

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.



**Damon G. Williams, FSA, FCIA, CFA**  
Chief Executive Officer  
RBC Global Asset Management Inc.  
August 10, 2017



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

**Unaudited Interim Financial Statements**

The accompanying interim 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.



SCHEDULE OF INVESTMENT PORTFOLIO (unaudited) (in \$000s)  
**RBC TARGET 2030 EDUCATION FUND**

June 30, 2017

Number of Units	Security	Cost	Fair Value	% of Net Assets
<b>MUTUAL FUND UNITS</b>				
442 293	Phillips, Hager & North Canadian Growth Fund*	\$ 15 077	\$ 16 400	3.0
2 375 725	Phillips, Hager & North Total Return Bond Fund*	26 888	27 032	5.0
1 289 028	Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund*	20 668	22 663	4.2
1 350 028	RBC Asia Pacific ex-Japan Equity Fund*	14 471	16 889	3.1
15 713 273	RBC Bond Fund*	109 066	108 971	20.0
389 524	RBC Canadian Dividend Fund*	24 764	27 315	5.0
2 638 218	RBC Canadian Equity Fund*	59 374	60 963	11.2
1 171 554	RBC Emerging Markets Equity Fund*	16 088	19 550	3.6
2 084 767	RBC European Equity Fund*	44 923	49 755	9.1
5 376 680	RBC High Yield Bond Fund*	57 781	58 992	10.8
902 691	RBC Japanese Equity Fund*	9 999	11 188	2.1
1 368 895	RBC O'Shaughnessy U.S. Value Fund*	20 448	22 762	4.2
1 205 139	RBC Private U.S. Large-Cap Core Equity Pool*	23 745	27 487	5.0
1 384 664	RBC QUBE Low Volatility Canadian Equity Fund*	19 114	20 587	3.8
848 716	RBC U.S. Equity Fund*	25 875	27 471	5.0
675 190	RBC U.S. Mid-Cap Growth Equity Fund*	20 776	23 883	4.4
<b>TOTAL MUTUAL FUND UNITS</b>		509 057	541 908	99.5
<b>SHORT-TERM INVESTMENTS†</b>		5 837	5 837	1.1
<b>TOTAL INVESTMENTS</b>		\$ 514 894	547 745	100.6
<b>OTHER NET ASSETS (LIABILITIES) ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			(2 925)	(0.6)
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			\$ 544 820	100.0

\* 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 0.45% to 0.95% and mature between July 4, 2017 and July 31, 2017.



**Statements of Financial Position** (unaudited)

(in \$000s except per unit amounts)

(see note 2 in the generic notes)	June 30 2017	December 31 2016
<b>ASSETS</b>		
Investments at fair value	\$ 547 745	\$ 432 626
Cash	112	114
Subscriptions receivable	947	1 724
<b>TOTAL ASSETS</b>	<b>548 804</b>	<b>434 464</b>
<b>LIABILITIES</b>		
Due to investment dealers	3 010	5 225
Redemptions payable	130	70
Accounts payable and accrued expenses	844	663
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>		
	<b>3 984</b>	<b>5 958</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")</b>		
	<b>\$ 544 820</b>	<b>\$ 428 506</b>
Investments at cost	\$ 514 894	\$ 418 906
<b>NAV</b>		
<b>SERIES A</b>	<b>\$ 535 222</b>	<b>\$ 422 147</b>
<b>SERIES D</b>	<b>\$ 7 479</b>	<b>\$ 5 488</b>
<b>SERIES F</b>	<b>\$ 2 119</b>	<b>\$ 871</b>
<b>NAV PER UNIT</b>		
<b>SERIES A</b>	<b>\$ 13.13</b>	<b>\$ 12.57</b>
<b>SERIES D</b>	<b>\$ 13.26</b>	<b>\$ 12.64</b>
<b>SERIES F</b>	<b>\$ 10.74</b>	<b>\$ 10.23</b>

**Statements of Comprehensive Income** (unaudited)

(in \$000s except per unit amounts)

