

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.

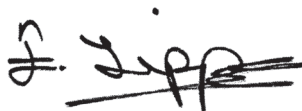


**Damon G. Williams, FSA, FCIA, CFA**

Chief Executive Officer

RBC Global Asset Management Inc.

March 8, 2017



**Frank Lippa, CPA, CA**

Chief Financial Officer and Chief Operating Officer

RBC Global Asset Management Inc.

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 Bond Fund  
 RBC Advisor Canadian Bond Fund  
 RBC Canadian Government Bond Index 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  
 (formerly, RBC Monthly Income High Yield 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 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 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 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  
 (formerly, RBC U.S. Mid-Cap Equity Fund)  
 RBC U.S. Mid-Cap Growth Equity Currency Neutral Fund  
 (formerly, RBC U.S. Mid-Cap 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 Jantzi 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 Community Values 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 Community Values Balanced Fund  
 Phillips, Hager & North Dividend Income Fund  
 Phillips, Hager & North Canadian Equity Fund  
 Phillips, Hager & North Community Values 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 Community Values 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  
 BonaVista Global Balanced Fund  
 BonaVista Canadian Equity Value Fund

(collectively referred to as the “Funds”)

We have audited the accompanying financial statements of each of the Funds, which comprise the statement of financial position as at December 31, 2016 and the statements of comprehensive income, cash flows and changes in net assets attributable to holders of redeemable units 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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 of each of the Funds as at December 31, 2016 and the financial performance and cash flows of each of the Funds for the periods indicated in note 2, in accordance with International Financial Reporting Standards.

### **Other matter**

The financial statements of each of the Funds as at December 31, 2015 and for the periods indicated in note 2, as applicable, were audited by another auditor who expressed an unmodified opinion on those statements on March 4, 2016.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

March 8, 2017

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

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
CANADIAN EQUITY FUND**

December 31, 2016

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>CANADIAN EQUITIES</b>				
<b>Consumer Discretionary</b>				
8 607	Aritzia Inc.	\$ 138	\$ 151	
8 725	BRP Inc.	169	247	
4 700	Cineplex Inc.	183	241	
11 200	Dollarama Inc.	461	1 102	
31 109	Gildan Activewear Inc., Class A	1 073	1 061	
13 200	goeasy Ltd.	269	322	
16 100	Leon's Furniture Ltd.	223	291	
30 090	Quebecor Inc., Class B	924	1 123	
9 355	Restaurant Brands International Inc.	403	598	
10 700	Shaw Communications Inc., Class B	250	288	
25 600	Sleep Country Canada Holdings Inc.	477	737	
		4 570	6 161	<b>6.8</b>
<b>Consumer Staples</b>				
6 326	Empire Co. Ltd., Class A	164	99	
10 200	Maple Leaf Foods Inc.	189	287	
		353	386	<b>0.4</b>
<b>Energy</b>				
34 600	ARC Resources Ltd.	735	799	
19 300	Cameco Corp.	457	270	
51 300	Canadian Natural Resources Ltd.	1 699	2 194	
62 641	Cenovus Energy Inc.	1 324	1 271	
109 300	Crescent Point Energy Corp.	1 900	1 994	
75 800	Enbridge Inc.	4 202	4 283	
11 000	Keyera Corp.	414	445	
30 400	MEG Energy Corp.	274	281	
3 433	Parkland Fuel Corp.*, Subscription Receipts	84	84	
35 100	Pembina Pipeline Corp.	1 123	1 473	
30 984	PrairieSky Royalty Ltd.	785	990	
31 200	Raging River Exploration Inc.	254	329	
49 300	Secure Energy Services Inc.	446	577	
36 100	Seven Generations Energy Ltd.	759	1 130	
40 221	Suncor Energy Inc.	1 402	1 766	
28 900	Tourmaline Oil Corp.	898	1 038	
21 259	Tourmaline Oil Corp.*, Subscription Receipts Restricted March 10, 2017	739	746	
20 470	TransCanada Corp.	1 073	1 239	
126 300	Trinidad Drilling Ltd.	626	422	
		19 194	21 331	<b>23.4</b>
<b>Financials</b>				
8 500	Bank of Montreal	586	821	
60 479	Bank of Nova Scotia	3 394	4 521	
75 400	Brookfield Asset Management Inc., Class A	2 363	3 340	
60 900	Canaccord Genuity Group Inc.	324	290	
11 800	Canadian Imperial Bank of Commerce	1 141	1 293	
31 500	CI Financial Corp.	900	909	
52 000	ECN Capital Corp.	146	172	
111 200	Element Fleet Management Corp.	1 206	1 386	

