

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

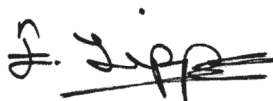
We have maintained appropriate procedures and controls to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (and they include certain amounts that are based on estimates and judgments). The significant accounting policies, which we believe are appropriate for the Funds, are described in Note 3 to the financial statements.

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



**John S. Montalbano, CFA**

Chief Executive Officer  
RBC Global Asset Management Inc.



**Frank Lippa, CPA, CA**

Chief Financial Officer and Chief Operating Officer  
RBC Global Asset Management Inc.

August 14, 2013

**Unaudited Semi-Annual Financial Statements**

The accompanying semi-annual financial statements have not been reviewed by the external auditors of the Funds. The external auditors will be auditing the annual financial statements of the Funds in accordance with Canadian generally accepted auditing standards.

STATEMENT OF INVESTMENT PORTFOLIO (unaudited) (in \$000s)

**PHILLIPS, HAGER & NORTH TOTAL RETURN BOND FUND**

June 30, 2013

Holdings	Security	Cost	Fair Value	% of Net Assets
<b>MUTUAL FUND UNITS</b>				
9 500 515	Phillips, Hager & North High Yield Bond Fund*	\$ 109 914	\$ 109 471	
<b>TOTAL MUTUAL FUND UNITS</b>		<b>109 914</b>	<b>109 471</b>	<b>3.8</b>

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
<b>BONDS</b>						
<b>AUSTRALIA BONDS</b>						
\$ 4 080	BHP Billiton Finance Ltd. CAD	3.230	15-May-23	\$ 4 078	\$ 3 836	
6 310	Brookfield Infrastructure Finance Pty Ltd. CAD	3.455	10-Oct-17	6 310	6 335	
<b>TOTAL AUSTRALIA BONDS</b>				<b>10 388</b>	<b>10 171</b>	<b>0.3</b>

**CANADIAN BONDS****CORPORATE**

4 188	407 International Inc.	3.870	24-Nov-17	4 461	4 395	
4 000	407 International Inc.	5.960	03-Dec-35	5 087	4 958	
6 255	407 International Inc.	4.450	15-Nov-41	6 331	6 341	
2 425	407 International Inc.	4.190	25-Apr-42	2 470	2 354	
3 818	Access Justice Durham Ltd.	5.015	31-Aug-39	4 065	4 083	
3 475	Aéroports de Montréal	6.950	16-Apr-32	3 571	4 381	
686	Aéroports de Montréal	6.611	11-Apr-33	712	820	
460	Aéroports de Montréal	5.670	16-Oct-37	576	551	
3 005	Algonquin Power Co.	4.820	15-Feb-21	3 100	3 027	
8 028	Alliance Pipeline LP	7.181	30-Jun-23	9 832	9 522	
2 852	Alliance Pipeline LP	5.546	31-Dec-23	3 178	3 112	
2 263	Alliance Pipeline LP	6.765	31-Dec-25	2 610	2 643	
10 118	Alliance Pipeline LP	7.217	31-Dec-25	12 345	12 128	
4 300	AltaLink Investments LP	5.207	16-Dec-16	4 300	4 613	
4 336	AltaLink Investments LP	3.674	05-Jun-19	4 351	4 346	
4 670	AltaLink Investments LP	3.265	05-Jun-20	4 682	4 494	
2 440	AltaLink LP	5.381	26-Mar-40	3 129	2 821	
878	AltaLink LP	4.462	08-Nov-41	878	891	
1 325	AltaLink LP	3.990	30-Jun-42	1 368	1 241	
7 194	Bank of Montreal	1.620	23-Mar-15	7 194	7 200	
6 829	Bank of Montreal	3.930	27-Apr-15	7 171	7 081	
11 100	Bank of Montreal	5.180	10-Jun-15	12 042	11 797	
39 795	Bank of Montreal	1.890	05-Oct-15	39 935	39 758	
2 000	Bank of Montreal	3.103	10-Mar-16	2 077	2 053	
1 760	Bank of Montreal	3.490	10-Jun-16	1 779	1 825	
1 090	Bank of Montreal	2.390	12-Jul-17	1 107	1 084	
4 275	Bank of Montreal	4.550	01-Aug-17	4 699	4 604	
35 035	Bank of Montreal	2.240	11-Dec-17	34 961	34 397	
5 834	Bank of Montreal	2.840	04-Jun-20	5 833	5 698	
6 765	Bank of Nova Scotia	1.418	08-Nov-13	6 765	6 768	
2 485	Bank of Nova Scotia	2.250	08-May-15	2 521	2 503	
7 905	Bank of Nova Scotia	3.610	22-Feb-16	8 279	8 214	
20 915	Bank of Nova Scotia	1.800	09-May-16	20 908	20 708	
6 755	Bank of Nova Scotia	2.740	01-Dec-16	6 770	6 842	
13 283	Bank of Nova Scotia	4.100	08-Jun-17	13 903	14 064	
23 809	Bank of Nova Scotia	2.242	22-Mar-18	23 758	23 260	
42 840	Bank of Nova Scotia	6.000	03-Oct-18	43 177	43 307	
4 005	Bank of Nova Scotia	6.650	22-Jan-21	4 351	4 427	
2 902	Bank of Nova Scotia	3.036	18-Oct-24	2 901	2 857	

