

PHILLIPS, HAGER & NORTH FUNDS

2014 Annual Management Report of Fund Performance

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MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH
CANADIAN MONEY MARKET FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with a steady level of current income, capital preservation and liquidity by investing in a well-diversified portfolio of short-term Canadian money market securities with strong credit ratings. To achieve the Fund's investment objective, we invest in government or government guaranteed treasury bills, high-grade corporate notes, and asset-backed commercial paper. At the time of purchase, securities will generally have a term to maturity of less than 183 days and the portfolio's term to maturity will typically average 30 days. The Fund is conservatively managed and does not invest in foreign securities.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value decreased to \$1.3 billion as of December 31, 2014, from \$1.4 billion at the end of 2013. Of the change, \$14.5 million was due to investment returns, offset by \$180.2 million of net outflows.

As of December 31, 2014, the current yields were 0.7% for Series D units, 0.8% for Series F units, 1.2% for Series O units and 0.7% for Advisor Series units.

Over the past year, the Fund's Series D units gained 0.66%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

During the reporting period, the portfolio manager allocated all of the assets of the Fund to money-market instruments that pay a credit premium over Government of Canada Treasury bills. Such instruments included corporate notes, bank-sponsored asset-backed commercial paper, and bankers' acceptances, as well as a small allocation to short-term floating-rate notes.

With no changes to the Bank of Canada's (the "BOC") overnight target rate of 1% in 2014, and very little movement in Government of Canada Treasury bills, there were limited opportunities to add value via interest rate anticipation. The average term to maturity of the Fund was mainly influenced by the portfolio manager's credit strategies.

Throughout 2014, and consistent with much of the period since the BOC's target rate reached 1% in 2010, the portfolio manager focused primarily on corporate and asset-backed securities with a longer term to maturity than the Fund's benchmark, the FTSE TMX Canada 30 Day TBill Index, in order to obtain the wider credit premiums that exist further out in maturity.

Recent Developments

The strategies employed by the Fund have remained largely consistent since the start of the ultra-low interest rate cycle in 2009. There have been no meaningful shifts in the investment strategy this period or for the outlook for money market rates, which will likely remain on hold for the foreseeable future.

Related-Party Transactions**Manager and Portfolio Advisor**

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2013	10.00	0.12	(0.04)	–	–	0.08	(0.08)	–	–	–	(0.08)	10.00
Dec. 31, 2012	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2011	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2010	10.00	0.08	(0.04)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Advisor Series												
Dec. 31, 2014	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2013	10.00	0.12	(0.04)	–	–	0.08	(0.08)	–	–	–	(0.08)	10.00
Dec. 31, 2012	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2011	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2010 ³	10.00 [†]	0.01	(0.01)	–	–	–	–	–	–	–	–	10.00
Series D												
Dec. 31, 2014	10.00	0.12	(0.06)	–	–	0.06	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2013	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2012	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2011	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2010	10.00	0.08	(0.04)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Series F												
Dec. 31, 2014	10.00	0.12	(0.05)	–	–	0.07	(0.08)	–	–	–	(0.08)	10.00
Dec. 31, 2013	10.00	0.12	(0.04)	–	–	0.08	(0.08)	–	–	–	(0.08)	10.00
Dec. 31, 2012	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2011	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2010	10.00	0.08	(0.04)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Series O												
Dec. 31, 2014	10.00	0.12	–	–	–	0.12	(0.12)	–	–	–	(0.12)	10.00
Dec. 31, 2013	10.00	0.13	–	–	–	0.13	(0.13)	–	–	–	(0.13)	10.00
Dec. 31, 2012	10.00	0.12	–	–	–	0.12	(0.12)	–	–	–	(0.12)	10.00
Dec. 31, 2011	10.00	0.11	–	–	–	0.11	(0.11)	–	–	–	(0.11)	10.00
Dec. 31, 2010	10.00	0.08	–	–	–	0.08	(0.08)	–	–	–	(0.08)	10.00

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	10.00	4 313	431	0.54	0.54	n/a	—
Dec. 31, 2013	10.00	3 606	361	0.54	0.54	n/a	—
Dec. 31, 2012	10.00	6 820	682	0.54	0.54	n/a	—
Dec. 31, 2011	10.00	11 674	1 167	0.55	0.55	n/a	—
Dec. 31, 2010	10.00	11 201	1 120	0.37	0.37	n/a	—
Advisor Series							
Dec. 31, 2014	10.00	3 327	333	0.54	0.54	n/a	—
Dec. 31, 2013	10.00	4 741	474	0.55	0.55	n/a	—
Dec. 31, 2012	10.00	1 412	141	0.54	0.54	n/a	—
Dec. 31, 2011	10.00	8 497	850	0.55	0.55	n/a	—
Dec. 31, 2010 ⁴	10.00	690	69	0.37	0.37	n/a	—
Series D							
Dec. 31, 2014	10.00	271 683	27 168	0.57	0.57	n/a	—
Dec. 31, 2013	10.00	267 915	26 792	0.57	0.57	n/a	—
Dec. 31, 2012	10.00	293 820	29 382	0.56	0.56	n/a	—
Dec. 31, 2011	10.00	432 080	43 208	0.55	0.55	n/a	—
Dec. 31, 2010	10.00	459 423	45 942	0.41	0.41	n/a	—
Series F							
Dec. 31, 2014	10.00	5 237	524	0.48	0.48	n/a	—
Dec. 31, 2013	10.00	6 268	627	0.48	0.48	n/a	—
Dec. 31, 2012	10.00	7 204	720	0.50	0.50	n/a	—
Dec. 31, 2011	10.00	8 664	866	0.50	0.50	n/a	—
Dec. 31, 2010	10.00	7 607	761	0.37	0.37	n/a	—
Series O							
Dec. 31, 2014	10.00	980 168	98 017	0.03	0.03	n/a	—
Dec. 31, 2013	10.00	1 147 933	114 793	0.03	0.03	n/a	—
Dec. 31, 2012	10.00	948 553	94 855	0.03	0.03	n/a	—
Dec. 31, 2011	10.00	1 115 361	111 536	0.03	0.03	n/a	—
Dec. 31, 2010	10.00	903 528	90 353	0.03	0.03	n/a	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	up to 0.65%	38%	62%
Advisor Series	up to 0.65%	38%	62%
Series D	Note 1	23%	77%
Series F	up to 0.40%	–	100%

Note 1 – up to 0.50% (decreasing to 0.40% on the net Series D asset value over \$200,000,000).