For the periods ended June 30 (see note 2 in the generic notes)	2017	2016
<b>INCOME (see note 3 in the generic notes)</b>		
Interest for distribution purposes	\$ 17	\$ 12
Other income received from underlying funds	4 434	2 713
Net realized gain (loss) on investments	1 403	(367)
Change in unrealized gain (loss) on investments	19 131	5 053
<b>TOTAL INCOME (LOSS)</b>	<b>24 985</b>	<b>7 411</b>
<b>EXPENSES (see notes – Fund Specific Information)</b>		
Management fees	4 083	2 421
Administration fees	122	71
Independent Review Committee costs	1	2
GST/HST	412	241
<b>TOTAL EXPENSES</b>	<b>4 618</b>	<b>2 735</b>
<b>INCREASE (DECREASE) IN NAV</b>	<b>\$ 20 367</b>	<b>\$ 4 676</b>
<b>INCREASE (DECREASE) IN NAV</b>		
<b>SERIES A</b>	<b>\$ 20 020</b>	<b>\$ 4 595</b>
<b>SERIES D</b>	<b>\$ 286</b>	<b>\$ 81</b>
<b>SERIES F</b>	<b>\$ 61</b>	<b>\$ –</b>
<b>INCREASE (DECREASE) IN NAV PER UNIT</b>		
<b>SERIES A</b>	<b>\$ 0.53</b>	<b>\$ 0.20</b>
<b>SERIES D</b>	<b>\$ 0.57</b>	<b>\$ 0.23</b>
<b>SERIES F</b>	<b>\$ 0.42</b>	<b>\$ –</b>



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

For the periods ended June 30 (see note 2 in the generic notes)	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in NAV	\$ 20 367	\$ 4 676
<b>ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS</b>		
Interest for distribution purposes	–	–
Net realized loss (gain) on investments	(1 403)	367
Change in unrealized loss (gain) on investments	(19 131)	(5 053)
(Increase) decrease in accrued receivables	–	–
Increase (decrease) in accrued payables	181	98
Cost of investments purchased	(268 700)	(201 862)
Proceeds on sales of investments	171 899	130 021
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(96 787)</b>	<b>(71 753)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable units	108 092	78 074
Cash paid on redemption of redeemable units	(11 308)	(6 319)
Distributions paid to holders of redeemable units	–	–
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ 96 784</b>	<b>\$ 71 755</b>
Net increase (decrease) in cash for the period	(3)	2
Cash (bank overdraft), beginning of period	114	1
<b>CASH (BANK OVERDRAFT), END OF PERIOD</b>	<b>\$ 112</b>	<b>\$ 3</b>
Interest received (paid)	\$ 17	\$ 12
Dividends received, net of withholding taxes	\$ –	\$ –

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



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

For the periods ended June 30 (see note 2 in the generic notes)	Series A		Series D		Series F		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>NAV AT BEGINNING OF PERIOD</b>	\$ 422 147	\$ 255 378	\$ 5 488	\$ 3 482	\$ 871	\$ –	\$ 428 506	\$ 258 860
<b>INCREASE (DECREASE) IN NAV</b>	<b>20 020</b>	<b>4 595</b>	<b>286</b>	<b>81</b>	<b>61</b>	<b>–</b>	<b>20 367</b>	<b>4 676</b>
Early redemption fees	–	–	–	–	–	–	–	–
Proceeds from redeemable units issued	103 820	76 387	2 270	1 159	1 225	–	107 315	77 546
Reinvestments of distributions to holders of redeemable units	–	–	–	–	–	–	–	–
Redemption of redeemable units	(10 765)	(6 108)	(565)	(201)	(38)	–	(11 368)	(6 309)
<b>NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS</b>	<b>93 055</b>	<b>70 279</b>	<b>1 705</b>	<b>958</b>	<b>1 187</b>	<b>–</b>	<b>95 947</b>	<b>71 237</b>
Distributions from net income	–	–	–	–	–	–	–	–
Distributions from net gains	–	–	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–	–	–
<b>TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>NET INCREASE (DECREASE) IN NAV</b>	<b>113 075</b>	<b>74 874</b>	<b>1 991</b>	<b>1 039</b>	<b>1 248</b>	<b>–</b>	<b>116 314</b>	<b>75 913</b>
<b>NAV AT END OF PERIOD</b>	<b>\$ 535 222</b>	<b>\$ 330 252</b>	<b>\$ 7 479</b>	<b>\$ 4 521</b>	<b>\$ 2 119</b>	<b>\$ –</b>	<b>\$ 544 820</b>	<b>\$ 334 773</b>



June 30, 2017

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

The investment objective of this asset allocation fund is to meet the changing needs of investors who are saving money for the purpose of funding their child's post-secondary education that commences around 2030.