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>Financials (cont.)</b>				
16 600	Home Capital Group Inc.	\$ 503	\$ 520	
142 894	Manulife Financial Corporation	2 817	3 417	
19 600	National Bank of Canada	804	1 069	
82 005	Royal Bank of Canada†	4 802	7 452	
36 300	Sun Life Financial Inc.	1 513	1 871	
67 400	The Westaim Corp.	209	189	
16 636	Thomson Corp.	693	978	
103 720	Toronto-Dominion Bank	3 858	6 868	
		25 259	35 096	<b>38.5</b>
<b>Industrials</b>				
37 100	Badger Daylighting Ltd.	770	1 191	
6 700	Boyd Group Income Fund	246	573	
28 738	Canadian National Railway Co.	1 166	2 597	
5 800	Canadian Pacific Railway Ltd.	1 107	1 111	
13 600	Finning International Inc.	301	358	
17 000	Richelieu Hardware Ltd.	211	435	
10 185	Ritchie Bros. Auctioneers Inc.	342	464	
21 100	Stantec Inc.	638	716	
6 700	Toromont Industries Ltd.	151	284	
16 900	Waste Connections Inc.	1 650	1 780	
		6 582	9 509	<b>10.5</b>
<b>Information Technology</b>				
23 600	CGI Group Inc., Class A	966	1 521	
14 400	DH Corp.	465	321	
5 800	Kinaxis Inc.	109	363	
15 094	Open Text Corp.	996	1 252	
		2 536	3 457	<b>3.8</b>
<b>Materials</b>				
19 200	Agnico Eagle Mines Ltd.	820	1 084	
7 340	Agrium Inc.	685	991	
80 300	B2Gold Corp.	265	256	
48 000	Belo Sun Mining Corp.	41	33	
2 900	CCL Industries, Class B	343	765	
23 400	Continental Gold Inc.	53	103	
15 200	Detour Gold Corp.	231	278	
10 400	Eldorado Gold Corp.	97	45	
6 900	Endeavour Mining Corp.	138	138	
5 100	Franco-Nevada Corp.	284	409	
24 300	Goldcorp Inc.	412	444	
23 360	Mountain Province Diamonds Inc.	108	157	
16 400	OceanaGold Corp.	73	64	
98 800	Polaris Materials Corp.	170	120	
28 600	Potash Corporation of Saskatchewan Inc.	1 296	695	
8 500	Richmont Mines Inc.	110	74	
50 400	Semafo Inc.	210	223	
14 100	Silver Wheaton Corp.	434	366	
8 200	Stella-Jones Inc.	262	357	
10 980	Torex Gold Resources Inc.	208	228	
64 400	Turquoise Hill Resources Ltd.	254	278	
		6 494	7 108	<b>7.8</b>