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

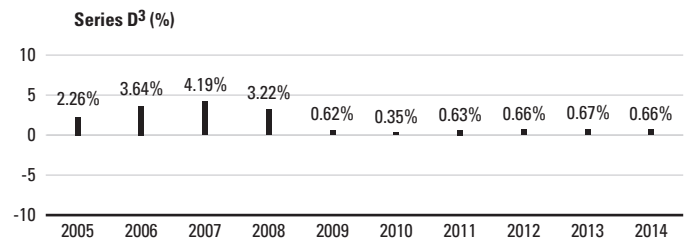
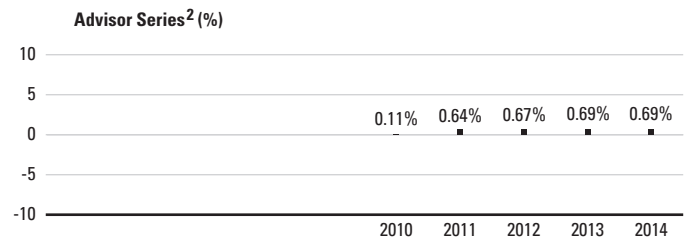
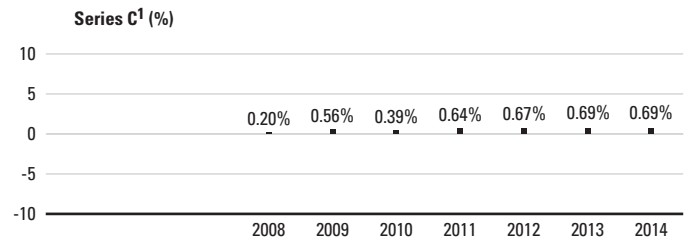
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

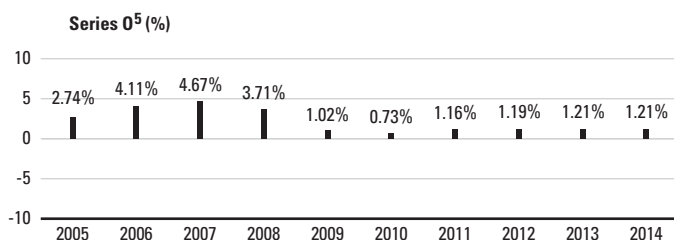
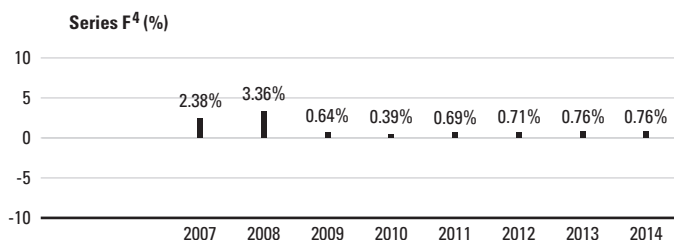
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)



¹ From November 2008.

² From October 2010.

³ Series D was known as Series A prior to November 17, 2008.

⁴ From June 2007.

⁵ From October 2002.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Corporate Notes	99.4
Cash/Other	0.6

Top 25 Holdings

	% of Net Asset Value
Bank of Nova Scotia 1.248% Feb 25 15	3.2
King Street Funding Trust 1.202% Jan 14 15	2.8
SOUND Trust 1.301% Jul 2 15	2.7
National Bank of Canada 1.214% Jan 30 15	2.4
Ridge Trust 1.269% Jan 5 15	2.4
Husky Energy Inc. 1.237% Jan 13 15	2.1
Bank of Nova Scotia 1.233% Feb 24 15	2.1
Prime Trust - Senior Notes 1.222% Feb 26 15	2.1
HSBC Bank Canada 1.231% Jan 28 15	2.0
Darwin Receivables Trust - Senior Notes 1.222% Feb 5 15	1.9
Bank of Montreal 1.209% Jan 28 15	1.9
Nissan Canada Financial Services Inc. 1.219% Jan 7 15	1.8
Bank of Montreal 1.356% Apr 27 15	1.8
Clarity Trust 1.261% Mar 30 15	1.6
Merit Trust - Senior Notes 1.291% Jul 2 15	1.6
Bay Street Funding Trust - Class A 1.270% Mar 5 15	1.5
AltaLink LP 1.254% Jan 29 15	1.5
Inter Pipeline Ltd. 1.226% Jan 16 15	1.5
Fusion Trust 1.222% Feb 13 15	1.4
Canadian Imperial Bank of Commerce 1.343% Mar 2 15	1.3
National Bank of Canada 1.192% Feb 19 15	1.3
Prime Trust - Senior Notes 1.208% Jan 22 15	1.3
Fusion Trust 1.261% Mar 24 15	1.3
SOUND Trust 1.281% Feb 26 15	1.2
Banner Trust 1.291% Jul 2 15	1.2
Top 25 Holdings	45.9

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH
\$U.S. MONEY MARKET FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

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Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE (in USD)**Investment Objective and Strategies**

The Fund seeks to provide investors with a steady level of current income while preserving capital by investing primarily in Canadian short-term debt instruments denominated in U.S. dollars. To achieve the Fund's investment objective, we invest in government or government-guaranteed treasury bills, asset-backed commercial paper and high-grade corporate notes. At the time of purchase, the portfolio's term to maturity will typically average 30 days. The Fund is managed within a conservative framework.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value decreased to \$55.4 million as of December 31, 2014, from \$73.9 million at the end of 2013. Of the change, \$18.6 million was due to net redemptions and the remainder to investment losses.

As of December 31, 2014, the current yields were 0.1% for Series D units, 0.1% for Series F units, 0.2% for Series O units and 0.1% for Advisor Series units.

Over the past year, the Fund's Series D units gained 0.13%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The Fund maintained a higher yield than its benchmark, the Citigroup 30 Day TBill Index (USD), by allocating all of its assets to money-market instruments that pay a credit premium over U.S. Federal Government Treasury bills. Such instruments included U.S.-dollar-denominated corporate notes, bank-sponsored asset-backed commercial paper, and bankers' acceptances, as well as a small allocation to short-term floating-rate notes issued by Canadian companies. The Fund also invested a small portion in U.S.-dollar-denominated fixed and floating-rate notes from Canadian provinces.

With no changes to the U.S. Federal Reserve Board's Federal Funds Rate in 2014, and very little movement in U.S. Federal Government Treasury bills, there were limited opportunities to add value through predicting the movement of interest rates. The average term to maturity of the Fund was influenced mainly by the portfolio manager's credit strategies. Throughout 2014, and consistent with much of the period since the Federal Funds Rate reached 0–0.25% in 2008, the portfolio manager focused primarily on securities with a longer term to maturity than the Fund's 30-day benchmark in order to obtain the wider credit premiums that exist further out in maturity.

Recent Developments

The strategies employed by the Fund have remained largely consistent since the start of the ultra-low interest rate cycle in 2008. There have been no meaningful shifts in the investment strategy this period. However, increases to the Federal Funds Rate may take place in 2015, which may lead to more active duration strategies in the Fund. The management fee continues to be reduced to ensure a modest but positive return in the Fund.