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

## PHILLIPS, HAGER &amp; NORTH TOTAL RETURN BOND FUND

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
<b>CORPORATE (cont.)</b>						
\$ 4 470	bcIMC Realty Corp.	3.510	29-Jun-22	\$ 4 487	\$ 4 447	
4 220	BC Tel	9.650	08-Apr-22	5 700	5 973	
10 500	Bell Aliant Regional Communications LP	6.290	17-Feb-15	11 506	11 173	
1 965	Bell Aliant Regional Communications LP	5.520	26-Feb-19	2 199	2 162	
3 885	Bell Aliant Regional Communications LP	3.540	12-Jun-20	3 885	3 806	
3 545	Bell Canada	4.850	30-Jun-14	3 703	3 649	
277	Bell Canada	4.400	16-Mar-18	277	294	
12 280	Bell Canada	3.250	17-Jun-20	12 271	12 008	
5 822	Bell Canada	3.350	22-Mar-23	5 812	5 460	
1 540	Bell Canada	7.300	23-Feb-32	1 585	1 944	
6 360	Bow Centre Street LP	3.797	13-Jun-23	6 360	6 170	
4 944	Brookfield Asset Management Inc.	3.950	09-Apr-19	4 971	5 025	
1 190	Brookfield Asset Management Inc.	5.300	01-Mar-21	1 189	1 282	
2 515	Brookfield Asset Management Inc.	4.540	31-Mar-23	2 573	2 532	
4 925	Brookfield Asset Management Inc.	5.950	14-Jun-35	4 902	4 912	
4 400	Brookfield Renewable Power Inc.	6.132	30-Nov-16	4 400	4 864	
2 459	BRP Finance ULC	4.790	07-Feb-22	2 459	2 551	
795	Canada Safeway Ltd.	3.000	31-Mar-14	801	799	
9 340	Canadian Credit Card Trust	1.596	24-Sep-15	9 340	9 287	
7 904	Canadian Imperial Bank of Commerce	1.419	28-Nov-13	7 904	7 909	
6 700	Canadian Imperial Bank of Commerce	4.750	22-Dec-14	6 891	6 991	
24 555	Canadian Imperial Bank of Commerce	3.100	02-Mar-15	25 169	25 068	
13 870	Canadian Imperial Bank of Commerce	3.400	14-Jan-16	14 341	14 323	
24 531	Canadian Imperial Bank of Commerce	1.750	01-Jun-16	24 508	24 233	
37 079	Canadian Imperial Bank of Commerce	2.650	08-Nov-16	37 647	37 457	
24 005	Canadian Imperial Bank of Commerce	2.220	07-Mar-18	23 701	23 435	
3 408	Canadian Pacific Railway Ltd.	6.910	01-Oct-24	4 136	4 079	
2 500	Canadian Utilities Ltd.	3.122	09-Nov-22	2 500	2 417	
790	Canadian Utilities Ltd.	9.400	01-May-23	1 219	1 146	
135	Capital Desjardins Inc.	3.797	23-Nov-20	135	140	
24 264	Cards II Trust	1.984	15-Jan-16	24 311	24 288	
490	Caterpillar Financial Services Ltd.	2.200	01-Jun-15	492	493	
4 965	Caterpillar Financial Services Ltd.	2.290	01-Jun-18	4 964	4 843	
3 380	Centre Street Trust	3.690	14-Jun-21	3 380	3 249	
4 810	CU Inc.	6.145	22-Nov-17	5 773	5 527	
11 589	CU Inc.	6.800	13-Aug-19	14 728	14 097	
2 255	CU Inc.	5.896	20-Nov-34	2 927	2 738	
5 887	CU Inc.	5.556	30-Oct-37	7 489	6 951	
5 687	CU Inc.	5.580	26-May-38	6 614	6 748	
1 265	CU Inc.	6.500	07-Mar-39	1 820	1 682	
5 805	CU Inc.	3.805	10-Sep-42	5 779	5 289	
7 515	Emera Inc.	4.100	20-Oct-14	7 770	7 730	
8 175	Emera Inc.	2.960	13-Dec-16	8 206	8 311	
4 165	Empire Life Insurance	2.870	31-May-23	4 165	4 092	
4 493	Enbridge Gas Distribution Inc.	5.160	04-Dec-17	5 153	4 999	
1 185	Enbridge Gas Distribution Inc.	6.160	16-Dec-33	1 583	1 475	
6 333	Enbridge Inc.	5.170	19-May-16	7 069	6 851	
2 822	Enbridge Inc.	5.000	09-Aug-16	3 139	3 052	
11 925	Enbridge Inc.	4.770	02-Sep-19	12 458	13 015	
8 690	Enbridge Inc.	4.530	09-Mar-20	9 709	9 339	
3 815	Enbridge Inc.	4.260	01-Feb-21	3 813	4 010	
6 010	Enbridge Inc.	3.940	30-Jun-23	6 010	6 011	
2 005	Enbridge Income Fund Holdings Inc.	2.920	14-Dec-17	2 005	1 996	
1 330	Enbridge Income Fund Holdings Inc.	3.940	13-Jan-23	1 330	1 301	
4 590	Enbridge Pipelines Inc.	8.200	15-Feb-24	6 731	6 322	
2 270	Enbridge Pipelines Inc.	5.350	10-Nov-39	2 849	2 632	
6 385	Encana Corp.	5.800	18-Jan-18	7 152	7 103	

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## PHILLIPS, HAGER &amp; NORTH TOTAL RETURN BOND FUND

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
<b>CORPORATE (cont.)</b>						
\$ 4 380	Enersource Corp.	4.521	29-Apr-21	\$ 4 380	\$ 4 724	
570	Enersource Corp.	5.297	29-Apr-41	716	649	
6 935	Enmax Corp.	6.150	19-Jun-18	7 912	7 775	
770	EPCOR Utilities Inc.	6.750	22-Mar-16	911	861	
2 465	EPCOR Utilities Inc.	5.750	24-Nov-39	2 461	2 907	
2 825	Finning International Inc.	3.232	03-Jul-20	2 825	2 775	
1 975	FortisBC Energy Inc.	5.900	26-Feb-35	2 599	2 404	
900	Gaz Metropolitan Inc.	4.930	18-Jun-19	1 033	996	
2 477	Gaz Metropolitan Inc.	5.450	12-Jul-21	2 984	2 846	
4 390	Golden Credit Card Trust	3.824	15-May-15	4 618	4 555	
17 556	Golden Credit Card Trust	3.510	15-May-16	17 815	18 267	
971	Greater Toronto Airports Authority	7.050	12-Jun-30	1 369	1 293	
2 085	Greater Toronto Airports Authority	7.100	04-Jun-31	2 466	2 800	
2 816	Horizon Holdings Inc.	3.033	25-Jul-22	2 816	2 687	
4 700	HSBC Bank Canada	3.860	21-May-15	4 705	4 867	
14 665	HSBC Bank Canada	2.572	23-Nov-15	14 665	14 845	
1 515	HSBC Bank Canada	2.901	13-Jan-17	1 515	1 539	
3 000	HSBC Bank Canada	2.938	14-Jan-20	3 000	2 944	
2 000	Hydro One Inc.	3.130	19-Nov-14	2 070	2 041	
4 365	Hydro One Inc.	4.640	03-Mar-16	4 744	4 671	
3 225	Hydro One Inc.	6.930	01-Jun-32	4 625	4 313	
1 105	Hydro One Inc.	6.350	31-Jan-34	1 513	1 409	
3 370	Hydro One Inc.	6.030	03-Mar-39	4 608	4 247	
1 010	Hydro One Inc.	6.590	22-Apr-43	1 459	1 388	
1 700	Inter Pipeline Fund	3.839	30-Jul-18	1 700	1 765	
1 110	John Deere Canada Funding Inc.	1.950	14-Jan-16	1 108	1 108	
1 405	John Deere Canada Funding Inc.	1.950	12-Apr-17	1 404	1 382	
1 095	Loblaw Companies Ltd.	6.450	09-Feb-28	1 167	1 240	
3 020	Loblaw Companies Ltd.	6.500	22-Jan-29	3 347	3 416	
3 740	Lower Mattagami Energy LP	2.228	23-Oct-17	3 740	3 693	
2 010	Lower Mattagami Energy LP	4.331	18-May-21	2 010	2 143	
3 390	Maple Leaf Sports & Entertainment Ltd.	4.940	30-Jun-23	3 389	3 389	
2 465	Maritimes & Northeast Pipeline LP	4.340	30-Nov-19	2 465	2 558	
15 670	MI Developments Inc.	6.050	22-Dec-16	15 613	16 694	
12 690	Molson Coors Capital Finance ULC	5.000	22-Sep-15	13 613	13 436	
26 860	National Bank of Canada	2.231	30-Jan-15	27 065	27 032	
1 450	National Bank of Canada	4.030	26-May-15	1 458	1 507	
11 380	National Bank of Canada	2.050	11-Jan-16	11 420	11 371	
3 190	NAV Canada	1.949	19-Apr-18	3 190	3 102	
1 000	NAV Canada	5.304	17-Apr-19	1 171	1 132	
1 105	Nova Scotia Power Inc.	8.400	23-Oct-15	1 331	1 253	
1 530	Nova Scotia Power Inc.	9.750	02-Aug-19	2 134	2 074	
2 545	Nova Scotia Power Inc.	6.950	25-Aug-33	3 634	3 381	
6 468	OMERS Realty Corp.	2.498	05-Jun-18	6 468	6 382	
9 612	OMERS Realty Corp.	3.358	05-Jun-23	9 615	9 330	
3 231	Ontrea Inc.	4.619	09-Apr-18	3 231	3 461	
5 533	OPB Finance Trust	2.900	24-May-23	5 515	5 296	
4 810	OPB Finance Trust	3.890	04-Jul-42	4 807	4 479	
995	Pembina Pipeline Corp.	4.890	29-Mar-21	1 111	1 075	
6 895	Pembina Pipeline Corp.	3.770	24-Oct-22	6 929	6 797	
3 235	Pembina Pipeline Corp.	4.750	30-Apr-43	3 227	3 120	
5 750	Plenary Health Hamilton LP	3.157	13-Dec-13	5 750	5 786	
7 685	Rogers Communications Inc.	6.680	04-Nov-39	8 535	9 035	
445	Rogers Communications Inc.	6.110	25-Aug-40	445	487	
20	Rogers Communications Inc.	6.560	22-Mar-41	25	23	
21 585	Royal Bank of Canada*	2.070	17-Jun-16	21 580	21 517	
7 831	Royal Bank of Canada*	3.030	26-Jul-16	8 122	8 010	

