

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 8, 2018



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

To the Unitholders 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 Monthly Income Bond Fund  
 RBC Canadian Bond Index Fund  
 (formerly, RBC Advisor Canadian Bond Fund)  
 RBC Canadian Government Bond Index Fund  
 RBC Bond Fund  
 RBC Vision Bond Fund  
 (formerly, Phillips, Hager & North Community Values Bond Fund)  
 RBC Global Bond 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 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 Corporate Bond Fund  
 BlueBay Global Convertible Bond Fund (Canada)  
 BlueBay \$U.S. Global Convertible Bond Fund (Canada)  
 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  
 (formerly, RBC Jantzi 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  
 (formerly, RBC Jantzi 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  
 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 QUBE Global Equity Fund  
 RBC QUBE Low Volatility Global Equity Fund  
 RBC Vision Global Equity Fund  
 (formerly, RBC Jantzi 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  
 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

(collectively referred to as the "Funds")

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We have audited the accompanying financial statements of each of the Funds, which comprise the statements of financial position, comprehensive income, cash flows and changes in net assets attributable to holders of redeemable units as at and for the periods indicated in note 2, and the related notes, which comprise 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 the financial statements of each of the Funds in accordance with International Financial Reporting Standards, 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 the financial statements of each of the Funds based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position, financial performance and cash flows of each of the Funds as at and for the periods indicated in note 2, in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
March 8, 2018



SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)  
**RBC TARGET 2020 EDUCATION FUND**

December 31, 2017

Number of Units	Security	Cost	Fair Value	% of Net Assets
<b>MUTUAL FUND UNITS</b>				
4 472 003	Phillips, Hager & North Short Term Bond & Mortgage Fund*	\$ 45 100	\$ 44 383	5.0
2 384 403	Phillips, Hager & North Total Return Bond Fund*	27 673	26 816	3.0
511 295	Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund*	7 436	8 925	1.0
399 060	RBC Asia Pacific ex-Japan Equity Fund*	4 091	5 326	0.6
18 413 399	RBC Bond Fund*	123 642	126 299	14.2
159 612	RBC Canadian Dividend Fund*	8 320	11 877	1.3
1 003 277	RBC Canadian Equity Fund*	22 490	22 636	2.6
10 816 703	RBC Canadian Money Market Fund*	108 167	108 167	12.2
30 203 666	RBC Canadian Short-Term Income Fund*	328 711	318 422	35.9
428 155	RBC Emerging Markets Equity Fund*	5 166	7 790	0.9
755 507	RBC European Equity Fund*	14 285	18 127	2.0
12 244 245	RBC Global Bond Fund*	134 818	133 281	15.0
285 662	RBC Japanese Equity Fund*	2 946	3 744	0.4
709 048	RBC O'Shaughnessy U.S. Value Fund*	8 528	12 244	1.4
371 825	RBC Private U.S. Large-Cap Core Equity Pool*	6 279	8 763	1.0
794 278	RBC QUBE Low Volatility Canadian Equity Fund*	9 823	11 642	1.3
266 960	RBC U.S. Equity Fund*	7 204	8 756	1.0
188 126	RBC U.S. Mid-Cap Growth Equity Fund*	4 164	6 999	0.8
<b>TOTAL MUTUAL FUND UNITS</b>		868 843	884 197	99.6
<b>SHORT-TERM INVESTMENTS†</b>		6 474	6 474	0.7
<b>TOTAL INVESTMENTS</b>		\$ 875 317	890 671	100.3
<b>OTHER NET ASSETS (LIABILITIES) ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			(2 903)	(0.3)
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			\$ 887 768	100.0

\* 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 0.95% to 1.37% and mature between January 2, 2018 and January 30, 2018.



### Statements of Financial Position

(in \$000s except per unit amounts)