Series F units were started July 4, 2016.

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

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

**Credit risk (%)**

Credit-exposed securities, excluding short-term investments, comprise 35.8% (December 31, 2016 – 33.0%) of the net assets of the Fund. The table below summarizes the Fund's credit risk exposure grouped by credit ratings as at:

Rating	June 30 2017	December 31 2016
AAA	19.0	6.7
AA	27.0	29.6
A	16.1	14.5
BBB	13.4	17.8
BB	11.6	14.0
B	12.2	14.5
CCC	0.7	2.8
Unrated	–	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Concentration risk (%)**

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

Investment mix	June 30 2017	December 31 2016
Income Funds	35.8	33.0
Canadian Equity Funds	23.0	23.8
United States Equity Funds	22.8	23.6
International Equity Funds	17.9	18.8
Cash/Other	0.5	0.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Interest rate risk (%)**

Fixed-income and debt securities, excluding short-term investments, comprise 35.8% (December 31, 2016 – 33.0%) of the net assets of the Fund. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity as at:

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

Term to maturity	June 30 2017	December 31 2016
Less than 1 year	1.3	1.3
1 – 5 years	31.2	28.9
5 – 10 years	42.3	45.0
> 10 years	25.2	24.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

As at June 30, 2017, had prevailing interest rates risen or lowered by 1%, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by approximately 2.3% (December 31, 2016 – 2.1%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

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

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

Currency	June 30 2017	December 31 2016
United States dollar	21.0	22.6
Euro	4.1	4.1
Pound sterling	2.7	3.0
Japanese yen	2.1	2.2
Hong Kong dollar	1.2	1.4
Swiss franc	1.2	1.3
South Korean won	0.8	0.9
New Taiwan dollar	0.7	0.7
Australian dollar	0.6	0.7
Indian rupee	0.5	0.5
Other currencies	2.3	2.3
<b>Total</b>	<b>37.2</b>	<b>39.7</b>

As at June 30, 2017, if the Canadian dollar had strengthened or weakened by 1% in relation to the above currencies, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by approximately 0.4% (December 31, 2016 – 0.4%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

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

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

	June 30 2017	December 31 2016
S&P/TSX Capped Composite		
Total Return Index	+ or - 0.5	+ or - 0.5

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



June 30, 2017

**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, 2017 and December 31, 2016.

June 30, 2017	Level 1	Level 2	Level 3	Total
<b>Equities</b>	–	–	–	–
<b>Mutual fund units</b>	<b>541 908</b>	–	–	<b>541 908</b>
<b>Fixed-income and debt securities</b>	–	–	–	–
<b>Short-term investments</b>	–	<b>5 837</b>	–	<b>5 837</b>
<b>Derivatives – assets</b>	–	–	–	–
<b>Derivatives – liabilities</b>	–	–	–	–
<b>Total financial instruments</b>	<b>541 908</b>	<b>5 837</b>	–	<b>547 745</b>
<b>% of total portfolio</b>	<b>98.9</b>	<b>1.1</b>	–	<b>100.0</b>

December 31, 2016	Level 1	Level 2	Level 3	Total
<b>Equities</b>	–	–	–	–
<b>Mutual fund units</b>	<b>425 073</b>	–	–	<b>425 073</b>
<b>Fixed-income and debt securities</b>	–	–	–	–
<b>Short-term investments</b>	–	<b>7 553</b>	–	<b>7 553</b>
<b>Derivatives – assets</b>	–	–	–	–
<b>Derivatives – liabilities</b>	–	–	–	–
<b>Total financial instruments</b>	<b>425 073</b>	<b>7 553</b>	–	<b>432 626</b>
<b>% of total portfolio</b>	<b>98.3</b>	<b>1.7</b>	–	<b>100.0</b>

For the periods ended June 30, 2017 and December 31, 2016, 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.