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## PHILLIPS, HAGER &amp; NORTH TOTAL RETURN BOND FUND

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
<b>CORPORATE (cont.)</b>						
\$ 42 005	Royal Bank of Canada*	2.680	08-Dec-16	\$ 42 417	\$ 42 449	
15 946	Royal Bank of Canada*	3.660	25-Jan-17	16 852	16 628	
18 460	Royal Bank of Canada*	2.580	13-Apr-17	18 569	18 541	
2 640	Royal Bank of Canada*	2.364	21-Sep-17	2 657	2 612	
31 775	Royal Bank of Canada*	2.260	12-Mar-18	31 919	31 079	
2 100	Royal Bank of Canada*	4.350	15-Jun-20	2 212	2 189	
9 830	Shaw Communications Inc.	6.750	09-Nov-39	10 043	10 924	
2 400	Shoppers Drug Mart Corp.	2.010	24-May-16	2 400	2 386	
1 065	Shoppers Drug Mart Corp.	2.360	24-May-18	1 065	1 045	
225	Sobeys Inc.	5.790	06-Oct-36	225	221	
1 180	Sobeys Inc.	6.640	07-Jun-40	1 195	1 289	
2 010	Sun Life Capital Trust II	5.863	31-Dec-19	2 010	2 246	
315	TELUS Corp.	5.950	15-Apr-15	355	337	
1 460	TELUS Corp.	4.400	01-Apr-43	1 457	1 334	
2 255	Teranet Holdings LP	3.531	16-Dec-15	2 345	2 325	
15 755	Teranet Holdings LP	4.807	16-Dec-20	16 696	16 843	
3 815	Teranet Holdings LP	5.754	17-Dec-40	3 783	4 087	
1 105	Teranet Holdings LP	6.100	17-Jun-41	1 282	1 225	
90	Terasen Gas Inc.	6.500	01-May-34	125	116	
785	Terasen Gas Inc.	6.000	02-Oct-37	1 056	976	
75	Terasen Gas Inc.	6.550	24-Feb-39	109	100	
10 677	Thomson Reuters Corp.	6.000	31-Mar-16	12 022	11 709	
9 893	Thomson Reuters Corp.	4.350	30-Sep-20	10 783	10 444	
11 795	Toronto-Dominion Bank	2.171	02-Apr-18	11 795	11 539	
10 500	Toronto Hydro Corp.	4.490	12-Nov-19	11 700	11 402	
564	Toronto Hydro Corp.	3.540	18-Nov-21	564	572	
4 090	Toronto Hydro Corp.	2.910	10-Apr-23	4 089	3 866	
2 600	TransAlta Corp.	6.450	29-May-14	2 829	2 693	
2 140	TransCanada PipeLines Ltd.	9.450	20-Mar-18	2 873	2 734	
135	TransCanada PipeLines Ltd.	11.800	20-Nov-20	217	207	
75	TransCanada PipeLines Ltd.	7.900	15-Apr-27	99	102	
4 859	TransCanada PipeLines Ltd.	7.340	18-Jul-28	6 758	6 347	
2 450	TransCanada PipeLines Ltd.	8.200	15-Aug-31	3 718	3 473	
4 600	Union Gas Ltd.	11.500	28-Aug-15	6 253	5 503	
4 975	Union Gas Ltd.	4.640	30-Jun-16	5 352	5 332	
1 000	Union Gas Ltd.	5.350	27-Apr-18	1 162	1 118	
3 500	Union Gas Ltd.	8.750	03-Aug-18	4 657	4 432	
3 855	Union Gas Ltd.	3.790	10-Jul-23	3 854	3 877	
3 940	Union Gas Ltd.	8.650	10-Nov-25	5 548	5 676	
3 169	Veresen Inc.	3.950	14-Mar-17	3 167	3 254	
3 438	Veresen Inc.	4.000	22-Nov-18	3 429	3 498	
5 375	Wells Fargo Financial Canada Corp.	4.330	06-Dec-13	5 613	5 441	
8 945	Wells Fargo Financial Canada Corp.	3.970	03-Nov-14	9 316	9 204	
6 027	Wells Fargo Financial Canada Corp.	4.380	30-Jun-15	6 400	6 317	
1 830	Wells Fargo Financial Canada Corp.	2.774	09-Feb-17	1 830	1 849	
7 700	Westcoast Energy Inc.	8.500	23-Nov-15	8 953	8 790	
6 680	Westcoast Energy Inc.	3.280	15-Jan-16	6 901	6 868	
1 245	Westcoast Energy Inc.	8.500	04-Sep-18	1 632	1 555	
2 767	Westcoast Energy Inc.	9.900	10-Jan-20	4 019	3 782	
2 670	Westcoast Energy Inc.	4.570	02-Jul-20	2 955	2 874	
2 900	Westcoast Energy Inc.	4.791	28-Oct-41	3 108	3 005	
810	Winnipeg Airport Authority Inc.	4.569	20-Nov-19	914	877	
1 530	Winnipeg Airport Authority Inc.	3.039	14-Apr-23	1 530	1 447	
3 291	Winnipeg Airport Authority Inc.	6.102	20-Nov-40	3 291	3 801	
				1 331 398	1 321 665	45.4