(see note 2 in the generic notes)	December 31 2017	December 31 2016
<b>ASSETS</b>		
Investments at fair value	\$ 890 671	\$ 863 610
Cash	254	253
Subscriptions receivable	712	899
Dividends receivable, interest accrued and other assets	1	–
<b>TOTAL ASSETS</b>	<b>891 638</b>	<b>864 762</b>
<b>LIABILITIES</b>		
Due to investment dealers	1 900	2 350
Redemptions payable	765	457
Accounts payable and accrued expenses	1 205	1 151
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>3 870</b>	<b>3 958</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>	<b>\$ 887 768</b>	<b>\$ 860 804</b>
Investments at cost	\$ 875 317	\$ 835 534
<b>NAV</b>		
<b>SERIES A</b>	<b>\$ 875 704</b>	<b>\$ 854 453</b>
<b>SERIES D</b>	<b>\$ 4 976</b>	<b>\$ 4 369</b>
<b>SERIES F</b>	<b>\$ 7 088</b>	<b>\$ 1 982</b>
<b>NAV PER UNIT</b>		
<b>SERIES A</b>	<b>\$ 11.93</b>	<b>\$ 12.06</b>
<b>SERIES D</b>	<b>\$ 11.93</b>	<b>\$ 12.07</b>
<b>SERIES F</b>	<b>\$ 9.58</b>	<b>\$ 9.69</b>

### Statements of Comprehensive Income

(in \$000s except per unit amounts)

For the periods ended December 31 (see note 2 in the generic notes)	2017	2016
<b>INCOME (see note 3 in the generic notes)</b>		
Interest for distribution purposes	\$ 45	\$ 36
Other income received from underlying funds	19 268	22 388
Capital gains received from underlying funds	8 651	8 012
Net realized gain (loss) on investments	15 515	5 039
Change in unrealized gain (loss) on investments	(12 722)	(3 353)
<b>TOTAL INCOME (LOSS)</b>	<b>30 757</b>	<b>32 122</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Management fees	12 244	11 566
Administration fees	437	415
Independent Review Committee costs	3	2
GST/HST	1 273	1 196
<b>TOTAL EXPENSES</b>	<b>13 957</b>	<b>13 179</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ 16 800</b>	<b>\$ 18 943</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>SERIES A</b>	<b>\$ 16 577</b>	<b>\$ 18 843</b>
<b>SERIES D</b>	<b>\$ 122</b>	<b>\$ 109</b>
<b>SERIES F</b>	<b>\$ 101</b>	<b>\$ (9)</b>
<b>INCREASE (DECREASE) IN NAV PER UNIT</b>		
<b>SERIES A</b>	<b>\$ 0.23</b>	<b>\$ 0.28</b>
<b>SERIES D</b>	<b>\$ 0.31</b>	<b>\$ 0.35</b>
<b>SERIES F</b>	<b>\$ 0.24</b>	<b>\$ (0.11)</b>



Statements of Cash Flow (in \$000s)

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

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in NAV	\$ 16 800	\$ 18 943
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS</b>		
Interest for distribution purposes	–	–
Non-cash distributions from underlying funds	(27 919)	(30 400)
Net realized loss (gain) on investments	(15 515)	(5 039)
Change in unrealized loss (gain) on investments	12 722	3 353
(Increase) decrease in accrued receivables	(1)	–
Increase (decrease) in accrued payables	54	99
(Increase) decrease in margin accounts	–	–
Cost of investments purchased	(452 835)	(313 693)
Proceeds from sale and maturity of investments	456 036	270 194
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(10 658)</b>	<b>(56 543)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	98 820	112 960
Cash paid on redemption of redeemable units	(88 137)	(56 150)
Distributions paid to holders of redeemable units	(24)	(16)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ 10 659</b>	<b>\$ 56 794</b>
Net increase (decrease) in cash for the period	1	251
Cash (bank overdraft), beginning of period	253	2
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 254</b>	<b>\$ 253</b>
Interest received (paid)	\$ 44	\$ 36
Dividends received, net of withholding taxes	\$ –	\$ –



