either period, in which case the information for the Fund, or series, is provided for the period from the start date as described in the Notes to Financial Statements – Fund Specific Information of the Fund.

## 3. Summary of significant accounting policies

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”). The significant accounting policies of the Funds, which are investment entities, are as follows:

**Adoption of New Accounting Standards** Effective January 1, 2018, the Funds adopted IFRS 9 Financial Instruments. The new standard requires financial assets to be classified as amortized cost and fair value, with changes in fair value through profit and loss (“FVTPL”) or fair value through other comprehensive income (“FVOCI”) based on the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Assessment and decision on the business model approach used is an accounting judgment. IFRS 9 also introduces a new expected credit loss impairment model.

The adoption of IFRS 9 has been applied retrospectively without the use of hindsight and did not result in a change to the measurement of financial instruments, in either the current or comparative period. The Funds’ financial assets previously designated at FVTPL under IAS 39 Financial Instruments are now mandatorily classified and measured at

December 31, 2018

FVTPL. The Funds' financial assets and liabilities previously classified as FVTPL under the held for trading category continue to be classified as held for trading and measured at FVTPL. Other financial assets and liabilities will continue to be measured at amortized cost. There was no material impact on the adoption of the new impairment model.

In addition, certain comparative figures in the Statements of Comprehensive Income have been revised to meet the disclosure requirements on initial application of IFRS 9. Amounts previously recorded as "Net gain (loss) on foreign currencies and other net assets," "Other derivatives" and "Net gain (loss) from futures contracts" are now recorded as "Derivative income." And certain amounts previously recorded as "Other income (loss)" are now recorded as "Income from investment trusts."

**Classification and Measurement of Financial Assets, Liabilities and Derivatives** Each of the Funds classify their investment portfolio based on the business model for managing the portfolio and the contractual cash flow characteristics. The investment portfolio of financial assets and liabilities is managed and performance is evaluated on a fair value basis. The contractual cash flows of the Funds' debt securities that are solely principal and interest are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Funds' business model objectives. Consequently, all investments are measured at FVTPL. Derivative assets and liabilities are also measured at FVTPL.

The Funds' obligation for net assets attributable to holders of redeemable units represents a financial liability and is measured at the redemption amount, which approximates fair value as of the reporting date. All other financial assets and liabilities are measured at amortized cost.

**Offsetting Financial Assets and Liabilities** In the normal course of business, the Funds may enter into various International Swaps and Derivatives Association master netting agreements or other similar arrangements with certain counterparties that allow for related amounts to be offset in certain circumstances, such as bankruptcy or termination of contracts. Offsetting information, where applicable, is presented in the Notes to Financial Statements – Fund Specific Information.

**Classification of Redeemable Units** The Funds have multiple features across the different series of the Funds. Consequently, the Funds' outstanding redeemable units are classified as financial liabilities in accordance with the requirements of IAS 32 Financial Instruments: Presentation.

**Unconsolidated Structured Entities** The Funds may invest in other Funds and exchange-traded funds ("ETFs") managed by the manager or an affiliate of the manager ("sponsored funds") and may invest in other funds and ETFs managed by unaffiliated entities ("unsponsored funds"); collectively, "underlying funds." The underlying funds are determined to be unconsolidated structured entities, as decision making in the underlying fund is not governed by the voting rights or other similar rights held by the Fund. The investments in underlying funds are subject to the terms and conditions of the offering documents of the respective underlying funds and are susceptible to market price risk arising from uncertainties about future values of those underlying funds. The underlying funds' objectives are generally to achieve long-term capital appreciation and/or current income by investing in a portfolio of securities and other funds in line with each of their documented investment strategies. The underlying funds apply various investment strategies to accomplish their respective investment objectives.

The underlying funds finance their operations by issuing redeemable units which are puttable at the unitholder's option, and entitle the unitholder to a proportional stake in the respective underlying funds' NAV.

The Funds do not consolidate their investment in underlying funds but account for these investments at fair value. The manager has determined that the Funds are investment entities in accordance with IFRS 10 Consolidated Financial Statements, since the Funds meet the following criteria:

- (i) The Funds obtain capital from one or more investors for the purpose of providing those investors with investment management services,
- (ii) The Funds commit to their investors that their business purpose is to invest funds solely for the returns from capital appreciation, investment income or both, and
- (iii) The Funds measure and evaluate the performance of substantially all of their investments on a fair value basis.