Related-Party Transactions***Manager and Portfolio Advisor***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS (in USD)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2012	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2011	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Dec. 31, 2010	10.00	0.03	(0.02)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Advisor Series												
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2012	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2011	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Dec. 31, 2010 ³	10.00 [†]	0.01	–	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Series D												
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2012	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2011	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Dec. 31, 2010	10.00	0.03	(0.02)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Series F												
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2012	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2011	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Dec. 31, 2010	10.00	0.03	(0.02)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
Series O												
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2013	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2012	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2011	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2010	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (in USD) (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	10.00	1 930	193	0.12	0.12	n/a	—
Dec. 31, 2013	10.00	2 368	237	0.12	0.12	n/a	—
Dec. 31, 2012	10.00	4 031	403	0.11	0.11	n/a	—
Dec. 31, 2011	10.00	3 389	339	0.14	0.14	n/a	—
Dec. 31, 2010	10.00	2 710	272	0.20	0.20	n/a	—
Advisor Series							
Dec. 31, 2014	10.00	93	9	0.12	0.12	n/a	—
Dec. 31, 2013	10.00	124	12	0.12	0.12	n/a	—
Dec. 31, 2012	10.00	236	24	0.11	0.11	n/a	—
Dec. 31, 2011	10.00	156	16	0.14	0.14	n/a	—
Dec. 31, 2010 ⁴	10.00	10	—	0.20	0.20	n/a	—
Series D							
Dec. 31, 2014	10.00	16 354	1 635	0.11	0.11	n/a	—
Dec. 31, 2013	10.00	25 105	2 511	0.11	0.11	n/a	—
Dec. 31, 2012	10.00	28 875	2 887	0.12	0.12	n/a	—
Dec. 31, 2011	10.00	29 924	2 992	0.14	0.14	n/a	—
Dec. 31, 2010	10.00	25 671	2 567	0.21	0.21	n/a	—
Series F							
Dec. 31, 2014	10.00	3 035	303	0.12	0.12	n/a	—
Dec. 31, 2013	10.00	4 837	484	0.12	0.12	n/a	—
Dec. 31, 2012	10.00	4 214	421	0.12	0.12	n/a	—
Dec. 31, 2011	10.00	6 743	674	0.12	0.12	n/a	—
Dec. 31, 2010	10.00	6 373	637	0.16	0.16	n/a	—
Series O							
Dec. 31, 2014	10.00	34 032	3 403	0.06	0.06	n/a	—
Dec. 31, 2013	10.00	41 491	4 149	0.06	0.06	n/a	—
Dec. 31, 2012	10.00	30 682	3 068	0.06	0.06	n/a	—
Dec. 31, 2011	10.00	25 294	2 529	0.06	0.06	n/a	—
Dec. 31, 2010	10.00	18 070	1 807	0.06	0.06	n/a	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (in USD) (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	up to 0.75%	33%	67%
Advisor Series	up to 0.75%	33%	67%
Series D	up to 0.50%	20%	80%
Series F	up to 0.50%	—	100%

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

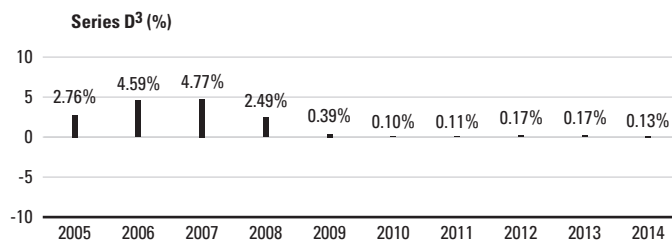
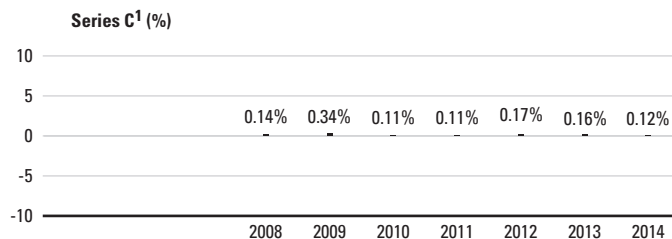
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE (in USD)

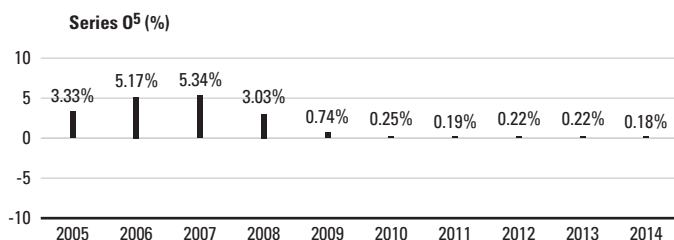
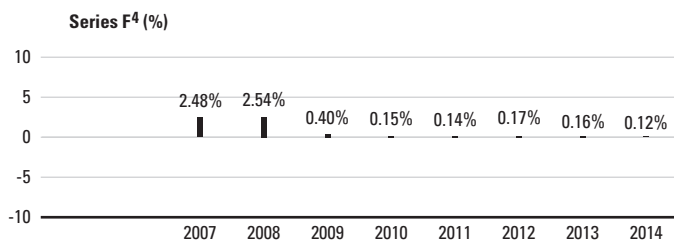
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (in USD) (cont.)



¹ From November 2008.

² From October 2010.

³ Series D was known as Series A prior to November 17, 2008.

⁴ From June 2007.

⁵ From October 2002.

SUMMARY OF INVESTMENT PORTFOLIO (in USD)

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Corporate Notes	98.0
Government Bonds	1.8
Cash/Other	0.2

Top 25 Holdings

	% of Net Asset Value
Bank of Montreal 0.090% Jan 12 15	6.5
Fusion Trust 0.280% Jan 6 15	4.5
Clarity Trust 0.361% Mar 16 15	4.2
Banner Trust 0.281% Mar 10 15	4.1
Ridge Trust 0.321% Mar 16 15	4.0
Zeus Receivables Trust - Senior Notes 0.220% Jan 6 15	4.0
Canadian Master Trust - Series A 0.295% Jan 9 15	3.9
Caisse Centrale Desjardins 0.171% Feb 4 15	3.9
Toronto-Dominion Bank 0.136% Jan 5 15	3.7
CDP Financial Inc. 0.151% Jan 5 15	3.6
HSBC Bank Canada 0.139% Jan 23 15	3.6
CPPIB Capital Inc. 0.160% Apr 28 15	3.6
PSP Capital Inc. 0.150% Jan 6 15	3.2
SAFE Trust - Series 1996-1 0.351% Jun 1 15	3.1
SOUND Trust 0.351% Feb 26 15	3.0
Merit Trust - Senior Notes 0.233% Jan 12 15	2.8
Darwin Receivables Trust - Senior Notes 0.388% Mar 30 15	2.7
Prime Trust - Senior Notes 0.275% Jan 26 15	2.7
Brookfield Asset Management Inc., Class A 0.340% Mar 16 15	2.6
Toronto-Dominion Bank 0.165% Jan 21 15	2.5
Nissan Canada Financial Services Inc. 0.234% Jan 5 15	2.5
Reliant Trust 0.253% Jan 30 15	2.5
Enbridge Inc. 0.211% Feb 26 15	2.5
TMX Group Ltd. 0.180% Jan 12 15	2.5
Toronto-Dominion Bank 0.139% Jan 12 15	2.3
Top 25 Holdings	84.5

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH
SHORT TERM BOND & MORTGAGE FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with relatively high yields and stability of capital by investing primarily in Canadian government and corporate bonds and multi-residential mortgages on property located in Canada in accordance with National Policy Statement No. 29. To achieve the Fund's investment objective, we invest in high-quality Canadian corporate bonds, government bonds, and up to 40% of the Fund's net assets in conventional first mortgages and mortgages guaranteed under the *National Housing Act* (Canada). We may also invest in asset-backed commercial paper. Securities purchased will generally not have a term to maturity exceeding seven years and three months, and the average term to maturity of the portfolio will generally be three years.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$4.7 billion as of December 31, 2014, from \$3.7 billion at the end of 2013. Of the change, \$882.0 million was due to net inflows and \$138.9 million to investment returns.

Over the past year, the Fund's Series D units gained 3.0%, which underperformed the benchmark return of 3.1%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

At the beginning of the year, the portfolio manager felt that short-term interest rates were close to their fair value, given the environment of slow economic growth, political risks and market imbalances. The Fund began the year with a neutral position on interest rates relative to its benchmark, the FTSE TMX Canada Short Term Bond Index. As interest rates declined over the year, the portfolio manager felt that yields had become unsustainably low, and shifted the positioning of the Fund moderately in anticipation that interest rates would rise from those levels. Additionally, the portfolio manager positioned the Fund with an overweight in five- to seven-year bonds, which outperformed the shorter one- to five-year bonds in the benchmark. The combination of these two strategies was slightly accretive to performance.