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

For the periods ended December 31 (see note 2 in the generic notes)	Series A		Series D		Series F		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>NAV AT BEGINNING OF PERIOD</b>	\$ 854 453	\$ 782 032	\$ 4 369	\$ 3 126	\$ 1 982	\$ –	\$ 860 804	\$ 785 158
<b>INCREASE (DECREASE) IN NAV</b>	<b>16 577</b>	<b>18 843</b>	<b>122</b>	<b>109</b>	<b>101</b>	<b>(9)</b>	<b>16 800</b>	<b>18 943</b>
Early redemption fees	–	1	–	–	–	–	–	1
Proceeds from redeemable units issued	96 640	109 477	1 239	1 583	5 338	2 043	103 217	113 103
Reinvestments of distributions to holders of redeemable units	25 940	21 478	180	137	258	65	26 378	21 680
Redemption of redeemable units	(91 951)	(55 889)	(753)	(447)	(325)	(49)	(93 029)	(56 385)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>30 629</b>	<b>75 067</b>	<b>666</b>	<b>1 273</b>	<b>5 271</b>	<b>2 059</b>	<b>36 566</b>	<b>78 399</b>
Distributions from net income	(4 978)	(9 298)	(62)	(77)	(96)	(38)	(5 136)	(9 413)
Distributions from net gains	(20 977)	(12 191)	(119)	(62)	(170)	(30)	(21 266)	(12 283)
Distributions from capital	–	–	–	–	–	–	–	–
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>(25 955)</b>	<b>(21 489)</b>	<b>(181)</b>	<b>(139)</b>	<b>(266)</b>	<b>(68)</b>	<b>(26 402)</b>	<b>(21 696)</b>
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>21 251</b>	<b>72 421</b>	<b>607</b>	<b>1 243</b>	<b>5 106</b>	<b>1 982</b>	<b>26 964</b>	<b>75 646</b>
<b>NAV AT END OF PERIOD</b>	<b>\$ 875 704</b>	<b>\$ 854 453</b>	<b>\$ 4 976</b>	<b>\$ 4 369</b>	<b>\$ 7 088</b>	<b>\$ 1 982</b>	<b>\$ 887 768</b>	<b>\$ 860 804</b>



December 31, 2017

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

The investment objective of this asset allocation fund is to meet the changing needs of investors who are saving money for the purpose of funding their child's post-secondary education that commences around 2020.

Series F units were started July 4, 2016.

**Financial instrument risk and capital management (see note 5 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. The following tables present the Fund's direct risks and pro rata exposure to the risks of the underlying funds.

**Credit risk (%)**

Credit-exposed securities, excluding short-term investments, comprise 73.1% (December 31, 2016 – 79.2%) of the NAV of the Fund. The table below summarizes the Fund's credit risk exposure grouped by credit ratings as at:

Rating	December 31 2017	December 31 2016
AAA	34.0	22.2
AA	33.3	37.7
A	18.1	22.4
BBB	12.4	14.8
BB	0.8	1.4
B	0.6	1.2
CCC	0.1	0.2
Unrated	0.7	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Concentration risk (%)**

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

Investment mix	December 31 2017	December 31 2016
Income Funds	85.3	79.1
United States Equity Funds	5.2	7.6
Canadian Equity Funds	5.2	7.5
International Equity Funds	3.9	5.4
Cash/Other	0.4	0.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Interest rate risk (%)**

Fixed-income and debt securities, excluding short-term investments, comprise 73.0% (December 31, 2016 – 79.1%) of the NAV of the Fund. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity as at:

Term to maturity	December 31 2017	December 31 2016
Less than 1 year	7.4	4.7
1 – 5 years	63.0	54.2
5 – 10 years	17.0	21.1
> 10 years	12.6	20.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

As at December 31, 2017, had prevailing interest rates risen or lowered by 1%, with all other factors kept constant, the Fund's NAV may have decreased or increased, respectively, by approximately 3.6% (December 31, 2016 – 4.5%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

**Currency risk (% of NAV)**

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

Currency	December 31 2017	December 31 2016
United States dollar	4.8	7.5
Euro	1.0	1.3
Pound sterling	0.6	0.9
Japanese yen	0.6	0.8
Other currencies	2.0	2.6
<b>Total</b>	<b>9.0</b>	<b>13.1</b>

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 5% in relation to the above currencies, with all other factors kept constant, the Fund's NAV may have decreased or increased, respectively, by approximately 0.5% (December 31, 2016 – 0.5%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.





December 31, 2017

**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 2017	December 31 2016
S&P/TSX Capped Composite		
Total Return Index	+ or - 0.2	+ or - 0.2

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, 2017 and 2016.

December 31, 2017	Level 1	Level 2	Level 3	Total
<b>Equities</b>	–	–	–	–
<b>Mutual fund units</b>	884 197	–	–	884 197
<b>Fixed-income</b>				
and debt securities	–	–	–	–
Short-term investments	–	6 474	–	6 474
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	884 197	6 474	–	890 671
<b>% of total portfolio</b>	99.3	0.7	–	100.0

December 31, 2016	Level 1	Level 2	Level 3	Total
<b>Equities</b>	–	–	–	–
<b>Mutual fund units</b>	857 537	–	–	857 537
<b>Fixed-income</b>				
and debt securities	–	–	–	–
Short-term investments	–	6 073	–	6 073
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
<b>Total financial instruments</b>	857 537	6 073	–	863 610
<b>% of total portfolio</b>	99.3	0.7	–	100.0