## PHILLIPS, HAGER &amp; NORTH TOTAL RETURN BOND FUND

Investment Management®

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
<b>FEDERAL</b>						
\$ 35 530	Canada Housing Trust No. 1	1.700	15-Dec-17	\$ 35 421	\$ 35 039	
62 410	Canada Housing Trust No. 1	1.750	15-Jun-18	61 581	61 267	
80 549	Canada Housing Trust No. 1	2.050	15-Jun-18	80 178	80 203	
23 912	Canada Housing Trust No. 1	4.100	15-Dec-18	26 951	26 167	
46 400	Canada Housing Trust No. 1	3.800	15-Jun-21	51 745	50 141	
59 703	Canada Housing Trust No. 1	2.400	15-Dec-22	58 317	57 429	
2 617	CBC Monetization Trust	4.688	15-May-27	2 618	2 871	
3 498	Government of Canada	2.500	01-Sep-13	3 513	3 507	
9 255	Government of Canada	3.000	01-Jun-14	9 421	9 411	
2 800	Government of Canada	2.750	01-Sep-16	2 912	2 910	
2 640	Government of Canada	4.000	01-Jun-17	2 870	2 876	
1 055	Government of Canada	1.250	01-Mar-18	1 030	1 029	
875	Government of Canada	4.250	01-Jun-18	973	975	
644	Government of Canada	3.500	01-Jun-20	702	700	
20 652	Government of Canada	4.250	01-Dec-21	27 387	26 999	
25 950	Government of Canada	2.750	01-Jun-22	26 624	26 765	
1 107	Government of Canada	1.500	01-Jun-23	1 015	1 016	
679	Government of Canada	5.750	01-Jun-33	1 017	975	
873	Government of Canada	4.000	01-Jun-41	1 087	1 056	
				395 362	391 336	<b>13.4</b>
<b>PROVINCIAL/MUNICIPAL</b>						
4 965	Hospital for Sick Children	5.217	16-Dec-49	4 849	5 645	
1 647	Municipal Finance Authority of British Columbia	3.350	01-Jun-22	1 645	1 642	
200	Ontario Electricity Financial Corp.	8.500	26-May-25	282	293	
4 825	Ontario Electricity Financial Corp.	9.000	26-May-25	7 410	7 328	
19 336	Ontario Electricity Financial Corp.	8.250	22-Jun-26	27 525	28 439	
500	Ontario Infrastructure Projects Corp.	4.600	01-Jun-15	517	526	
12 081	Province of New Brunswick	2.850	02-Jun-23	12 026	11 529	
7 558	Province of New Brunswick	4.800	03-Jun-41	9 181	8 515	
4 332	Province of New Brunswick	3.550	03-Jun-43	4 326	3 975	
68 069	Province of Ontario	3.150	02-Jun-22	69 157	67 787	
11 475	Province of Ontario	9.500	13-Jul-22	15 731	17 059	
51 491	Province of Ontario	2.850	02-Jun-23	50 961	49 392	
37 438	Province of Ontario	8.100	08-Sep-23	51 994	52 550	
18 710	Province of Ontario	8.500	02-Dec-25	27 967	27 869	
1 555	Province of Ontario	8.000	02-Jun-26	2 155	2 255	
109 478	Province of Ontario	7.600	02-Jun-27	150 509	156 260	
5 182	Province of Ontario	6.500	08-Mar-29	7 284	6 871	
25 663	Province of Ontario	6.200	02-Jun-31	31 741	33 446	
16 908	Province of Ontario	5.850	08-Mar-33	19 730	21 457	
52 057	Province of Ontario	5.600	02-Jun-35	69 262	64 912	
71 091	Province of Ontario	4.600	02-Jun-39	79 640	78 651	
47 042	Province of Ontario	4.650	02-Jun-41	56 923	52 784	
23 066	Province of Ontario	3.500	02-Jun-43	23 013	21 395	
19 992	Province of Ontario Residual Strip	0.000	02-Jun-41	7 536	6 640	
230	Province of Quebec	9.375	16-Jan-23	329	342	
11 503	Province of Quebec	3.000	01-Sep-23	11 545	11 089	
17 506	Province of Quebec	6.000	01-Oct-29	23 387	22 064	
28 822	Province of Quebec	6.250	01-Jun-32	35 363	37 586	
30 368	Province of Quebec	5.750	01-Dec-36	38 764	38 319	
1 950	Province of Quebec	4.250	01-Dec-43	2 191	2 035	
13 961	Province of Quebec Residual Strip	0.000	01-Dec-41	4 976	4 432	
8 842	TransLink	3.800	02-Nov-20	8 864	9 196	
				856 783	852 283	<b>29.2</b>
<b>TOTAL CANADIAN BONDS</b>				<b>2 583 543</b>	<b>2 565 284</b>	<b>88.0</b>