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

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
CANADIAN EQUITY FUND**

December 31, 2016

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>Real Estate</b>				
1 600	Boardwalk Real Estate Investment Trust	\$ 69	\$ 78	
48 034	Brookfield Property Partners LP	1 369	1 409	
4 400	FirstService Corp.	152	280	
		<u>1 590</u>	<u>1 767</u>	<u>1.9</u>
<b>Telecommunication Services</b>				
19 044	Rogers Communications Inc., Class B	712	986	
26 136	TELUS Corp.	724	1 117	
		<u>1 436</u>	<u>2 103</u>	<u>2.3</u>
<b>Utilities</b>				
21 550	Brookfield Infrastructure Partners LP	840	968	
9 600	Emera Inc.	434	436	
28 900	Fortis Inc.	1 176	1 198	
		<u>2 450</u>	<u>2 602</u>	<u>2.9</u>
<b>TOTAL CANADIAN EQUITIES</b>		<u>70 464</u>	<u>89 520</u>	<u>98.3</u>
<b>SHORT-TERM INVESTMENTS<sup>‡</sup></b>		<u>1 200</u>	<u>1 200</u>	<u>1.3</u>
<b>TOTAL INVESTMENTS</b>		<u>\$ 71 664</u>	<u>90 720</u>	<u>99.6</u>
<b>OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<u>357</u>	<u>0.4</u>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<u>\$ 91 077</u>	<u>100.0</u>

\* Illiquid security.

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

‡ Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at a rate of 0.80% and mature between January 3, 2017 and January 5, 2017.

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
CANADIAN EQUITY FUND**
**Statements of Financial Position**
*(in \$000s except per unit amounts)*

<b>(see note 2 in the generic notes)</b>	<b>December 31 2016</b>	<b>December 31 2015</b>
<b>ASSETS</b>		
Investments at fair value	\$ 90 720	\$ 73 096
Cash	122	100
Due from investment dealers	178	–
Subscriptions receivable	63	45
Dividends receivable, interest accrued and other assets	163	176
<b>TOTAL ASSETS</b>	<b>91 246</b>	<b>73 417</b>
<b>LIABILITIES</b>		
Due to investment dealers	22	–
Redemptions payable	114	3
Accounts payable and accrued expenses	33	29
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>169</b>	<b>32</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>	<b>\$ 91 077</b>	<b>\$ 73 385</b>
Investments at cost	\$ 71 664	\$ 67 514
<b>NAV</b>		
<b>SERIES A</b>	<b>\$ 1 548</b>	<b>\$ 1 295</b>
<b>ADVISOR SERIES</b>	<b>\$ 1 839</b>	<b>\$ 1 104</b>
<b>SERIES D</b>	<b>\$ 22 573</b>	<b>\$ 18 769</b>
<b>SERIES F</b>	<b>\$ 1 601</b>	<b>\$ 898</b>
<b>SERIES O</b>	<b>\$ 63 516</b>	<b>\$ 51 319</b>
<b>NAV PER UNIT</b>		
<b>SERIES A</b>	<b>\$ 26.44</b>	<b>\$ 21.68</b>
<b>ADVISOR SERIES</b>	<b>\$ 26.46</b>	<b>\$ 21.69</b>
<b>SERIES D</b>	<b>\$ 26.26</b>	<b>\$ 21.54</b>
<b>SERIES F</b>	<b>\$ 26.62</b>	<b>\$ 21.83</b>
<b>SERIES O</b>	<b>\$ 26.41</b>	<b>\$ 21.65</b>

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

<b>For the periods ended December 31 (see note 2 in the generic notes)</b>	<b>2016</b>	<b>2015</b>
<b>INCOME (see note 3 in the generic notes)</b>		
Dividends	\$ 2 255	\$ 2 132
Interest for distribution purposes	12	9
Other income (loss)	8	9
Net realized gain (loss) on investments	2 947	1 463
Net gain (loss) on foreign currencies and other net assets	4	(2)
Change in unrealized gain (loss) on investments	13 474	(8 341)
<b>TOTAL INCOME (LOSS)</b>	<b>18 700</b>	<b>(4 730)</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Management fees	242	249
Administration fees	85	74
Independent Review Committee costs	2	3
GST/HST	29	29
Transaction costs	75	68
<b>TOTAL EXPENSES</b>	<b>433</b>	<b>423</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ 18 267</b>	<b>\$ (5 153)</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>SERIES A</b>	<b>\$ 267</b>	<b>\$ (116)</b>
<b>ADVISOR SERIES</b>	<b>\$ 305</b>	<b>\$ (88)</b>
<b>SERIES D</b>	<b>\$ 4 351</b>	<b>\$ (1 577)</b>
<b>SERIES F</b>	<b>\$ 266</b>	<b>\$ (65)</b>
<b>SERIES O</b>	<b>\$ 13 078</b>	<b>\$ (3 307)</b>
<b>INCREASE (DECREASE) IN NAV PER UNIT</b>		
<b>SERIES A</b>	<b>\$ 4.80</b>	<b>\$ (2.03)</b>
<b>ADVISOR SERIES</b>	<b>\$ 5.14</b>	<b>\$ (2.03)</b>
<b>SERIES D</b>	<b>\$ 5.07</b>	<b>\$ (1.83)</b>
<b>SERIES F</b>	<b>\$ 5.36</b>	<b>\$ (1.78)</b>
<b>SERIES O</b>	<b>\$ 5.47</b>	<b>\$ (1.57)</b>