For the periods ended December 31, 2017 and 2016, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

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

**Management fees and operating expenses**  
(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.

The management fee payable to RBC GAM in respect of each of Series A and Series D units of the Fund is a variable fee and is determined on a basis such that all fees and expenses that comprise the management expense ratio ("MER"), other than the additional cost of the GST/HST, will be equal to a specified percentage of the average NAV of each of these series of the Fund ("Specified Percentage"). The Specified Percentage includes the management fee, administration fee, taxes (other than the additional cost of the GST/HST), other fund costs and the pro rata share of the MER of the underlying funds. The Specified Percentage for Series A units is 1.55% and Series D units is 0.90%.

The management fee payable to RBC GAM in respect of Series F units of the Fund is a fixed fee and the MER of Series F units comprises the management fee, administration fee, taxes, other fund costs and the pro rata share of the MER of the underlying funds.

	Management fees*	Operating expenses
Series A	1.40%	0.05%
Series D	0.78%	0.05%
Series F	0.70%	0.05%

\* Management fees for Series A and Series D units represent the actual average management fee rate for the period ended December 31, 2017.

**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 2017	December 31 2016
<b>Units held</b>		
Series D	58	56
Series F	108	104
<b>Value of all units</b>	2	2



December 31, 2017

**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 2017		December 31 2016	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North Short Term Bond & Mortgage Fund	5.0	0.7	–	–
Phillips, Hager & North Total Return Bond Fund	3.0	0.3	4.9	0.5
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	1.0	0.2	1.5	0.3
RBC Asia Pacific ex-Japan Equity Fund	0.6	0.3	0.9	0.5
RBC Bond Fund	14.2	0.7	34.7	1.7
RBC Canadian Dividend Fund	1.3	0.1	2.0	0.1
RBC Canadian Equity Fund	2.6	0.9	3.7	1.3
RBC Canadian Money Market Fund	12.2	6.9	–	–
RBC Canadian Short-Term Income Fund	35.9	5.8	29.7	5.0
RBC Emerging Markets Equity Fund	0.9	0.2	1.1	0.4
RBC European Equity Fund	2.0	0.3	2.8	0.4
RBC Global Bond Fund	15.0	2.0	9.8	1.5
RBC Japanese Equity Fund	0.4	0.3	0.6	0.5
RBC O'Shaughnessy U.S. Value Fund	1.4	0.7	1.9	1.0
RBC Private U.S. Large-Cap Core Equity Pool	1.0	0.4	1.6	0.7
RBC QUBE Low Volatility Canadian Equity Fund	1.3	0.6	1.8	0.9
RBC U.S. Equity Fund	1.0	0.4	1.6	0.7
RBC U.S. Mid-Cap Growth Equity Fund	0.8	0.9	1.0	1.3

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

The Fund had no capital or non-capital losses as at December 31, 2017.

**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)

	2017	2016
<b>Series A</b>		
Opening units	70 847	64 676
Issued number of units	7 927	8 931
Reinvested number of units	2 172	1 783
Redeemed number of units	(7 544)	(4 543)
Ending number of units	73 402	70 847
<b>Series D</b>		
Opening units	362	258
Issued number of units	102	129
Reinvested number of units	15	11
Redeemed number of units	(62)	(36)
Ending number of units	417	362
<b>Series F</b>		
Opening units	205	–
Issued number of units	541	203
Reinvested number of units	27	7
Redeemed number of units	(33)	(5)
Ending number of units	740	205

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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 8, 2018.

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 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 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/period

The information provided in these financial statements and notes thereto is for the 12-month periods ended or as at December 31, 2017 and 2016, as applicable. 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”). The significant accounting policies of the Funds, which are investment entities, are as follows:

**Classification of Financial Assets and Liabilities** The Funds’ financial assets and financial liabilities, other than derivatives, are designated at fair value through profit or loss at inception, as those financial assets and liabilities are managed together and their performance evaluated on a fair value basis in accordance with the Funds’ documented investment strategy. Derivatives are classified as held for trading and measured at fair value through profit or loss. Redemption units are measured at their respective redemption values. All other assets and liabilities are measured at amortized cost. Realized gains arising on derivatives during a period are included in the Statements of Comprehensive Income in “Net gain (loss) from futures contracts,” “Other derivatives” and “Net gain (loss) on foreign currencies and other net assets,” where applicable.