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Therefore, the fair value of investments in the underlying funds is included in the Schedule of Investment Portfolio and included in “Investments at fair value” in the Funds’ Statements of Financial Position. The change in fair value of the investment held in the underlying funds is included in “Change in unrealized gain (loss) on investments” in the Statements of Comprehensive Income.

Certain Funds may invest in mortgage-related or other asset-backed securities. These securities include commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are securitized by and payable from, mortgage loans on real property. Mortgage-related securities are created from pools of residential or commercial mortgage loans while asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans and student loans. The Funds account for these investments at fair value. The fair value of such securities, as disclosed in the Schedule of Investment Portfolio, represents the maximum exposure to losses at that date.

**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 and derivatives are recorded at fair value, which is determined as follows:

*Equities* – Common shares and preferred shares are valued at the closing price recorded by the security exchange on which the security is principally traded. In circumstances where the closing price is not within the bid-ask spread, management will determine the points within the bid-ask spread that are most representative of the fair value.

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

NHA-approved mortgages are valued at an amount, which produces a yield equivalent to the prevailing rate of return on mortgages of similar type and term.

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

*Options* – Options give the purchaser the right, but not the obligation, to buy (call) or sell (put) an underlying security or financial instrument at an agreed exercise or strike price during the specified period or on a specified date.

Listed options are valued at the closing price on the recognized exchange on which the option is traded. In circumstances where the closing price is not within the bid-ask spread, management will determine the points within the bid-ask spread that are most representative of the fair value.

Options purchased and options written (sold) are recorded as investments in the Statements of Financial Position. These investments are reported at fair value in the Statements of Financial Position, and unrealized gain or loss at the close of business on each valuation date is recorded in “Change in unrealized gain (loss) on investments” in the Statements of Comprehensive Income.

When an option is exercised and the underlying securities are acquired or delivered, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option is closed the Fund will realize a gain or loss equal to the difference between the premium and the cost to close the position. When an option expires, gains or losses are realized equivalent to the amount of premiums received or paid, respectively. The net realized gains (losses) on written and purchased options are included in the Statements of Comprehensive Income in “Net realized gain (loss) on investments.”



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*Warrants* – Warrants are valued using a recognized option pricing model, which includes factors such as the terms of the warrant, time value of money and volatility inputs that are significant to such valuation.

*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. The receivable/payable on forward contracts is recorded separately in the Statements of Financial Position. Any unrealized gain or loss at the close of business on each valuation date is recorded as “Change in unrealized gain (loss) on investments” and realized gain or loss on foreign exchange contracts is included in “Derivative income” in the Statements of Comprehensive Income.

*Total Return Swaps* – A total return swap is an agreement by which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. Total return swap contracts are marked to market daily based upon quotations from the market makers and the change in value, if any, is recorded in “Change in unrealized gain (loss) on investments” in the Statements of Comprehensive Income. When the swap contract is terminated early, the Fund records a realized gain or loss equal to the difference between the current net present value and the executed net present value in “Derivative income” in the Statements of Comprehensive Income. Unrealized gains and losses are recorded as “Receivable on open swap contracts” or “Payable on open swap contracts” in the Statements of Financial Position, as applicable. The risks of total return swap contracts include changes in market conditions and the possible inability of the counterparty to fulfill its obligations under the agreement.

*Futures Contracts* – Futures contracts entered into by the Funds are financial agreements to purchase or sell a financial instrument at a contracted price on a specified future date. However, the Funds do not intend to purchase or sell the financial instrument on the settlement date; rather, they intend to close out each futures contract before settlement by entering into equal, but offsetting, futures contracts. Futures 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 as “Derivative income” in the Statements of Comprehensive Income. The receivable/payable on futures contracts is recorded separately in the Statements of Financial Position.