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

STATEMENT OF INVESTMENT PORTFOLIO (unaudited) (in \$000s)  
**PHILLIPS, HAGER & NORTH TOTAL RETURN BOND FUND**

**PHILLIPS, HAGER & NORTH**  
 Investment Management®

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
<b>UNITED KINGDOM BONDS</b>						
\$ 6 025	BAA Funding Ltd. CAD	4.000	03-Jul-19	\$ 5 987	\$ 6 190	
15 185	National Grid Electricity Transmission Plc. CAD	2.730	20-Sep-17	15 235	15 102	
7 170	National Grid Electricity Transmission Plc. CAD	2.900	26-Nov-19	7 170	7 028	
<b>TOTAL UNITED KINGDOM BONDS</b>				<b>28 392</b>	<b>28 320</b>	<b>1.0</b>
<b>UNITED STATES BONDS</b>						
1 800	Anheuser-Busch InBev Finance Inc. CAD	2.375	25-Jan-18	1 791	1 778	
11 821	Anheuser-Busch InBev Finance Inc. CAD	3.375	25-Jan-23	11 907	11 474	
15 985	Anheuser-Busch InBev Worldwide Inc. CAD	3.650	15-Jan-16	16 508	16 601	
20 000	Bank of America Corp. CAD	1.818	01-Jun-16	19 866	19 350	
13 630	JPMorgan Chase & Co. CAD	2.920	19-Sep-17	13 773	13 531	
2 735	Merrill Lynch & Co. Inc. CAD	5.290	30-May-22	2 639	2 771	
<b>TOTAL UNITED STATES BONDS</b>				<b>66 484</b>	<b>65 505</b>	<b>2.2</b>
<b>TOTAL BONDS</b>				<b>2 688 807</b>	<b>2 669 280</b>	<b>91.5</b>
<b>MORTGAGE-BACKED SECURITIES</b>						
707	Data Centres Trust	7.233	10-Sep-14	783	728	
6 996	Equitable Trust	4.350	01-Jan-18	7 235	7 531	
2 165	Peoples Trust	4.200	01-Oct-19	2 163	2 321	
<b>TOTAL MORTGAGE-BACKED SECURITIES</b>				<b>10 181</b>	<b>10 580</b>	<b>0.4</b>
<b>MORTGAGES</b>						
<b>CMHC Insured</b>						
2 867	4.930% Nov 01, 2019			2 923	3 075	
2 114	4.930% Dec 01, 2019			2 129	2 295	
1 967	4.850% Jan 01, 2020			1 985	2 155	
1 782	4.260% Nov 01, 2022			1 782	1 824	
<b>TOTAL MORTGAGES</b>				<b>8 819</b>	<b>9 349</b>	<b>0.3</b>
<b>SHORT-TERM INVESTMENTS†</b>				<b>126 774</b>	<b>126 774</b>	<b>4.3</b>
<b>TOTAL INVESTMENTS</b>				<b>\$ 2 944 495</b>	<b>2 925 454</b>	<b>100.3</b>
<b>OTHER NET ASSETS (LIABILITIES)</b>					<b>(10 262)</b>	<b>(0.3)</b>
<b>NET ASSETS</b>					<b>\$ 2 915 192</b>	<b>100.0</b>

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

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 0.98% to 1.37% and mature between July 8, 2013 and November 4, 2013.

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

**Statements of Net Assets** (unaudited) (in \$000s except per unit amounts)

<i>(see note 2 in the generic notes)</i>	June 30 2013	December 31 2012
<b>ASSETS</b>		
Investments at fair value	\$ 2 925 454	\$ 2 894 404
Cash	2 009	296
Due from investment dealers	55 841	7 918
Subscriptions receivable	4 878	2 057
Futures contracts margin receivable	1 897	1 902
Dividends receivable, interest accrued and other assets	16 674	16 441
<b>TOTAL ASSETS</b>	<b>3 006 753</b>	<b>2 923 018</b>
<b>LIABILITIES</b>		
Due to investment dealers	73 006	8 680
Redemptions payable	17 715	1 294
Distributions payable	10	–
Accounts payable and accrued expenses	830	926
<b>TOTAL LIABILITIES</b>	<b>91 561</b>	<b>10 900</b>
<b>NET ASSETS</b>	<b>\$ 2 915 192</b>	<b>\$ 2 912 118</b>
Investments at cost	\$ 2 944 495	\$ 2 790 726

**Statements of Net Assets (cont.)** (unaudited) (in \$000s except per unit amounts)

<i>(see note 2 in the generic notes)</i>	June 30 2013	December 31 2012
<b>NET ASSETS, END OF PERIOD</b>		
<b>SERIES C</b>	\$ 221 697	\$ 253 737
<b>ADVISOR SERIES</b>	\$ 122 529	\$ 120 326
<b>SERIES H</b>	\$ 1 827	\$ –
<b>SERIES B*</b>	\$ –	\$ –
<b>SERIES D</b>	\$ 571 313	\$ 724 420
<b>SERIES F</b>	\$ 345 618	\$ 320 424
<b>SERIES I</b>	\$ 5 121	\$ –
<b>SERIES O</b>	\$ 1 647 087	\$ 1 493 211
<b>NET ASSETS PER UNIT, END OF PERIOD</b>		
<b>SERIES C</b>	\$ 11.33	\$ 11.69
<b>ADVISOR SERIES</b>	\$ 11.33	\$ 11.69
<b>SERIES H</b>	\$ 11.33	\$ –
<b>SERIES B*</b>	\$ –	\$ –
<b>SERIES D</b>	\$ 11.32	\$ 11.68
<b>SERIES F</b>	\$ 11.34	\$ 11.70
<b>SERIES I</b>	\$ 11.34	\$ –
<b>SERIES O</b>	\$ 11.26	\$ 11.62
<b>NET ASSET VALUE (TRANSACTIONAL NAV) PER UNIT, END OF PERIOD (see note 3 in the generic notes)</b>		
<b>SERIES C</b>	\$ 11.34	\$ 11.70
<b>ADVISOR SERIES</b>	\$ 11.34	\$ 11.70
<b>SERIES H</b>	\$ 11.34	\$ –
<b>SERIES B*</b>	\$ –	\$ –
<b>SERIES D</b>	\$ 11.33	\$ 11.69
<b>SERIES F</b>	\$ 11.35	\$ 11.71
<b>SERIES I</b>	\$ 11.35	\$ –
<b>SERIES O</b>	\$ 11.28	\$ 11.63

\* All outstanding Series B units were redesignated as Series D units effective July 2012.

Approved by the Board of Directors of RBC Global Asset Management Inc.



**John S. Montalbano**  
Director



**Doug Coulter**  
Director

**Statements of Operations** (unaudited) (in \$000s except per unit amounts)

For the periods ended June 30 (see note 2 in the generic notes)*	2013	2012
<b>INCOME (see note 3 in the generic notes)</b>		
Interest	\$ 51 394	\$ 49 646
Net gain (loss) from futures contracts	(13)	143
Other revenue	2 867	2 143
<b>TOTAL INCOME (LOSS)</b>	<b>54 248</b>	<b>51 932</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Management fees	4 252	4 112
Administration fees	461	421
Board of Governors costs	2	2
GST/HST	497	477
<b>TOTAL EXPENSES</b>	<b>5 212</b>	<b>5 012</b>
<b>NET INVESTMENT INCOME (LOSS)</b>	<b>49 036</b>	<b>46 920</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS)</b>		
<b>ON INVESTMENTS</b>		
Net realized gain (loss) on investments	30 193	(7 021)
Net gain (loss) on foreign currencies and other net assets	(46)	(3)
Change in unrealized gain (loss) on investments	(122 719)	14 330
<b>NET GAIN (LOSS) ON INVESTMENTS</b>	<b>(92 572)</b>	<b>7 306</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>		
<b>FROM OPERATIONS</b>	<b>\$ (43 536)</b>	<b>\$ 54 226</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>		
<b>FROM OPERATIONS</b>		
<b>SERIES C</b>	<b>\$ (4 150)</b>	<b>\$ 3 934</b>
<b>ADVISOR SERIES</b>	<b>\$ (2 306)</b>	<b>\$ 1 250</b>
<b>SERIES H</b>	<b>\$ (59)</b>	<b>\$ –</b>
<b>SERIES B†</b>	<b>\$ –</b>	<b>\$ 59</b>
<b>SERIES D</b>	<b>\$ (8 387)</b>	<b>\$ 15 437</b>
<b>SERIES F</b>	<b>\$ (5 410)</b>	<b>\$ 5 040</b>
<b>SERIES I</b>	<b>\$ (152)</b>	<b>\$ –</b>
<b>SERIES O</b>	<b>\$ (23 072)</b>	<b>\$ 28 506</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>		
<b>FROM OPERATIONS PER UNIT</b>		
<b>SERIES C</b>	<b>\$ (0.22)</b>	<b>\$ 0.20</b>
<b>ADVISOR SERIES</b>	<b>\$ (0.23)</b>	<b>\$ 0.20</b>
<b>SERIES H</b>	<b>\$ (0.07)</b>	<b>\$ –</b>
<b>SERIES B†</b>	<b>\$ –</b>	<b>\$ 0.21</b>
<b>SERIES D</b>	<b>\$ (0.19)</b>	<b>\$ 0.23</b>
<b>SERIES F</b>	<b>\$ (0.20)</b>	<b>\$ 0.23</b>
<b>SERIES I</b>	<b>\$ (0.07)</b>	<b>\$ –</b>
<b>SERIES O</b>	<b>\$ (0.15)</b>	<b>\$ 0.26</b>