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
CANADIAN EQUITY FUND**
**Statements of Cash Flow** *(in \$000s)*

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

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in NAV	\$ 18 267	\$ (5 153)
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS</b>		
Interest for distribution purposes	—	—
Net realized loss (gain) on investments	(2 867)	(1 463)
Change in unrealized loss (gain) on investments	(13 474)	8 341
(Increase) decrease in accrued receivables	13	(23)
Increase (decrease) in accrued payables	4	(3)
Cost of investments purchased	(191 490)	(170 585)
Proceeds on sales of investments	190 051	163 415
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>504</b>	<b>(5 471)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	14 473	17 263
Cash paid on redemption of redeemable units	(14 621)	(11 220)
Distributions paid to holders of redeemable units	(334)	(543)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ (482)</b>	<b>\$ 5 500</b>
Net increase (decrease) in cash for the period	22	29
Cash (bank overdraft), beginning of period	100	71
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 122</b>	<b>\$ 100</b>
Interest received (paid)	\$ 12	\$ 9
Dividends received, net of withholding taxes	\$ 2 276	\$ 2 118

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

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
CANADIAN EQUITY FUND**
**Statements of Changes in NAV** *(in \$000s)*

For the periods ended December 31 (see note 2 in the generic notes)	Series A		Advisor Series		Series D		Series F	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>NAV AT BEGINNING OF PERIOD</b>	<b>\$ 1 295</b>	<b>\$ 1 218</b>	<b>\$ 1 104</b>	<b>\$ 706</b>	<b>\$ 18 769</b>	<b>\$ 20 215</b>	<b>\$ 898</b>	<b>\$ 738</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>267</b>	<b>(116)</b>	<b>305</b>	<b>(88)</b>	<b>4 351</b>	<b>(1 577)</b>	<b>266</b>	<b>(65)</b>
Early redemption fees	—	—	—	—	—	—	—	—
Proceeds from redeemable units issued	259	396	811	598	3 291	2 535	514	346
Reinvestments of distributions to holders of redeemable units	9	42	10	33	308	720	20	29
Redemption of redeemable units	(273)	(203)	(381)	(109)	(3 823)	(2 356)	(71)	(110)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>(5)</b>	<b>235</b>	<b>440</b>	<b>522</b>	<b>(224)</b>	<b>899</b>	<b>463</b>	<b>265</b>
Distributions from net income	(9)	(8)	(10)	(7)	(323)	(277)	(26)	(16)
Distributions from net gains	—	(34)	—	(29)	—	(491)	—	(24)
Distributions from capital	—	—	—	—	—	—	—	—
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>(9)</b>	<b>(42)</b>	<b>(10)</b>	<b>(36)</b>	<b>(323)</b>	<b>(768)</b>	<b>(26)</b>	<b>(40)</b>
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>253</b>	<b>77</b>	<b>735</b>	<b>398</b>	<b>3 804</b>	<b>(1 446)</b>	<b>703</b>	<b>160</b>
<b>NAV AT END OF PERIOD</b>	<b>\$ 1 548</b>	<b>\$ 1 295</b>	<b>\$ 1 839</b>	<b>\$ 1 104</b>	<b>\$ 22 573</b>	<b>\$ 18 769</b>	<b>\$ 1 601</b>	<b>\$ 898</b>