*Credit Default Swap Contracts* – Credit default swaps are agreements between a protection buyer and protection seller. The protection buyer pays a periodic fee in exchange for a payment by the protection seller contingent on the occurrence of a credit event, such as a default, bankruptcy or restructuring, with respect to a referenced entity. Periodic fees paid or received are recorded as “Interest for distribution purposes” in the Statements of Comprehensive Income. When the contract is terminated or expires, the payments received or paid are recorded as “Derivative income” in the Statements of Comprehensive Income. Credit default swap contracts are valued based on quotations from independent sources.

*Underlying Funds* – Underlying funds that are mutual funds are valued at their respective NAV per unit from fund companies on the relevant valuation dates and underlying funds that are exchange-traded funds are valued at market close on the relevant valuation dates.

*Fair Valuation of Investments* – The Funds have procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available or which may not be reliably priced. Procedures are in place to determine the fair value of foreign securities traded in countries outside of 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.

Management also has procedures where the Funds primarily employ a market-based approach, which may use related or comparable assets or liabilities, NAV per unit (for exchange-traded funds), recent transactions, market multiples, book values and other relevant information for the investment to determine its fair value. The Funds may also use an income-based valuation approach in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments, but only if they arise as a feature of the instrument itself. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

All security valuation techniques are periodically reviewed by the Valuation Committee (“VC”) of the manager and are approved by the manager. The VC provides oversight of the Funds’ valuation policies and procedures.



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**Cash** Cash is comprised of cash and deposits with banks and is recorded at amortized cost. The carrying amount of cash approximates its fair value because it is short term in nature.

**Foreign Exchange** The value of investments and other assets and liabilities in foreign currencies is translated into Canadian dollars (U.S. dollars in the case of the Phillips, Hager & North \$U.S. Money Market Fund, RBC \$U.S. Money Market Fund, RBC Premium \$U.S. Money Market Fund, RBC \$U.S. Short-Term Corporate Bond Fund, RBC \$U.S. Investment Grade Corporate Bond Fund, RBC \$U.S. High Yield Bond Fund, RBC \$U.S. Strategic Income Bond Fund, BlueBay Emerging Markets Bond Fund (Canada), BlueBay Emerging Markets Local Currency Bond Fund (Canada), BlueBay Emerging Markets Corporate Bond Fund, BlueBay \$U.S. Global Convertible Bond Fund (Canada) and RBC U.S. Monthly Income Fund) at the rate of exchange on each valuation date. Gains/losses on foreign cash balances are included in “Net gain (loss) on foreign cash balances” in the Statements of Comprehensive Income. 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 on spot and forward currency contracts are included in “Derivative income” in the Statements of Comprehensive Income.

**Functional Currency** The Funds, with the exceptions below, have their subscriptions, redemptions and performance denominated in Canadian dollars and, consequently, the Canadian dollar is the functional currency for the Funds. Phillips, Hager & North \$U.S. Money Market Fund, RBC \$U.S. Money Market Fund, RBC Premium \$U.S. Money Market Fund, RBC \$U.S. Short-Term Corporate Bond Fund, RBC \$U.S. Investment Grade Corporate Bond Fund, RBC \$U.S. High Yield Bond Fund, RBC \$U.S. Strategic Income Bond Fund, BlueBay Emerging Markets Bond Fund (Canada), BlueBay Emerging Markets Local Currency Bond Fund (Canada), BlueBay Emerging Markets Corporate Bond Fund, BlueBay \$U.S. Global Convertible Bond Fund (Canada) and RBC U.S. Monthly Income Fund have their subscriptions, redemptions and performance denominated in U.S. dollars and, consequently, the U.S. dollar is the functional currency for these Funds.

**Valuation of Series** A different NAV is calculated for each series of units of a Fund. The NAV 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 NAV 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, and 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. “Income from investment trusts” includes income from underlying funds and other trusts. Any premiums paid or discounts received on the purchase of zero coupon bonds are amortized. Interest payments made by the Funds to counterparties on the payable leg of derivative contracts are recorded as “Interest expense” in the Statements of Comprehensive Income.