The management fee payable to RBC GAM in respect of each of Series A and Series D units of the Fund is a variable fee and is determined on a basis such that all fees and expenses that comprise the management expense ratio (“MER”), other than the additional cost of the GST/HST, will be equal to a specified percentage of the average net asset value of each of these series of the Fund (“Specified Percentage”). The Specified Percentage includes the management fee, administration fee, taxes (other than the additional cost of the GST/HST), other fund costs and any fees and expenses of the underlying funds. The Specified Percentage for Series A units is 1.85% and Series D units is 1.10%.

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

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

	Management fees*	Operating expenses
Series A	1.67%	0.05%
Series D	0.96%	0.05%
Series F	0.85%	0.05%

\* Management fees for Series A and Series D units represent the actual average management fee rate for the period ended June 30, 2017.

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

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

	June 30 2017	December 31 2016
<b>Units held</b>		
Series F	<b>103</b>	103
<b>Value of all units</b>	<b>1</b>	1

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

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

	June 30 2017		December 31 2016	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North Canadian Growth Fund	<b>3.0</b>	<b>2.7</b>	4.0	2.9
Phillips, Hager & North Total Return Bond Fund	<b>5.0</b>	<b>0.3</b>	–	–
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	<b>4.2</b>	<b>0.5</b>	4.4	0.4
RBC Asia Pacific ex-Japan Equity Fund	<b>3.1</b>	<b>0.9</b>	3.3	0.9
RBC Bond Fund	<b>20.0</b>	<b>0.6</b>	21.4	0.5
RBC Canadian Dividend Fund	<b>5.0</b>	<b>0.2</b>	4.9	0.1
RBC Canadian Equity Fund	<b>11.2</b>	<b>2.5</b>	11.5	2.0
RBC Emerging Markets Equity Fund	<b>3.6</b>	<b>0.6</b>	3.8	0.6
RBC European Equity Fund	<b>9.1</b>	<b>0.8</b>	9.5	0.7
RBC High Yield Bond Fund	<b>10.8</b>	<b>3.2</b>	11.6	2.5
RBC Japanese Equity Fund	<b>2.1</b>	<b>1.0</b>	2.2	0.9



June 30, 2017

	June 30 2017		December 31 2016	
	NAV	Ownership	NAV	Ownership
RBC O'Shaughnessy U.S. Value Fund	4.2	1.4	3.6	0.9
RBC Private U.S. Large-Cap Core Equity Pool	5.0	1.3	5.4	1.2
RBC QUBE Low Volatility Canadian Equity Fund	3.8	1.1	3.4	0.8
RBC U.S. Equity Fund	5.0	1.5	5.4	1.3
RBC U.S. Mid-Cap Growth Equity Fund	4.4	3.2	4.8	3.1

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

The Fund had no capital or non-capital losses as at December 31, 2016.

**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 June 30  
(see note 2 in the generic notes)

	2017	2016
<b>Series A</b>		
Opening units	33 587	21 168
Issued number of units	7 995	6 443
Reinvested number of units	–	–
Redeemed number of units	(827)	(515)
Ending number of units	40 755	27 096
<b>Series D</b>		
Opening units	434	287
Issued number of units	173	97
Reinvested number of units	–	–
Redeemed number of units	(43)	(17)
Ending number of units	564	367
<b>Series F</b>		
Opening units	85	–
Issued number of units	116	–
Reinvested number of units	–	–
Redeemed number of units	(4)	–
Ending number of units	197	–



June 30, 2017

## 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 August 10, 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 DZ, Series F, Series FT5, Series FT8, Series I and Series O.

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

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

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

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

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

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

Series I units have no sales charges, have lower fees than Series F units, Series FT5 units and Series FT8 units and

are only available to investors who invest and maintain the required minimum balance and who have accounts with dealers who have signed a fee-based agreement with RBC GAM.

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

## 2. Financial year/period

The information provided in these financial statements and notes thereto is for the six-month periods ended June 30, 2017 and 2016, or as at June 30, 2017 and December 31, 2016. 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 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.

June 30, 2017

**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.

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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

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:

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

#### 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%

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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. The management fee is calculated and accrued daily as a percentage of the net asset value of each series of units of the Funds. No management fees are paid by the Funds with respect to Series O units. Unitholders of Series O units pay a negotiated fee directly to RBC GAM for investment-counselling services.