**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.

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**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.

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, preferred shares and exchange-traded funds 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.

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*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* – 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.

The premium received for written options is recorded as a liability in the Schedule of Investment Portfolio and adjusted daily to the fair value of the written option.

*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. Any unrealized gain or loss at the close of business on each valuation date is recorded as “Change in unrealized gain (loss) on investments” 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.

*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 “Other

derivatives” 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. 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 “Net gain (loss) from futures contracts” in the Statements of Comprehensive Income. The receivable/payable on futures contracts is recorded separately in the Statements of Financial Position.

*Mutual Fund Unit Valuation* – Units of Funds are valued at their respective NAV per unit from fund companies 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. Under these fair valuation procedures, 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. Management also has procedures 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.

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

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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.

**Cash** Cash is comprised of cash and deposits with banks and is recorded at fair value. 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. Investment Grade Corporate Bond Fund, RBC \$U.S. High Yield Bond Fund, 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. 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.

**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. Investment Grade Corporate Bond Fund, RBC \$U.S. High Yield Bond Fund, 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. “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. Any premiums paid or discounts received on the purchase of zero coupon bonds are amortized.

**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	KRW – South Korean won
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	ZAR – South African rand
JPY – Japanese yen	

#### 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.

##### ***Classification and measurement of financial instruments and application of fair value option***

In classifying and measuring financial instruments held by the Funds, the manager is required to make significant judgments about whether or not the business of the Funds is to invest on a total return basis for the purpose of applying the fair value option for financial assets.

##### ***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 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

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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.

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



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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. 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 Bond Fund (for a portion of the Fund), RBC Global Bond Fund (for a portion of the Fund), RBC Global Corporate Bond Fund (for a portion of the Fund), RBC Global High Yield Bond Fund (for a portion of the Fund), RBC Emerging Markets Bond 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 Vision Balanced Fund (formerly, RBC Jantzi 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 (formerly, RBC Jantzi 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 (formerly, RBC Jantzi 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 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.

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**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 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**

Royal Bank, RBC IS and RBC GAM 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.

**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.

**9. Revision of comparative information**

Where applicable, certain comparative figures on the Statements of Cash Flow have been revised.

Amounts reclassified to "Non-cash distributions from underlying funds" have been presented separately from amounts related to "Cost of investments purchased" to appropriately reflect the non-cash components of investments purchased. The impact on the "Net cash provided by (used in) operating activities" is nil.

Comparative figures on the Statements of Cash Flow have been revised for the following funds:

RBC Monthly Income Bond Fund, RBC Emerging Markets Bond Fund (CAD Hedged), BlueBay \$U.S. Global Convertible Bond Fund (Canada), RBC Managed Payout Solution, RBC Managed Payout Solution – Enhanced, RBC Managed Payout Solution – Enhanced Plus, RBC Conservative Growth & Income Fund, RBC Balanced Growth & Income Fund, RBC Global Growth & Income Fund, 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

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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 International Equity Currency Neutral Fund, RBC International Index Currency Neutral Fund, RBC Asian Equity Fund, RBC Emerging Markets Multi-Strategy Equity Fund, RBC Private U.S. Large-Cap Value Equity Currency Neutral Pool, RBC Private U.S. Large-Cap Core Equity Currency Neutral Pool, Phillips, Hager & North Balanced Fund, Phillips, Hager & North Currency-Hedged U.S. Equity Fund, Phillips, Hager & North Currency-Hedged Overseas 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 and Phillips, Hager & North LifeTime 2050 Fund.

Amounts reclassified to “(Increase) decrease in margin accounts” have been presented separately from amounts related to “Cash (bank overdraft), beginning of period,” to appropriately separate changes in margin accounts. Comparative figures on the Statements of Cash Flow have been revised for the following funds:

BlueBay \$U.S. Global Convertible Bond Fund (Canada) and RBC International Index Currency Neutral Fund.

## **10. Future accounting changes**

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

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classifications and measurement models in IAS 39 and is effective for reporting periods beginning on or after January 1, 2018. Classification and measurement of debt assets will be driven by an entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

On adoption of IFRS 9, the Funds’ investment portfolios will continue to be classified at fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortized cost with no material impact expected from application of the new impairment model introduced in IFRS 9. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Funds’ financial statements.