\* Series H and Series I launched April 2013.

† All outstanding Series B units were redesignated as Series D units effective July 2012.

## Statements of Changes in Net Assets (unaudited) (in \$'000s)

For the periods ended June 30 (see note 2 in the generic notes)*	Series C		Advisor Series		Series H		Series B <sup>†</sup>	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>NET ASSETS – BEGINNING OF PERIOD</b>	\$ 253 737	\$ 218 307	\$ 120 326	\$ 45 349	\$ –	\$ –	\$ –	\$ 3 508
<b>INCREASE (DECREASE) FROM OPERATIONS</b>	(4 150)	3 934	(2 306)	1 250	(59)	–	–	59
Early redemption fees	–	–	–	–	–	–	–	–
Proceeds from units issued	24 800	49 683	26 096	45 752	1 893	–	–	–
Proceeds from reinvestment of distributions	2 713	2 787	1 273	809	5	–	–	42
Payments on redemption of units	(52 394)	(29 381)	(21 270)	(4 330)	–	–	–	(609)
<b>TOTAL UNIT TRANSACTIONS</b>	<b>(24 881)</b>	<b>23 089</b>	<b>6 099</b>	<b>42 231</b>	<b>1 898</b>	<b>–</b>	<b>–</b>	<b>(567)</b>
Distributions from net income	(3 009)	(3 063)	(1 590)	(1 014)	(12)	–	–	(43)
Distributions from net gains	–	–	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–	–	–
<b>TOTAL DISTRIBUTIONS</b>	<b>(3 009)</b>	<b>(3 063)</b>	<b>(1 590)</b>	<b>(1 014)</b>	<b>(12)</b>	<b>–</b>	<b>–</b>	<b>(43)</b>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<b>(32 040)</b>	<b>23 960</b>	<b>2 203</b>	<b>42 467</b>	<b>1 827</b>	<b>–</b>	<b>–</b>	<b>(551)</b>
<b>NET ASSETS – END OF PERIOD</b>	<b>\$ 221 697</b>	<b>\$ 242 267</b>	<b>\$ 122 529</b>	<b>\$ 87 816</b>	<b>\$ 1 827</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 2 957</b>

For the periods ended June 30 (see note 2 in the generic notes)*	Series D		Series F		Series I	
	2013	2012	2013	2012	2013	2012
<b>NET ASSETS – BEGINNING OF PERIOD</b>	\$ 724 420	\$ 803 197	\$ 320 424	\$ 223 208	\$ –	\$ –
<b>INCREASE (DECREASE) FROM OPERATIONS</b>	(8 387)	15 437	(5 410)	5 040	(152)	–
Early redemption fees	–	–	–	–	–	–
Proceeds from units issued	39 545	53 055	104 294	99 775	5 278	–
Proceeds from reinvestment of distributions	8 557	10 666	2 892	2 376	35	–
Payments on redemption of units	(183 237)	(83 699)	(71 201)	(45 950)	–	–
<b>TOTAL UNIT TRANSACTIONS</b>	<b>(135 135)</b>	<b>(19 978)</b>	<b>35 985</b>	<b>56 201</b>	<b>5 313</b>	<b>–</b>
Distributions from net income	(9 585)	(12 209)	(5 381)	(4 087)	(40)	–
Distributions from net gains	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–
<b>TOTAL DISTRIBUTIONS</b>	<b>(9 585)</b>	<b>(12 209)</b>	<b>(5 381)</b>	<b>(4 087)</b>	<b>(40)</b>	<b>–</b>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<b>(153 107)</b>	<b>(16 750)</b>	<b>25 194</b>	<b>57 154</b>	<b>5 121</b>	<b>–</b>
<b>NET ASSETS – END OF PERIOD</b>	<b>\$ 571 313</b>	<b>\$ 786 447</b>	<b>\$ 345 618</b>	<b>\$ 280 362</b>	<b>\$ 5 121</b>	<b>\$ –</b>

For the periods ended June 30 (see note 2 in the generic notes)*	Series O		Total	
	2013	2012	2013	2012
<b>NET ASSETS – BEGINNING OF PERIOD</b>	\$ 1 493 211	\$ 1 248 122	\$ 2 912 118	\$ 2 541 691
<b>INCREASE (DECREASE) FROM OPERATIONS</b>	(23 072)	28 506	(43 536)	54 226
Early redemption fees	–	–	–	–
Proceeds from units issued	377 614	188 537	579 520	436 802
Proceeds from reinvestment of distributions	20 986	16 755	36 461	33 435
Payments on redemption of units	(192 288)	(148 011)	(520 390)	(311 980)
<b>TOTAL UNIT TRANSACTIONS</b>	<b>206 312</b>	<b>57 281</b>	<b>95 591</b>	<b>158 257</b>
Distributions from net income	(29 364)	(23 151)	(48 981)	(43 567)
Distributions from net gains	–	–	–	–
Distributions from capital	–	–	–	–
<b>TOTAL DISTRIBUTIONS</b>	<b>(29 364)</b>	<b>(23 151)</b>	<b>(48 981)</b>	<b>(43 567)</b>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<b>153 876</b>	<b>62 636</b>	<b>3 074</b>	<b>168 916</b>
<b>NET ASSETS – END OF PERIOD</b>	<b>\$ 1 647 087</b>	<b>\$ 1 310 758</b>	<b>\$ 2 915 192</b>	<b>\$ 2 710 607</b>

\* Series H and Series I launched April 2013.

† All outstanding Series B units were redesignated as Series D units effective July 2012.

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

## PHILLIPS, HAGER &amp; NORTH TOTAL RETURN BOND FUND

Investment Management®

June 30, 2013

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

The table below summarizes the Fund's credit risk exposure grouped by credit ratings as at:

Rating	June 30 2013	December 31 2012
AAA	16.7	8.2
AA	43.0	46.9
A	24.4	27.7
BBB	12.4	14.3
BB	1.1	1.0
B	2.0	1.2
Unrated*	0.4	0.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* Mortgages, which represent 100% (December 31, 2012 – 100%) of the unrated above, are all Canada Mortgage and Housing Corporation ("CMHC") guaranteed mortgages, and therefore have the backing of an AAA rated issuer.