The portfolio manager held varying degrees of an overweight position in corporate bonds over the course of the year, due to their attractive yield premium over federal government bonds and a sound fundamental environment. The Fund's corporate bonds were a strong source of performance. The yield premium fell slightly over the first half of the year and corporate fundamentals, while still sound, became marginally less compelling. Accordingly, the overweight position in corporate bonds was reduced to a modest level in the second half of the year. Mortgages remained attractive throughout the reporting period from both a yield premium and fundamental perspective. The Fund maintained its allocation to this sector, which also added to performance. The portfolio manager found the yield premium of short-term provincial bonds too low compared to the other sectors, such as corporate bonds and mortgages, and held an underweight position in provincial bonds throughout 2014.

Recent Developments

Global socio-political uncertainty and crashing oil prices have brought renewed risk awareness and volatility to capital markets, including bond prices and yields. Economic growth expectations have been pared back in most developed nations, with the U.S. being an exception. On strong economic momentum, the U.S. Federal Reserve has indicated that hikes to its target rate could occur sometime in 2015, bringing an end to the "zero" interest rate policy in place since 2008. The anticipation of this long-awaited move has contributed to volatility. The end result for interest rates will be the difficult-to-predict outcome of a tug-of-war between a strong U.S. economy and a weakening Europe/Japan.

Related-Party Transactions***Manager and Portfolio Advisor***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series, Series H and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.42	0.30	(0.12)	0.02	0.06	0.26	(0.17)	–	–	–	(0.17)	10.50
Dec. 31, 2013	10.50	0.32	(0.12)	(0.04)	(0.06)	0.10	(0.20)	–	–	–	(0.20)	10.41
Dec. 31, 2012	10.53	0.32	(0.12)	(0.02)	(0.02)	0.16	(0.19)	–	–	–	(0.19)	10.50
Dec. 31, 2011	10.45	0.36	(0.12)	0.03	0.04	0.31	(0.23)	–	(0.01)	–	(0.24)	10.53
Dec. 31, 2010	10.47	0.41	(0.12)	0.06	(0.08)	0.27	(0.26)	–	(0.05)	–	(0.31)	10.45
Advisor Series												
Dec. 31, 2014	10.42	0.30	(0.12)	0.02	0.06	0.26	(0.18)	–	–	–	(0.18)	10.50
Dec. 31, 2013	10.50	0.30	(0.12)	(0.03)	(0.06)	0.09	(0.20)	–	–	–	(0.20)	10.41
Dec. 31, 2012	10.53	0.32	(0.12)	(0.02)	(0.02)	0.16	(0.19)	–	–	–	(0.19)	10.50
Dec. 31, 2011	10.45	0.36	(0.12)	0.03	0.04	0.31	(0.23)	–	(0.01)	–	(0.24)	10.53
Dec. 31, 2010 ³	10.63 [†]	0.07	(0.02)	0.01	(0.01)	0.05	(0.05)	–	(0.05)	–	(0.10)	10.45
Series H												
Dec. 31, 2014	10.42	0.30	(0.11)	0.02	0.05	0.26	(0.19)	–	–	–	(0.19)	10.49
Dec. 31, 2013	10.51	0.31	(0.11)	(0.04)	(0.06)	0.10	(0.21)	–	–	–	(0.21)	10.41
Dec. 31, 2012 ⁴	10.54 [†]	0.14	(0.05)	(0.01)	(0.01)	0.07	(0.09)	–	–	–	(0.09)	10.51
Series D												
Dec. 31, 2014	10.38	0.30	(0.06)	0.02	0.06	0.32	(0.24)	–	–	–	(0.24)	10.45
Dec. 31, 2013	10.47	0.31	(0.06)	(0.04)	(0.06)	0.15	(0.25)	–	–	–	(0.25)	10.37
Dec. 31, 2012	10.49	0.32	(0.06)	(0.02)	(0.02)	0.22	(0.25)	–	–	–	(0.25)	10.47
Dec. 31, 2011	10.42	0.36	(0.06)	0.03	0.04	0.37	(0.29)	–	(0.01)	–	(0.30)	10.49
Dec. 31, 2010	10.42	0.41	(0.06)	0.06	(0.08)	0.33	(0.31)	–	(0.05)	–	(0.36)	10.42
Series F												
Dec. 31, 2014	10.36	0.30	(0.06)	0.02	0.06	0.32	(0.24)	–	–	–	(0.24)	10.43
Dec. 31, 2013	10.45	0.31	(0.06)	(0.04)	(0.06)	0.15	(0.25)	–	–	–	(0.25)	10.35
Dec. 31, 2012	10.48	0.32	(0.06)	(0.02)	(0.02)	0.22	(0.25)	–	–	–	(0.25)	10.45
Dec. 31, 2011	10.40	0.36	(0.06)	0.03	0.04	0.37	(0.29)	–	(0.01)	–	(0.30)	10.48
Dec. 31, 2010	10.41	0.40	(0.06)	0.06	(0.08)	0.32	(0.31)	–	(0.05)	–	(0.36)	10.40
Series I												
Dec. 31, 2014	10.35	0.30	(0.05)	0.02	0.05	0.32	(0.25)	–	–	–	(0.25)	10.42
Dec. 31, 2013	10.45	0.31	(0.05)	(0.04)	(0.06)	0.16	(0.27)	–	–	–	(0.27)	10.34
Dec. 31, 2012 ⁴	10.48 [†]	0.14	(0.03)	(0.01)	(0.01)	0.09	(0.12)	–	–	–	(0.12)	10.45

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND**FINANCIAL HIGHLIGHTS (cont.)****Change in Net Assets Per Unit (\$) (cont.)**

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series O												
Dec. 31, 2014	10.08	0.29	(0.01)	0.02	0.05	0.35	(0.28)	—	—	—	(0.28)	10.17
Dec. 31, 2013	10.17	0.31	(0.01)	(0.04)	(0.06)	0.20	(0.30)	—	—	—	(0.30)	10.08
Dec. 31, 2012	10.19	0.31	(0.01)	(0.02)	(0.02)	0.26	(0.30)	—	—	—	(0.30)	10.17
Dec. 31, 2011	10.11	0.35	(0.01)	0.03	0.04	0.41	(0.33)	—	(0.01)	—	(0.34)	10.19
Dec. 31, 2010	10.14	0.40	(0.01)	0.06	(0.07)	0.38	(0.38)	—	(0.05)	—	(0.43)	10.11

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

⁴ From July 2012.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	10.50	172 126	16 394	1.16	1.16	213.40	—
Dec. 31, 2013	10.42	228 351	21 918	1.15	1.15	291.57	—
Dec. 31, 2012	10.51	298 468	30 262	1.15	1.15	236.97	—
Dec. 31, 2011	10.54	334 540	31 740	1.15	1.15	316.04	—
Dec. 31, 2010	10.46	293 873	28 085	1.13	1.13	321.53	—
Advisor Series							
Dec. 31, 2014	10.50	26 702	2 544	1.16	1.16	213.40	—
Dec. 31, 2013	10.42	29 762	2 857	1.15	1.15	291.57	—
Dec. 31, 2012	10.51	56 322	3 489	1.15	1.15	236.97	—
Dec. 31, 2011	10.54	27 700	2 628	1.15	1.15	316.04	—
Dec. 31, 2010 ⁴	10.46	7 659	732	1.13	1.13	321.53	—
Series H							
Dec. 31, 2014	10.49	69 357	6 611	1.03	1.03	213.40	—
Dec. 31, 2013	10.42	33 439	3 210	1.03	1.03	291.57	—
Dec. 31, 2012 ⁵	10.52	42 687	4 060	1.04	1.04	236.97	—
Series D							
Dec. 31, 2014	10.45	227 660	21 775	0.60	0.60	213.40	—
Dec. 31, 2013	10.38	223 561	21 543	0.60	0.60	291.57	—
Dec. 31, 2012	10.47	270 195	25 799	0.61	0.61	236.97	—
Dec. 31, 2011	10.50	290 682	27 674	0.61	0.61	316.04	—
Dec. 31, 2010	10.43	272 713	26 142	0.59	0.59	321.53	—