For the periods ended December 31 (see note 2 in the generic notes)	Series O		Total	
	2016	2015	2016	2015
<b>NAV AT BEGINNING OF PERIOD</b>	<b>\$ 51 319</b>	<b>\$ 50 035</b>	<b>\$ 73 385</b>	<b>\$ 72 912</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>13 078</b>	<b>(3 307)</b>	<b>18 267</b>	<b>(5 153)</b>
Early redemption fees	—	—	—	—
Proceeds from redeemable units issued	9 616	13 367	14 491	17 242
Reinvestments of distributions to holders of redeemable units	1 182	2 204	1 529	3 028
Redemption of redeemable units	(10 184)	(8 295)	(14 732)	(11 073)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>614</b>	<b>7 276</b>	<b>1 288</b>	<b>9 197</b>
Distributions from net income	(1 495)	(1 331)	(1 863)	(1 639)
Distributions from net gains	—	(1 354)	—	(1 932)
Distributions from capital	—	—	—	—
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>(1 495)</b>	<b>(2 685)</b>	<b>(1 863)</b>	<b>(3 571)</b>
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>12 197</b>	<b>1 284</b>	<b>17 692</b>	<b>473</b>
<b>NAV AT END OF PERIOD</b>	<b>\$ 63 516</b>	<b>\$ 51 319</b>	<b>\$ 91 077</b>	<b>\$ 73 385</b>



**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
CANADIAN EQUITY FUND**

December 31, 2016

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

The investment objective of the Fund is to provide investors with long-term capital growth by investing primarily in common shares of high-quality Canadian companies.

All outstanding Series C units were renamed Series A units effective June 30, 2016.

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

Any securities deemed to be illiquid are identified in the Schedule of Investment Portfolio. Illiquid securities represent approximately 0.9% (December 31, 2015 – 0.0%) of the net assets of the Fund.

**Concentration risk (%)**

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

	December 31 2016	December 31 2015
Investment mix		
Financials	38.5	41.2
Energy	23.4	19.5
Industrials	10.5	9.1
Materials	7.8	8.5
Consumer Discretionary	6.8	10.0
Information Technology	3.8	3.9
Utilities	2.9	1.0
Telecommunication Services	2.3	3.4
Real Estate	1.9	—
Consumer Staples	0.4	2.5
Cash/Other	1.7	0.9
Total	100.0	100.0

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

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

	December 31 2016	December 31 2015
S&P/TSX Capped Composite		
Total Return Index	+ or - 1.1	+ or - 1.0

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

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

The following is a summary of the inputs used as of December 31, 2016 and 2015.

December 31, 2016	Level 1	Level 2	Level 3	Total
Equities	88 690	830	—	89 520
Mutual fund units	—	—	—	—
Fixed-income				
and debt securities	—	—	—	—
Short-term investments	—	1 200	—	1 200
Derivatives – assets	—	—	—	—
Derivatives – liabilities	—	—	—	—
Total financial instruments	88 690	2 030	—	90 720
% of total portfolio	97.8	2.2	—	100.0

December 31, 2015	Level 1	Level 2	Level 3	Total
Equities	72 746	—	—	72 746
Mutual fund units	—	—	—	—
Fixed-income				
and debt securities	—	—	—	—
Short-term investments	—	350	—	350
Derivatives – assets	—	—	—	—
Derivatives – liabilities	—	—	—	—
Total financial instruments	72 746	350	—	73 096
% of total portfolio	99.5	0.5	—	100.0

For the periods ended December 31, 2016 and 2015, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

**Management fees and operating expenses  
(see note 7 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 net asset value of each series of the Fund.