The Funds pay a fixed administration fee to RBC GAM. The fixed administration fee is calculated and accrued daily as a percentage of the net asset value of each series of units of the Funds. RBC GAM in turn pays certain operating expenses of the Funds. These expenses include regulatory filing fees and other day-to-day operating expenses including, but not limited to, recordkeeping, accounting and fund valuation costs, custody fees, audit and legal fees and the costs of preparing and distributing annual and interim reports, prospectuses, statements and investor communications.

Notwithstanding the fixed administration fee, the Funds also pay certain operating expenses directly, including the costs related to the Independent Review Committee of the Funds, and the cost of any new government or regulatory requirements introduced and any borrowing costs (collectively, “other fund costs”), and taxes (including, but not limited to, GST/HST). Other fund costs will be allocated 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.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Funds, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Funds also maintain bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Funds in the course of their normal business, all of which are wholly owned subsidiaries of Royal Bank of Canada, are discussed below.

### ***Sub-Advisors***

RBC Global Asset Management (U.S.) Inc. is the sub-advisor for the RBC \$U.S. Investment Grade Corporate Bond Fund, RBC U.S. Mid-Cap Growth Equity Fund, RBC U.S. Mid-Cap Growth Equity Currency Neutral Fund, RBC U.S. Mid-Cap Value Equity Fund, RBC U.S. Small-Cap Core Equity Fund, RBC U.S. Small-Cap Value Equity Fund and Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund (for a portion of the Fund). RBC Global Asset Management (UK) Limited is the sub-advisor for the RBC Bond Fund (for a portion of the Fund), RBC Global Bond Fund (for a portion of the Fund), RBC Global Corporate Bond Fund (for a portion of the Fund), RBC Global High Yield Bond Fund (for a portion of the Fund), RBC Emerging Markets Bond Fund, RBC U.S. Monthly Income Fund (for a portion of the Fund), RBC Balanced Fund (for the European equity portion of the Fund), RBC Global Balanced Fund (for the European equity portion of the Fund), RBC Vision Balanced Fund (formerly, RBC Jantzi Balanced Fund) (for the European equity portion of the Fund), RBC International Dividend Growth Fund, RBC International Equity Fund (for the European equity portion of the Fund), RBC European Dividend Fund, RBC European Equity Fund, RBC European Mid-Cap Equity Fund, RBC Emerging Markets Dividend Fund, RBC Emerging Markets Equity Fund, RBC Emerging Markets Small-Cap Equity Fund, RBC Global Dividend Growth Fund, RBC Global Dividend Growth Currency Neutral Fund, RBC Global Equity Fund, RBC Global Equity Focus Fund, RBC Vision Global Equity Fund (formerly, RBC Jantzi Global Equity Fund),

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RBC Vision Fossil Fuel Free Global Equity Fund, Phillips, Hager & North Overseas Equity Fund and Phillips, Hager & North Global Equity Fund. RBC Investment Management (Asia) Limited is the sub-advisor for the RBC Balanced Fund (for the Asian equity portion of the Fund), RBC Global Balanced Fund (for the Asian equity portion of the Fund), RBC Vision Balanced Fund (formerly, RBC Jantzi Balanced Fund) (for the Asian equity portion of the Fund), RBC International Dividend Growth Fund (for the Asian equity portion of the Fund), RBC International Equity Fund (for the Asian equity portion of the Fund), RBC Asian Equity Fund, RBC Asia Pacific Ex-Japan Equity Fund and RBC Japanese Equity Fund. BlueBay Asset Management LLP is the sub-advisor of the BlueBay Global Monthly Income Bond Fund, BlueBay Global Sovereign Bond Fund (Canada), BlueBay Global Investment Grade Corporate Bond Fund (Canada), BlueBay European High Yield Bond Fund (Canada), BlueBay Emerging Markets Corporate Bond Fund, BlueBay Global Convertible Bond Fund (Canada) and BlueBay \$U.S. Global Convertible Bond Fund (Canada).

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

#### **Trustee**

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

#### **Distributors**

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

#### **Custodian**

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

#### **Registrars**

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

#### **Brokers and Dealers**

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

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

Pursuant to applicable securities legislation, the Funds relied on the standing instructions from the Independent Review Committee with respect to one or more of the following transactions:

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

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

##### *Inter-Fund Trading*

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other

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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.