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND**FINANCIAL HIGHLIGHTS (cont.)****Ratios and Supplemental Data (cont.)**

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series F							
Dec. 31, 2014	10.43	115 516	11 071	0.61	0.61	213.40	—
Dec. 31, 2013	10.36	111 207	10 736	0.61	0.61	291.57	—
Dec. 31, 2012	10.46	115 079	11 007	0.61	0.61	236.97	—
Dec. 31, 2011	10.49	121 186	11 557	0.61	0.61	316.04	—
Dec. 31, 2010	10.41	103 749	9 962	0.59	0.59	321.53	—
Series I							
Dec. 31, 2014	10.42	35 330	3 390	0.49	0.49	213.40	—
Dec. 31, 2013	10.35	20 777	2 007	0.50	0.50	291.57	—
Dec. 31, 2012 ⁵	10.45	19 544	1 869	0.51	0.51	236.97	—
Series O							
Dec. 31, 2014	10.17	4 033 918	396 757	0.06	0.06	213.40	—
Dec. 31, 2013	10.08	3 012 624	298 732	0.06	0.06	291.57	—
Dec. 31, 2012	10.17	2 693 820	264 796	0.06	0.06	236.97	—
Dec. 31, 2011	10.20	2 006 961	196 807	0.06	0.06	316.04	—
Dec. 31, 2010	10.12	1 322 295	130 633	0.05	0.05	321.53	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

⁵ From July 2012.

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.00%	50%	50%
Advisor Series	1.00%	50%	50%
Series H	0.90%	56%	44%
Series D	0.50%	30%	70%
Series F	0.50%	—	100%
Series I	0.40%	—	100%

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

* Includes all costs related to management, investment advisory services, general administration and profit.

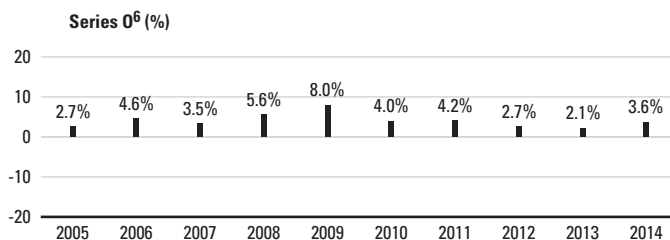
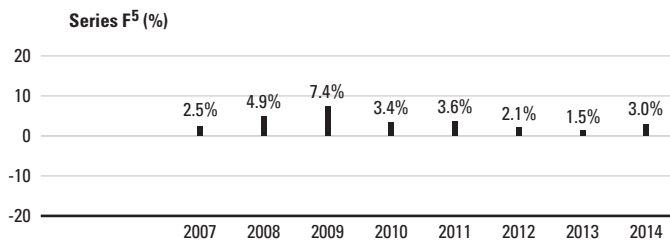
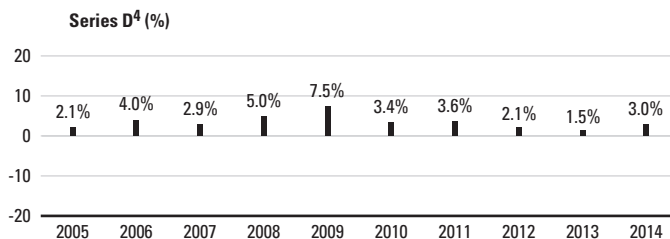
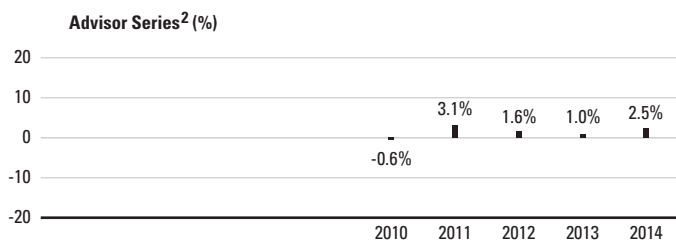
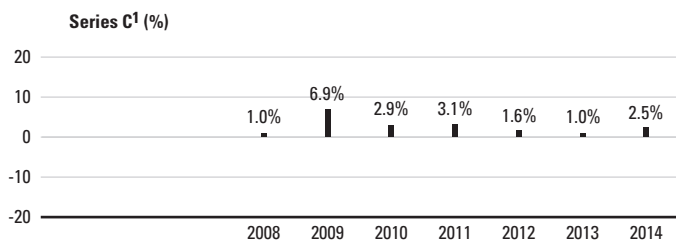
PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

FTSE TMX Canada Short Term Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	2.5	1.7	2.2	–	3.1
Benchmark	3.1	2.3	3.0	–	3.5
Advisor Series ²	2.5	1.7	–	–	1.8
Benchmark	3.1	2.3	–	–	2.6
Series H ³	2.6	–	–	–	1.8
Benchmark	3.1	–	–	–	2.4
Series D ⁴	3.0	2.2	2.7	3.5	–
Benchmark	3.1	2.3	3.0	3.8	–
Series F ⁵	3.0	2.2	2.7	–	3.8
Benchmark	3.1	2.3	3.0	–	4.2
Series I ³	3.1	–	–	–	2.3
Benchmark	3.1	–	–	–	2.4
Series O ⁶	3.6	2.8	3.3	4.1	–
Benchmark	3.1	2.3	3.0	3.8	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date July 2012.

⁴ Inception date December 1993.

⁵ Inception date June 2007.

⁶ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

FTSE TMX Canada Short Term Bond Index* This index is a measure of the performance of Canadian bonds with terms to maturity of one to five years and is a good proxy for a short-term fixed-income investment.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Corporate Bonds	45.3
Federal Bonds	23.1
Mortgages	14.7
Mortgage-Backed Bonds	4.8
Provincial Bonds	4.3
Cash/Other	7.8

Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	7.3
Canada Housing Trust No. 1 2.750% Jun 15 16	6.6
Canada Housing Trust No. 1 2.050% Jun 15 17	4.3
Canada Housing Trust No. 1 2.000% Dec 15 19	3.5
Government of Canada 1.750% Sep 1 19	3.3
Province of Ontario 4.400% Jun 2 19	2.4
Bank of Montreal 2.960% Aug 2 16	1.9
Cards II Trust 1.984% Jan 15 16	1.8
Province of Ontario 2.100% Sep 8 19	1.7
Canada Housing Trust No. 1 1.950% Jun 15 19	1.6
Bank of Nova Scotia 2.740% Dec 1 16	1.6
Canada Housing Trust No. 1 2.350% Dec 15 18	1.4
Canadian Imperial Bank of Commerce 2.650% Nov 8 16	1.4
Royal Bank of Canada 2.580% Apr 13 17	1.1
Toronto-Dominion Bank 2.433% Aug 15 17	1.0
Canadian Imperial Bank of Commerce 4.110% Apr 30 20	1.0
Bank of Nova Scotia 2.100% Nov 8 16	0.9
Royal Bank of Canada 2.680% Dec 8 16	0.9
Bank of Nova Scotia 4.100% Jun 8 17	0.8
Royal Bank of Canada 2.260% Mar 12 18	0.8
HSBC Bank Canada 2.901% Jan 13 17	0.8
Government of Canada 1.500% Feb 1 17	0.7
Canadian Imperial Bank of Commerce 1.750% Jun 1 16	0.7
Toronto-Dominion Bank 1.824% Apr 3 17	0.7
National Grid Electricity Transmission Plc. CAD 2.730% Sep 20 17	0.7
Top 25 Holdings	48.9