**Interest rate risk (%)**

The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity as at:

Term to maturity	June 30 2013	December 31 2012
Less than 1 year	3.7	5.3
1 – 5 years	40.4	29.9
5 – 10 years	23.4	20.0
> 10 years	32.5	44.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

As at June 30, 2013, had prevailing interest rates risen or lowered by 1%, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by approximately 6.5% (December 31, 2012 – 6.1%). In practice, 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 June 30, 2013 and December 31, 2012 in the valuation of the Fund's financial instruments carried at fair value.

June 30, 2013	Level 1	Level 2	Level 3	Total
<b>Equities</b>	–	–	–	–
<b>Mutual fund units</b>	<b>109 471</b>	–	–	<b>109 471</b>
<b>Fixed-income and debt securities</b>	–	<b>2 689 209</b>	–	<b>2 689 209</b>
<b>Short-term investments</b>	–	<b>126 774</b>	–	<b>126 774</b>
<b>Derivatives – assets</b>	–	–	–	–
<b>Derivatives – liabilities</b>	–	–	–	–
<b>Total financial instruments</b>	<b>109 471</b>	<b>2 815 983</b>	–	<b>2 925 454</b>
<b>% of total portfolio</b>	<b>3.7</b>	<b>96.3</b>	–	<b>100.0</b>

December 31, 2012	Level 1	Level 2	Level 3	Total
<b>Equities</b>	–	–	–	–
<b>Mutual fund units</b>	<b>87 697</b>	–	–	<b>87 697</b>
<b>Fixed-income and debt securities</b>	–	<b>2 276 476</b>	–	<b>2 276 476</b>
<b>Short-term investments</b>	–	<b>530 231</b>	–	<b>530 231</b>
<b>Derivatives – assets</b>	–	–	–	–
<b>Derivatives – liabilities</b>	–	–	–	–
<b>Total financial instruments</b>	<b>87 697</b>	<b>2 806 707</b>	–	<b>2 894 404</b>
<b>% of total portfolio</b>	<b>3.0</b>	<b>97.0</b>	–	<b>100.0</b>

For the periods ended June 30, 2013 and December 31, 2012, there were no transfers of financial instruments between Level 1 and Level 2.

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

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

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

Series C	1.00%
Advisor Series	1.00%
Series H	0.90%
Series B	0.75%
Series D	0.50%
Series F	0.50%
Series I	0.40%

## PHILLIPS, HAGER &amp; NORTH TOTAL RETURN BOND FUND

June 30, 2013

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

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

Series C	0.05%
Advisor Series	0.05%
Series H	0.05%
Series B	0.05%
Series D	0.04%
Series F	0.05%
Series I	0.05%
Series O	0.02%

**Initial investments (\$000s except unit amounts)**

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

	June 30 2013	December 31 2012
<b>Units held</b>		
Series C	48	47
Advisor Series	95	94
Series H	85	–
Series D	48	48
Series F	48	48
Series I	85	–
<b>Value of all units</b>	<b>\$ 5</b>	<b>\$ 3</b>

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

The Fund had no capital or non-capital losses as at December 31, 2012.

**Unitholders' equity (000s)**

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

For the periods ended June 30 (see note 2 in the generic notes)	2013	2012
<b>Series C</b>		
Opening units	21 710	18 788
Issued number of units	2 122	4 266
Reinvested number of units	235	239
Redeemed number of units	(4 497)	(2 525)
Ending number of units	19 570	20 768
<b>Advisor Series</b>		
Opening units	10 295	3 903
Issued number of units	2 234	3 927
Reinvested number of units	111	69
Redeemed number of units	(1 824)	(371)
Ending number of units	10 816	7 528
<b>Series H</b>		
Opening units	–	–
Issued number of units	161	–
Reinvested number of units	–	–
Redeemed number of units	–	–
Ending number of units	161	–
<b>Series B</b>		
Opening units	–	299
Issued number of units	–	–
Reinvested number of units	–	4
Redeemed number of units	–	(52)
Ending number of units	–	251
<b>Series D</b>		
Opening units	62 034	69 210
Issued number of units	3 383	4 561
Reinvested number of units	743	917
Redeemed number of units	(15 697)	(7 198)
Ending number of units	50 463	67 490
<b>Series F</b>		
Opening units	27 394	19 202
Issued number of units	8 921	8 558
Reinvested number of units	251	204
Redeemed number of units	(6 085)	(3 944)
Ending number of units	30 481	24 020

## PHILLIPS, HAGER &amp; NORTH TOTAL RETURN BOND FUND

June 30, 2013

For the periods ended June 30  
(see note 2 in the generic notes)

	2013	2012
<b>Series I</b>		
Opening units	–	–
Issued number of units	449	–
Reinvested number of units	3	–
Redeemed number of units	–	–
Ending number of units	452	–
<b>Series O</b>		
Opening units	128 536	108 130
Issued number of units	32 439	16 282
Reinvested number of units	1 834	1 448
Redeemed number of units	(16 579)	(12 789)
Ending number of units	146 230	113 071

### Investments by other related Investment Funds (000s) (see note 7 in the generic notes)

The following outstanding units of the Fund were held by the following related Investment Funds as at:

	June 30 2013	December 31 2012
<b>Series O</b>		
RBC Select Choices Conservative Portfolio	2 394	2 190
RBC Select Choices Balanced Portfolio	3 163	2 789
RBC Select Choices Growth Portfolio	800	665
RBC Monthly Income Bond Fund	20 860	19 376
RBC Target 2015 Education Fund	1 009	–
RBC Target 2020 Education Fund	4 301	–
RBC Target 2025 Education Fund	1 797	–
Phillips, Hager & North Total Return Bond Guaranteed Investment Fund	984	–
Total	35 308	25 020

### Other revenue and capital gains (\$000s) (see note 3 in the generic notes)

Other revenue and capital gains from investing in other related Investment Funds for the periods ended:

	June 30 2013	June 30 2012
<b>Series O</b>		
Phillips Hager & North High Yield Bond Fund	\$ 2 867	\$ 2 143
Total other revenue	\$ 2 867	\$ 2 143
Capital gains received from underlying funds	\$ –	\$ –

## 1. The Funds

The mutual funds (“Fund” or “Funds”) are open-ended mutual fund trusts governed by the laws of the Province of British Columbia and governed by a Master Declaration of Trust. RBC GAM is the manager and portfolio advisor of the Funds.

The Funds may issue an unlimited number of units in some or all of Series C, Advisor Series, Series H, Series D, Series F, Series I and Series O.

Series C units are available to investors who purchase units from authorized third-party dealers.