	Management fees*	Operating expenses
Series A	1.60%	0.10%
Advisor Series	1.60%	0.10%
Series D	0.85%	0.10%
Series F	0.60%	0.10%
Series O	n/a†	0.10%

\* Effective June 30, 2016, the management fees for Series A and Advisor Series units were reduced to 1.60% from 1.75%; for Series D units were reduced to 0.85% from 1.00%; and for Series F units were reduced to 0.60% from 0.75%.

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

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
CANADIAN EQUITY FUND**

December 31, 2016

**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 2016	December 31 2015
<b>Units held</b>		
Series A	30	29
Advisor Series	58	57
Series D	62	61
Series F	31	31
Series O	33	33
<b>Value of all units</b>	<b>6</b>	<b>5</b>

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

The non-capital and capital losses as at December 31, 2016 for the Fund were approximately:

Capital losses	11
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)

	2016	2015
<b>Series A</b>		
Opening units	60	50
Issued number of units	11	17
Reinvested number of units	–	2
Redeemed number of units	(12)	(9)
Ending number of units	59	60
<b>Advisor Series</b>		
Opening units	51	29
Issued number of units	35	24
Reinvested number of units	–	2
Redeemed number of units	(16)	(4)
Ending number of units	70	51
<b>Series D</b>		
Opening units	871	833
Issued number of units	140	101
Reinvested number of units	12	34
Redeemed number of units	(163)	(97)
Ending number of units	860	871
<b>Series F</b>		
Opening units	41	30
Issued number of units	21	14
Reinvested number of units	1	1
Redeemed number of units	(3)	(4)
Ending number of units	60	41

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

	2016	2015
<b>Series O</b>		
Opening units	2 371	2 049
Issued number of units	425	555
Reinvested number of units	45	102
Redeemed number of units	(436)	(335)
Ending number of units	2 405	2 371

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

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

	December 31 2016		December 31 2015	
	\$	%	\$	%
Total transaction costs	75	100	68	100
Related-party brokerage commissions*	7	9	3	4
Commission arrangements†	6	8	6	9

\* See note 7 in the generic notes.

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

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

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

	December 31 2016	December 31 2015
Phillips, Hager & North Community Values Balanced Fund	25.9	24.7

December 31, 2016

## 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, 2017.

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 E, 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 have no sales charges and have lower fees than Series A units. Series D 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, 2016 and 2015. In the year a Fund or series is established, “period” represents the period from inception to December 31 of that fiscal year.

## 3. Summary of significant accounting policies

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

**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. Unrealized gains (losses) arising on derivatives are shown on the respective Fund’s Statements of Financial Position and such amounts are included in the Statements of Comprehensive Income in “Change in unrealized gain (loss) on investments,” where applicable. Realized gains arising on derivatives during a period are included in the Statements of Comprehensive Income in “Other derivatives,” where applicable. Refer to note 3 for net gains (losses) on financial instruments by category.

December 31, 2016

**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 managed by the manager or an affiliate of the manager ("Investee Funds"). The Investee Funds are determined to be unconsolidated structured entities, as decision making in the Investee Fund is not governed by the voting rights or other similar rights held by the Fund. The investments in Investee Funds are subject to the terms and conditions of the offering documentation of the respective Investee Funds and are susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The Investee 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 Investee Funds apply various investment strategies to accomplish their respective investment objectives.

The Investee 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 Fund's net assets.

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 the investment in the Investee Fund is included in the Schedule of Investment Portfolio and included in "Investments at fair value" in the Fund's Statements of Financial Position. The change in fair value of the investment held in the Investee Fund is included in "Change in unrealized gain (loss) on investments" in the Statements of Comprehensive Income.

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

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

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

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

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

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

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

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

December 31, 2016

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.

**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** – The Funds may enter into total return swaps to gain or mitigate exposure of the underlying reference securities. Total return swaps on commodities involve commitments where cash flows are exchanged based on the price of a commodity and based on a fixed or variable rate. One party would receive payments based on the market value of the commodity involved and pay a fixed amount. Total return swaps on indices or individual securities involve commitments to pay interest in exchange for a market-linked return. One counterparty pays out the total return of a specific reference asset, which may be an equity, index, or bond, and in return receives a regular stream of payments. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the Fund will receive a payment from or make a payment to the counterparty.