**Increase (Decrease) in NAV per Unit** Increase (decrease) in NAV per 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:

ARS – Argentinian peso	KZT – Kazakhstan tenge
AUD – Australian dollar	MXN – Mexican peso
BRL – Brazilian real	MYR – Malaysian ringgit
CAD – Canadian dollar	NOK – Norwegian krone
CHF – Swiss franc	NZD – New Zealand dollar
CLP – Chilean peso	PEN – Peruvian nuevo sol
CNY – Chinese renminbi	PHP – Philippine peso
COP – Colombian peso	PLN – Polish zloty
CZK – Czech koruna	RON – Romanian leu
DKK – Danish krone	RUB – Russian ruble
EUR – Euro	SEK – Swedish krona
GBP – Pound sterling	SGD – Singapore dollar
HKD – Hong Kong dollar	THB – Thailand baht
HUF – Hungarian forint	TRY – Turkish new lira
IDR – Indonesian rupiah	TWD – New Taiwan dollar
ILS – Israeli new shekel	USD – United States dollar
INR – Indian rupee	UYU – Uruguay peso
JPY – Japanese yen	ZAR – South African rand
KRW – South Korean won	

#### 4. Critical accounting judgments and estimates

The preparation of financial statements requires the use of judgment in applying the Funds' accounting policies and making estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that management has made in preparing the financial statements.

##### ***Fair value measurement of securities not quoted in an active market***

The Funds have established policies and control procedures that are intended to ensure these estimates are well controlled, independently reviewed and consistently applied from period to period. The estimates of the value of the Funds' assets and liabilities are believed to be appropriate as at the reporting date.

The Funds may hold financial instruments that are not quoted in active markets. Note 3 discusses the policies used by management for the estimates used in determining fair value.

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

RBC GAM is responsible for managing each Fund's capital, which is its NAV 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 managers, 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. These risks include a Fund's direct risks and pro rata exposure to the risks of underlying funds, as applicable.

##### ***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 NAV 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 Funds measure credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward-looking information in determining any expected credit loss. All other receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of AA/Aa or higher. Management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Funds. The fair value of fixed-income and debt securities includes a consideration of the

creditworthiness 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 7). 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 the functional currency is affected by changes in the value of the functional currency in relation to the value of the currency in which the investment is denominated. When the value of the functional currency falls in relation to foreign currencies, then the value of the foreign investments rises. When the value of the functional currency rises, the value of the 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.

**6. 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. Since the Funds do not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. 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 20 years.

**7. 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.

**8. Administrative and other related-party transactions****Manager and Portfolio Manager**

RBC GAM is an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank"). RBC GAM is the manager and portfolio manager of the Funds. RBC GAM is responsible for the Funds' day-to-day operations, provides investment advice and portfolio management services to the Funds and appoints distributors for the Funds. RBC GAM is paid a management fee by the Funds as compensation for its services. The management fee is calculated and accrued daily as a percentage of the NAV of each series of units of the Funds. No management fees are paid by the Funds with respect to Series O units. Unitholders of Series O units pay a negotiated fee directly to RBC GAM for investment-counselling services.

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The Funds pay a fixed administration fee to RBC GAM. The fixed administration fee is calculated and accrued daily as a percentage of the NAV of each series of units of the Funds. 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 interim 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 Independent Review Committee 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 proportionately to each series based upon the relative NAV of each series. 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"). A Fund will not invest in units of an underlying mutual fund if the Fund would be required to pay any management or incentive fees in respect of that investment that a reasonable person would believe duplicates a fee payable by the underlying mutual fund for the same service. To the extent a Fund invests in underlying funds managed by RBC GAM or its affiliates, the fees and expenses payable by the underlying funds are in addition to the fees and expenses payable by the Fund. However, a Fund may only invest in one or more underlying funds provided that no management fees or incentive fees are payable that would duplicate a fee payable by the underlying fund for the same service. The Fund's ownership interest in underlying mutual funds is disclosed in the Notes to Financial Statements – Fund Specific Information.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Funds, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange

spread when unitholders switch between series of funds denominated in different currencies. The Funds also maintain bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Funds in the course of their normal business, all of which are wholly owned subsidiaries of Royal Bank of Canada, are discussed below.