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

FIXED-INCOME FUND

PHILLIPS, HAGER & NORTH BOND FUND*December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with relatively high yields and stability of capital by investing in a well-diversified portfolio of fixed-income securities issued primarily by Canadian governments and corporations. Through a mix of interest income and capital appreciation, the Fund aims to provide a competitive rate of return while controlling the interest rate and credit risks to which it is exposed. To achieve the Fund's investment objective, we invest primarily in high-quality Canadian corporate and government bonds issued in either Canadian or U.S. dollars. We may also invest in asset-backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, and typically falls between seven and 12 years.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value decreased to \$8.6 billion as of December 31, 2014, from \$9.8 billion at the end of 2013. Of the change, \$853.0 million was due to investment returns, offset by \$2.0 billion of net redemptions.

Over the past year, the Fund's Series D units gained 8.7%, which underperformed the benchmark return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

At the beginning of the year, the portfolio manager felt that interest rates were close to their fair value, given the environment of slow economic growth, political risks and market imbalances. The Fund began the year with a neutral position on interest rates relative to its benchmark, the FTSE TMX Canada Universe Bond Index. As interest rates declined in the first half of the year, the portfolio manager felt that yields had become unsustainably low, and modestly shifted the positioning of the Fund in anticipation that interest rates would rise from those levels. Over the summer, with a new, slower economic growth picture developing, the portfolio manager moved the Fund's interest rate position back towards neutral for the remainder of the year. Additionally, the portfolio manager positioned the Fund with

an overweight in seven- to 10-year bonds, which were among the best performing along the yield curve. The combination of these two strategies was slightly accretive to performance.

The portfolio manager held varying degrees of an overweight position in corporate bonds throughout the year, due to their attractive yield premium over federal government bonds and a sound fundamental environment. The Fund's corporate bonds were a strong source of performance. The yield premium fell slightly over the first half of the year and corporate fundamentals, while still sound, became marginally less compelling. Accordingly, the overweight position in corporate bonds was reduced to a modest level in the second half of the year. The portfolio manager found the yield premium of provincial bonds more compelling, and maintained a more meaningful overweight position (when compared to the benchmark) in that sector over the year. Provincial bonds were also accretive to performance.

Recent Developments

Global socio-political uncertainty and crashing oil prices have brought renewed risk awareness and volatility to capital markets, including bond prices and yields. Economic growth expectations have been pared back in most developed nations, with the U.S. being an exception. On strong economic momentum, the U.S. Federal Reserve has indicated that hikes to its target rate could occur sometime in 2015, bringing an end to the "zero" interest rate policy in place since 2008. The anticipation of this long-awaited move has contributed to volatility. The end result for interest rates will be the difficult-to-predict outcome of a tug-of-war between a strong U.S. economy and a weakening Europe/Japan.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.21	0.37	(0.12)	0.17	0.42	0.84	(0.24)	–	(0.04)	–	(0.28)	10.74
Dec. 31, 2013	10.65	0.38	(0.12)	(0.02)	(0.42)	(0.18)	(0.25)	–	(0.02)	–	(0.27)	10.19
Dec. 31, 2012	10.75	0.39	(0.13)	0.17	(0.13)	0.30	(0.26)	–	(0.15)	–	(0.41)	10.65
Dec. 31, 2011	10.31	0.42	(0.12)	0.16	0.36	0.82	(0.29)	–	(0.06)	–	(0.35)	10.75
Dec. 31, 2010	10.14	0.46	(0.11)	0.14	0.11	0.60	(0.35)	–	(0.12)	–	(0.47)	10.31
Advisor Series												
Dec. 31, 2014	10.21	0.38	(0.12)	0.17	0.42	0.85	(0.24)	–	(0.04)	–	(0.28)	10.74
Dec. 31, 2013	10.65	0.37	(0.12)	(0.02)	(0.41)	(0.18)	(0.24)	–	(0.02)	–	(0.26)	10.19
Dec. 31, 2012	10.75	0.39	(0.13)	0.17	(0.13)	0.30	(0.26)	–	(0.15)	–	(0.41)	10.65
Dec. 31, 2011	10.31	0.42	(0.12)	0.16	0.36	0.82	(0.29)	–	(0.06)	–	(0.35)	10.75
Dec. 31, 2010 ³	10.63 [†]	0.08	(0.02)	0.02	0.02	0.10	(0.08)	–	(0.12)	–	(0.20)	10.31
Series D												
Dec. 31, 2014	10.12	0.37	(0.06)	0.17	0.41	0.89	(0.30)	–	(0.04)	–	(0.34)	10.65
Dec. 31, 2013	10.57	0.37	(0.06)	(0.02)	(0.42)	(0.13)	(0.30)	–	(0.02)	–	(0.32)	10.11
Dec. 31, 2012	10.67	0.39	(0.07)	0.17	(0.13)	0.36	(0.32)	–	(0.15)	–	(0.47)	10.57
Dec. 31, 2011	10.24	0.42	(0.06)	0.16	0.36	0.88	(0.35)	–	(0.06)	–	(0.41)	10.67
Dec. 31, 2010	10.06	0.46	(0.06)	0.14	0.11	0.65	(0.39)	–	(0.12)	–	(0.51)	10.24
Series F												
Dec. 31, 2014	10.17	0.38	(0.06)	0.17	0.42	0.91	(0.30)	–	(0.04)	–	(0.34)	10.70
Dec. 31, 2013	10.62	0.38	(0.06)	(0.02)	(0.42)	(0.12)	(0.30)	–	(0.02)	–	(0.32)	10.16
Dec. 31, 2012	10.72	0.39	(0.07)	0.17	(0.13)	0.36	(0.32)	–	(0.15)	–	(0.47)	10.62
Dec. 31, 2011	10.28	0.42	(0.06)	0.16	0.36	0.88	(0.35)	–	(0.06)	–	(0.41)	10.72
Dec. 31, 2010	10.10	0.46	(0.06)	0.14	0.11	0.65	(0.39)	–	(0.12)	–	(0.51)	10.28
Series O												
Dec. 31, 2014	10.15	0.37	–	0.17	0.41	0.95	(0.38)	–	(0.04)	–	(0.42)	10.67
Dec. 31, 2013	10.60	0.37	–	(0.02)	(0.42)	(0.07)	(0.37)	–	(0.02)	–	(0.39)	10.14
Dec. 31, 2012	10.70	0.39	–	0.17	(0.13)	0.43	(0.38)	–	(0.15)	–	(0.53)	10.60
Dec. 31, 2011	10.27	0.41	–	0.16	0.36	0.93	(0.41)	–	(0.06)	–	(0.47)	10.70
Dec. 31, 2010	10.07	0.46	–	0.14	0.11	0.71	(0.44)	–	(0.12)	–	(0.56)	10.27