**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 net asset value 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, 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.

**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



December 31, 2016

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

**Investment Transactions** Investment transactions are accounted for as of the trade date. Transaction costs, such as brokerage commissions, incurred by the Funds are recorded in the Statements of Comprehensive Income for the period. The unrealized gain and loss on investments is the difference between fair value and average cost for the period. The basis of determining the cost of portfolio assets, 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 on a straight line basis.

**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:

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

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

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

A Fund's investment activities expose it to a variety of financial risks. RBC GAM seeks to minimize potential adverse effects of these risks on a Fund's performance by employing professional, experienced portfolio 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."

**Liquidity risk**

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

**Credit risk**

Credit risk is the risk that a loss could arise from a security issuer or counterparty not being able to meet its financial obligations. The carrying amount of investments and other assets represents the maximum credit risk exposure as disclosed in a Fund's Statements of Financial Position. The fair value of fixed-income and debt securities includes a consideration of the 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 6). RBC GAM monitors each Fund's credit exposure and counterparty ratings daily.

**Concentration risk**

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

**Interest rate risk**

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

**Currency risk**

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of a Fund, will fluctuate due to changes in foreign exchange rates. The value of investments denominated in a currency other than 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.

**5. Taxes**

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

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

**6. Securities lending revenue**

Certain of the Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the Statements of Comprehensive Income of a Fund. Each such Fund will have entered into a securities lending program with its custodian, RBC Investor Services Trust ("RBC IS"). The aggregate market value of all securities loaned by a Fund cannot exceed 50%

December 31, 2016

of the assets of a Fund. The Fund receives collateral, with an approved credit rating of at least A, of at least 102% of the value of securities on loan. The Fund is indemnified by RBC IS for any collateral credit or market loss. As such, the credit risk associated with securities lending is considered minimal.

## 7. Administrative and other related-party transactions

### **Manager 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. 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. 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 among each series of units of a Fund in accordance with the services used. RBC GAM may, in some years and in certain cases, absorb a portion of operating expenses. The decision to absorb the operating expenses is reviewed annually and determined at the discretion of RBC GAM, without notice to unitholders.

Certain Funds may invest in units of other Funds managed by RBC GAM or its affiliates (“underlying mutual funds”). The Fund’s ownership interest in underlying mutual funds is disclosed in the Notes to Financial Statements – Fund Specific Information.

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., a wholly owned subsidiary of Royal Bank, 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, RBC Private U.S. Large-Cap Core Equity Pool, RBC Private U.S. Large-Cap Core Equity Currency Neutral Pool, Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund, Phillips, Hager & North U.S. Equity Fund and Phillips, Hager & North U.S. Growth Fund. RBC Global Asset Management (UK) Limited, a wholly owned subsidiary of Royal Bank, 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 Jantzi Balanced Fund (for the European equity portion of the Fund), RBC International Dividend Growth Fund (for the European equity portion of the 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 Jantzi Global Equity Fund (for the European equity portion of the Fund), Phillips, Hager & North Overseas Equity Fund, Phillips, Hager & North Global Equity Fund and Phillips, Hager & North Community Values Global Equity Fund. RBC Investment Management (Asia) Limited, a wholly owned subsidiary of Royal Bank, 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 Jantzi Balanced Fund (for the Asian equity portion of the Fund), RBC International Dividend Growth Fund (for the



December 31, 2016

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, RBC Japanese Equity Fund and RBC Jantzi Global Equity Fund (for the Asian equity portion of the Fund). BlueBay Asset Management LLP, an indirect wholly owned subsidiary of Royal Bank, 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).

#### **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.

#### **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.

#### **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.

#### **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.

### **8. Future accounting changes**

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

In July 2014, the International Accounting Standards Board finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement in its entirety upon its effective date.

The new standard, which becomes effective for annual periods beginning on or after January 1, 2018, is not expected to have a significant impact on the Funds.