**Sub-Advisors**

RBC Global Asset Management (U.S.) Inc. is the sub-advisor for the RBC \$U.S. Investment Grade Corporate Bond Fund, RBC U.S. Mid-Cap Growth Equity Fund, RBC U.S. Mid-Cap Growth Equity Currency Neutral Fund, RBC U.S. Mid-Cap Value Equity Fund, RBC U.S. Small-Cap Core Equity Fund, RBC U.S. Small-Cap Value Equity Fund and Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund (for a portion of the Fund). RBC Global Asset Management (UK) Limited is the sub-advisor for the RBC Global Bond Fund (for a portion of the Fund), RBC Global Corporate Bond Fund (for a portion of the Fund), RBC U.S. Monthly Income Fund (for a portion of the Fund), RBC Balanced Fund (for the European equity portion of the Fund), RBC Global Balanced Fund (for the European equity portion of the Fund), RBC International Dividend Growth Fund, RBC International Equity Fund (for the European equity portion of the Fund), RBC European Dividend Fund, RBC European Equity Fund, RBC European Mid-Cap Equity Fund, RBC Emerging Markets Dividend Fund, RBC Emerging Markets Equity Fund, RBC Emerging Markets Small-Cap Equity Fund, RBC Global Dividend Growth Fund, RBC Global Dividend Growth Currency Neutral Fund, RBC Global Equity Fund, RBC Global Equity Focus Fund, RBC Vision Global Equity Fund, RBC Vision Fossil Fuel Free Global Equity Fund, Phillips, Hager & North Overseas Equity Fund and Phillips, Hager & North Global Equity Fund. RBC Investment Management (Asia) Limited is the sub-advisor for the RBC Balanced Fund (for the Asian equity portion of the Fund), RBC Global Balanced Fund (for the Asian equity portion of the Fund), RBC Vision Balanced Fund (for the Asian equity portion of the Fund), RBC International Dividend Growth Fund (for the Asian equity portion of the Fund), RBC International Equity Fund (for the Asian equity portion of the Fund), RBC Asian Equity Fund, RBC Asia Pacific Ex-Japan Equity Fund and RBC Japanese Equity Fund. BlueBay Asset Management LLP is the sub-advisor of the BlueBay Global Monthly Income Bond Fund, BlueBay Global



Sovereign Bond Fund (Canada), BlueBay Global Investment Grade Corporate Bond Fund (Canada), BlueBay European High Yield Bond Fund (Canada), BlueBay Emerging Markets Bond Fund (Canada), BlueBay Emerging Markets Local Currency Bond Fund (Canada), BlueBay Emerging Markets Corporate Bond Fund, BlueBay Global Convertible Bond Fund (Canada) and BlueBay \$U.S. Global Convertible Bond Fund (Canada).

The sub-advisors earn a fee which is calculated and accrued daily as a percentage of the NAV of each series of units of the Funds. The sub-advisors are paid by the manager from the management fee paid by the Funds.

#### **Trustee**

RBC GAM is the trustee for the Funds governed by the laws of the Province of Ontario. RBC IS is the trustee for the Funds governed by the laws of the Province of British Columbia. The trustee holds title to the Funds' property on behalf of the unitholders. The trustee earns a fee, which is paid by the manager from the fixed administration fee paid by the Funds.

#### **Distributors**

RBC GAM, Royal Mutual Funds Inc., RBC Direct Investing Inc., RBC Dominion Securities Inc. and PH&N IF are principal distributors of, or may distribute certain series of units of, the Funds. Dealers receive an ongoing commission based on the total value of their clients' Series A, Advisor Series, Advisor T5 Series, Series T5, Series T8, Series H and Series D units.

#### **Custodian**

RBC IS is the custodian and holds the assets of the Funds. RBC IS earns a fee as the custodian, which is paid by the manager from the fixed administration fee paid by the Funds.

#### **Registrars**

RBC GAM, RBC IS or Royal Bank (or a combination thereof) are the registrars of the Funds and keep records of who owns the units of the Funds. The registrars also process orders and issue account statements. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Funds.

#### **Brokers and Dealers**

The Funds have established or may establish standard brokerage agreements and dealing agreements at market rates with related parties such as RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, NBC Securities Inc. and Royal Bank of Canada.

#### **Securities Lending Agent**

To the extent a Fund may engage in securities lending transactions, RBC IS may act as the Fund's securities lending agent. Any revenue earned on such securities lending is split between the Fund and the securities lending agent.

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

Pursuant to applicable securities legislation, the Funds relied on the standing instructions from 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 Independent Review Committee 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.