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	10.74	117 482	10 944	1.16	1.16	232.92	—
Dec. 31, 2013	10.21	143 042	14 017	1.16	1.16	356.05	—
Dec. 31, 2012	10.66	229 300	21 507	1.16	1.16	244.30	—
Dec. 31, 2011	10.76	192 971	17 926	1.17	1.17	158.96	—
Dec. 31, 2010	10.33	138 241	13 386	1.14	1.14	166.39	—
Advisor Series							
Dec. 31, 2014	10.74	35 732	3 328	1.16	1.16	232.92	—
Dec. 31, 2013	10.21	34 982	3 428	1.16	1.16	356.05	—
Dec. 31, 2012	10.66	43 243	4 056	1.16	1.16	244.30	—
Dec. 31, 2011	10.76	22 764	2 115	1.17	1.17	158.96	—
Dec. 31, 2010 ⁴	10.33	1 983	192	1.14	1.14	166.39	—
Series D							
Dec. 31, 2014	10.65	622 449	58 463	0.60	0.60	232.92	—
Dec. 31, 2013	10.12	636 614	62 906	0.60	0.60	356.05	—
Dec. 31, 2012	10.58	832 584	78 724	0.61	0.61	244.30	—
Dec. 31, 2011	10.68	861 453	80 648	0.61	0.61	158.96	—
Dec. 31, 2010	10.25	820 284	80 022	0.59	0.59	166.39	—
Series F							
Dec. 31, 2014	10.70	78 952	7 380	0.60	0.60	232.92	—
Dec. 31, 2013	10.17	76 377	7 511	0.61	0.61	356.05	—
Dec. 31, 2012	10.63	115 702	10 889	0.61	0.61	244.30	—
Dec. 31, 2011	10.73	97 683	9 104	0.61	0.61	158.96	—
Dec. 31, 2010	10.30	69 654	6 766	0.60	0.60	166.39	—
Series O							
Dec. 31, 2014	10.67	7 782 781	729 576	0.02	0.02	232.92	—
Dec. 31, 2013	10.15	8 931 735	879 564	0.02	0.02	356.05	—
Dec. 31, 2012	10.61	7 291 432	687 096	0.02	0.02	244.30	—
Dec. 31, 2011	10.71	6 080 197	567 456	0.02	0.02	158.96	—
Dec. 31, 2010	10.28	4 629 060	450 231	0.02	0.02	166.39	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.00%	50%	50%
Advisor Series	1.00%	50%	50%
Series D	0.50%	30%	70%
Series F	0.50%	–	100%

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

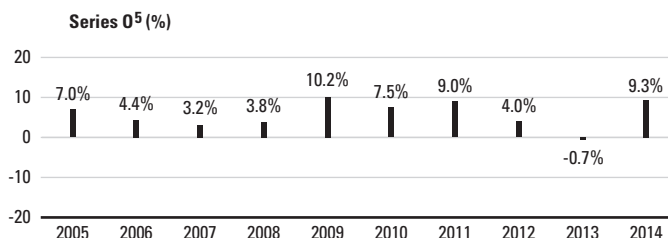
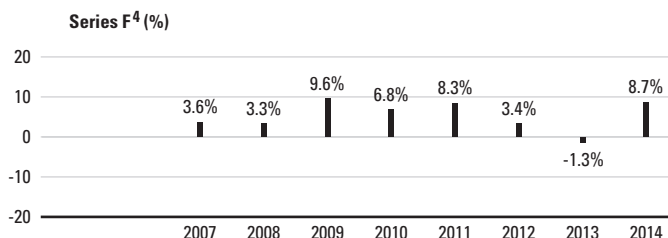
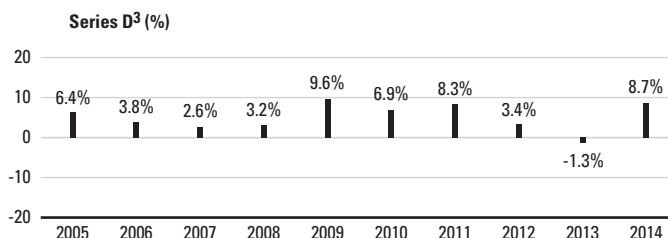
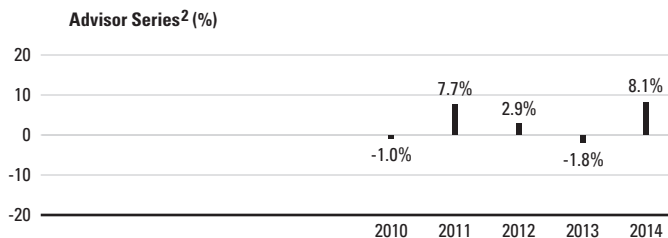
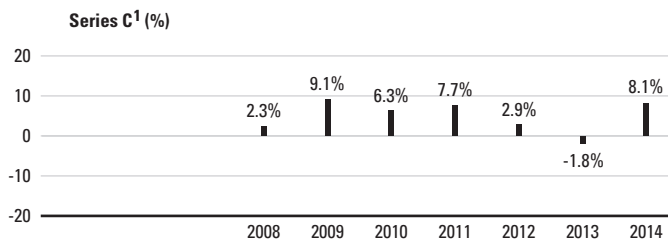
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

FTSE TMX Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	8.1	3.0	4.6	—	5.6
Benchmark	8.8	3.7	5.4	—	5.9
Advisor Series ²	8.1	3.0	—	—	3.7
Benchmark	8.8	3.7	—	—	4.7
Series D ³	8.7	3.5	5.1	5.1	—
Benchmark	8.8	3.7	5.4	5.3	—
Series F ⁴	8.7	3.5	5.1	—	5.6
Benchmark	8.8	3.7	5.4	—	5.8
Series O ⁵	9.3	4.1	5.7	5.7	—
Benchmark	8.8	3.7	5.4	5.3	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date December 1970.

⁴ Inception date June 2007.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Corporate Bonds	38.4
Provincial Bonds	34.1
Federal Bonds	17.5
Mortgages	0.7
Municipal Bonds	0.3
Cash/Other	9.0

Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	8.4
Province of Ontario 6.500% Mar 8 29	7.4
Province of Ontario 7.600% Jun 2 27	5.4
Province of Ontario 3.450% Jun 2 45	3.5
Government of Canada 3.500% Dec 1 45	3.0
Canada Housing Trust No. 1 3.800% Jun 15 21	2.7
Province of Ontario 3.500% Jun 2 24	2.6
Province of Ontario 3.500% Jun 2 43	2.4
Canada Housing Trust No. 1 2.000% Dec 15 19	2.3
Province of Ontario 8.100% Sep 8 23	1.8
Canada Housing Trust No. 1 4.100% Dec 15 18	1.6
Canada Housing Trust No. 1 3.350% Dec 15 20	1.5
Province of Quebec 8.500% Apr 1 26	1.4
Province of Ontario 8.500% Dec 2 25	1.3
Canada Housing Trust No. 1 3.750% Mar 15 20	1.2
Canada Housing Trust No. 1 1.950% Jun 15 19	1.1
Bank of Nova Scotia 2.100% Nov 8 16	1.0
Ontario Electricity Financial Corp. 8.250% Jun 22 26	1.0
Royal Bank of Canada 2.260% Mar 12 18	0.9
Government of Canada 1.750% Sep 1 19	0.9
Canada Housing Trust No. 1 2.650% Mar 15 22	0.9
Bank of Nova Scotia 2.740% Dec 1 16	0.8
Province of Quebec 9.375% Jan 16 23	0.8
Royal Bank of Canada 3.660% Jan 25 17	0.8
Province of Ontario 6.200% Jun 2 31	0.7
Top 25 Holdings	55.4

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH
COMMUNITY VALUES BOND FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with relatively high yields and stability of capital by investing primarily in a well-diversified portfolio of fixed-income securities issued by Canadian governments and corporations that conduct themselves in a socially responsible manner. To achieve the Fund's investment objective, we invest primarily in high-quality Canadian corporate and government bonds issued in Canadian or U.S. dollars. We may also invest in asset-backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, typically between seven and 12 years.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$154.0 million as of December 31, 2014, from \$146.2 million at the end of 2013. Of the change, \$12.8 million was due to investment returns, offset by \$5.0 million of net redemptions.