Advisor Series units are available to all investors with an initial sales charge or low-load sales charge option. Under the initial sales charge option, investors pay a sales commission ranging from 0% to 5% of the amount invested. Under the low-load sales charge option, investors do not pay a commission.

Series H units have lower fees than Series C units and are only available to investors who invest and maintain the required minimum balance.

Series B units were previously available to investors who purchased units from authorized third-party dealers. All outstanding Series B units were redesignated as Series D units effective July 2012.

Series D units are available to all investors and may be purchased, switched or redeemed through Phillips, Hager & North Investment Funds Ltd. (“PH&N IF”) or certain other authorized dealers (primarily discount brokers).

Series F units are available to investors who have fee-based accounts with their dealer.

Series I units have lower fees than Series F 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 as may be determined from time to time on a case-by-case basis. Series O units may only be purchased, switched or redeemed through RBC GAM or, in certain circumstances, PH&N IF.

## 2. Financial year/period

The information provided in these financial statements and notes thereto is for the six-month periods ended June 30, 2013 and 2012, or as at June 30, 2013 and December 31, 2012. In the

year a Fund or series is established, “period” represents the period from inception to June 30 of that fiscal year.

## 3. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), 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 are as follows:

**Valuation of Investments** The valuation methods used to calculate the daily net asset value to transact units of the Funds (“transactional NAV”), as described in the Funds’ Annual Information Form, are not identical to the GAAP valuation methods used to determine the financial statement net assets (“net assets”) described below. The primary difference between net assets and transactional NAV relates to valuation of actively traded securities at bid prices for net assets and at last sale prices for transactional NAV.

In accordance with the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, *Financial Instruments – Disclosures*, the Funds’ financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Funds’ investments and derivatives. 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); 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 bid price recorded by the security exchange on which the security is principally traded.

June 30, 2013

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

Mortgages are valued at a principal 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 their cost including applicable foreign exchange translations. This value, together with accrued interest, approximates fair value using closing bid prices.

*Options* – Listed options are valued at the closing bid price on the recognized exchange on which the option is traded for the long positions and the ask price for the short positions. The premium received for written options is recorded as a credit in the Statement 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 gain or loss at the close of business on each valuation date is recorded in the Statements of Operations. The net receivable/payable on forward contracts is recorded separately in the Statements of Net Assets. Realized gain (loss) on foreign exchange contracts is included in “Net gain (loss) on foreign currencies and other net assets” in the Statements of Operations.

*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 Operations. The net receivable/payable on futures contracts is recorded separately in the Statements of Net Assets.

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

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

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

**Foreign Exchange** The value of investments and other assets and liabilities in foreign currencies is translated into Canadian dollars (U.S. dollars in the case of the Phillips, Hager & North \$U.S. Money Market 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 Operations.

**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 Operations for the period. The period change in the difference between fair value and average cost of securities represents unrealized gains and losses. The basis of determining the cost of portfolio assets, and realized and unrealized gains and losses on investments, is average cost.

**Income Recognition** Dividend income is recognized on the ex-dividend date and interest income is recognized on an accrual basis. “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 revenue” includes income earned by a Fund from investments in underlying funds.

**Increase (Decrease) in Net Assets from Operations**

**Per Unit** Increase (decrease) in net assets from operations per unit in the Statements of Operations represents the increase (decrease) in net assets from operations 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 the 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.

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

AUD – Australian Dollar	HKD – Hong Kong Dollar
CAD – Canadian Dollar	JPY – Japanese Yen
CHF – Swiss Franc	MXN – Mexican Peso
EUR – Euro	SGD – Singapore Dollar
GBP – Pound Sterling	USD – United States Dollar

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

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

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

**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.

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

**Interest rate risk**

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

**Currency risk**

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

**Other price risk**

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

**5. Taxes**

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

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

**6. Securities lending revenue**

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

**7. Administrative and other related-party transactions****Manager and Registrar**

RBC GAM is an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank"). RBC GAM is the manager and registrar 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, as registrar, also keeps records of who owns units of the Funds. RBC GAM

is paid a management fee by the Funds as compensation for its services. No management fees are paid by the Funds with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

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

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

Certain Funds may invest in units of other Funds managed by RBC GAM or its affiliates.

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

**Portfolio Advisor**

With the exception of the BonaVista Global Balanced Fund and the BonaVista Canadian Equity Value Fund, RBC GAM is the principal portfolio advisor of the Funds. BonaVista Asset Management Ltd. ("BonaVista"), a subsidiary of RBC GAM, is the principal portfolio advisor for the BonaVista Global Balanced Fund and the BonaVista Canadian Equity Value Fund. RBC Global Asset Management (U.S.) Inc. ("RBC GAM US"), a wholly owned subsidiary of Royal Bank, is the sub-advisor for the Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund. Sky Investment Counsel Inc. ("Sky") is the sub-advisor for the Phillips, Hager & North Overseas Equity Fund and the non-North American equity assets of the Phillips, Hager & North Balanced Fund, the Phillips, Hager & North Global Equity Fund and the Phillips, Hager & North Community Values Global Equity Fund. RBC GAM has a non-controlling interest in Sky. The fees paid to BonaVista, RBC GAM US and Sky are paid by RBC GAM and not the Funds.

**Distributors**

RBC GAM, PH&N IF, Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are the 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 C, Advisor Series, Series H, Series B or Series D units.

**Brokerage**

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

**Trustee and Custodian**

RBC IS is the trustee and custodian of the Funds. RBC IS is paid custodial fees for holding the assets of the Funds, and trustee fees for acting as the trustee. The fees paid to RBC IS are paid by RBC GAM and not the Funds.

**Other Related-Party Transactions**

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

**Related-Party Trading Activities**

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

**Inter-Fund Trading**

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities: (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates

or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Funds, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Funds. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**8. Future accounting changes****International Financial Reporting Standards**

The Funds will be required to adopt the International Financial Reporting Standards ("IFRS") beginning in their fiscal 2014 year. In preparation to meet the requirements, RBC GAM has taken the following steps in managing the transition to IFRS:

- (a) established a committee for the development and implementation of a transition plan and to provide oversight of the transition to IFRS;
- (b) commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS; and
- (c) initiated analysis to reconfigure accounting systems used by the Funds.

The key elements of the plan currently include disclosure of the quantitative impact, if any, in the comparative 2013 financial statements and the preparation of the 2014 financial statements in accordance with IFRS.

Since IFRS standards are constantly evolving, the major qualitative impacts based on standards approved to date are the addition of a cash flow statement and the impact of classification of puttable instruments, the units of the Fund, as a liability or as an equity.

Regardless of the financial statement impacts, RBC GAM has presently determined that there will be no quantitative impact to the transactional NAV of each series as a result of the changeover to IFRS.

**9. Comparative figures**

In the Statements of Operations, "Board of Governors costs" for certain funds, which were reimbursed by the manager for the prior period, have been reflected to conform with the presentation in the current year.