Over the past year, the Fund's Series D units gained 8.6%, which underperformed the benchmark return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

At the beginning of the year, the portfolio manager felt that interest rates were close to their fair value, given the environment of slow economic growth, political risks and market imbalances. The Fund began the year with a neutral position on interest rates relative to its benchmark, the FTSE TMX Canada Universe Bond Index. As interest rates declined in the first half of the year, the portfolio manager felt that yields had become unsustainably low, and modestly shifted the positioning of the Fund in anticipation that interest rates would rise from those levels. Over the summer, with a new, slower economic growth picture developing, the portfolio manager moved the Fund's interest rate position back towards neutral for the remainder of the year. Additionally, the portfolio manager positioned the Fund with an overweight in seven- to 10-year bonds, which were among the best performing along the yield curve. The combination of these two strategies was slightly accretive to performance.

The portfolio manager held varying degrees of an overweight position in corporate bonds throughout the year, due to their attractive yield premium over federal government bonds and a sound fundamental environment. The Fund's corporate bonds were a strong source of performance. The yield premium fell slightly over the first half of the year and corporate fundamentals, while still sound, became marginally less compelling. Accordingly, the overweight position in corporate bonds was reduced to a modest level in the second half of the year. The portfolio manager found the yield premium of provincial bonds more compelling, and maintained a more meaningful overweight position (when compared to the benchmark) in that sector over the year. Provincial bonds were also accretive to performance.

Recent Developments

Global socio-political uncertainty and crashing oil prices have brought renewed risk awareness and volatility to capital markets, including bond prices and yields. Economic growth expectations have been pared back in most developed nations, with the U.S. being an exception. On strong economic momentum, the U.S. Federal Reserve has indicated that hikes to its target rate could occur sometime in 2015, bringing an end to the "zero" interest rate policy in place since 2008. The anticipation of this long-awaited move has contributed to volatility. The end result for interest rates will be the difficult-to-predict outcome of a tug-of-war between a strong U.S. economy and a weakening Europe/Japan.

Related-Party Transactions**Manager and Portfolio Advisor**

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

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Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.68	0.38	(0.13)	0.14	0.46	0.85	(0.25)	–	(0.03)	–	(0.28)	11.24
Dec. 31, 2013	11.20	0.39	(0.13)	–	(0.45)	(0.19)	(0.26)	–	(0.07)	–	(0.33)	10.66
Dec. 31, 2012	11.39	0.41	(0.13)	0.30	(0.27)	0.31	(0.28)	–	(0.23)	–	(0.51)	11.20
Dec. 31, 2011	10.95	0.43	(0.12)	0.26	0.30	0.87	(0.30)	–	(0.08)	–	(0.38)	11.39
Dec. 31, 2010	10.81	0.46	(0.12)	0.18	0.12	0.64	(0.36)	–	(0.15)	–	(0.51)	10.95
Advisor Series												
Dec. 31, 2014	10.68	0.38	(0.13)	0.14	0.46	0.85	(0.25)	–	(0.03)	–	(0.28)	11.24
Dec. 31, 2013	11.20	0.39	(0.13)	–	(0.45)	(0.19)	(0.26)	–	(0.07)	–	(0.33)	10.66
Dec. 31, 2012	11.39	0.41	(0.13)	0.30	(0.27)	0.31	(0.28)	–	(0.23)	–	(0.51)	11.20
Dec. 31, 2011	10.95	0.43	(0.12)	0.26	0.30	0.87	(0.30)	–	(0.08)	–	(0.38)	11.39
Dec. 31, 2010 ³	11.32 [†]	0.08	(0.02)	0.03	0.02	0.11	(0.09)	–	(0.15)	–	(0.24)	10.95
Series D												
Dec. 31, 2014	10.60	0.38	(0.07)	0.14	0.46	0.91	(0.31)	–	(0.03)	–	(0.34)	11.16
Dec. 31, 2013	11.13	0.39	(0.07)	–	(0.45)	(0.13)	(0.32)	–	(0.07)	–	(0.39)	10.59
Dec. 31, 2012	11.33	0.41	(0.07)	0.29	(0.27)	0.36	(0.34)	–	(0.23)	–	(0.57)	11.13
Dec. 31, 2011	10.89	0.42	(0.06)	0.26	0.29	0.91	(0.36)	–	(0.08)	–	(0.44)	11.33
Dec. 31, 2010	10.74	0.46	(0.06)	0.18	0.12	0.70	(0.41)	–	(0.15)	–	(0.56)	10.89
Series F												
Dec. 31, 2014	10.64	0.38	(0.07)	0.14	0.46	0.91	(0.31)	–	(0.03)	–	(0.34)	11.21
Dec. 31, 2013	11.17	0.39	(0.07)	–	(0.45)	(0.13)	(0.32)	–	(0.07)	–	(0.39)	10.63
Dec. 31, 2012	11.36	0.41	(0.07)	0.30	(0.27)	0.37	(0.34)	–	(0.23)	–	(0.57)	11.17
Dec. 31, 2011	10.92	0.42	(0.06)	0.26	0.30	0.92	(0.36)	–	(0.08)	–	(0.44)	11.36
Dec. 31, 2010	10.77	0.46	(0.06)	0.18	0.12	0.70	(0.41)	–	(0.15)	–	(0.56)	10.92
Series O												
Dec. 31, 2014	10.48	0.37	(0.01)	0.14	0.45	0.95	(0.37)	–	(0.03)	–	(0.40)	11.03
Dec. 31, 2013	11.00	0.38	(0.01)	–	(0.44)	(0.07)	(0.38)	–	(0.07)	–	(0.45)	10.47
Dec. 31, 2012	11.20	0.41	(0.01)	0.29	(0.26)	0.43	(0.40)	–	(0.23)	–	(0.63)	11.00
Dec. 31, 2011	10.76	0.42	(0.01)	0.25	0.29	0.95	(0.41)	–	(0.08)	–	(0.49)	11.20
Dec. 31, 2010	10.61	0.45	(0.01)	0.18	0.12	0.74	(0.45)	–	(0.15)	–	(0.60)	10.76

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	11.24	6 941	617	1.15	1.15	218.50	—
Dec. 31, 2013	10.68	6 327	593	1.15	1.15	316.19	—
Dec. 31, 2012	11.21	8 260	737	1.15	1.15	255.12	—
Dec. 31, 2011	11.41	7 889	692	1.16	1.16	162.93	—
Dec. 31, 2010	10.97	5 272	481	1.13	1.13	149.79	—
Advisor Series							
Dec. 31, 2014	11.24	3 959	352	1.15	1.15	218.50	—
Dec. 31, 2013	10.68	4 296	402	1.15	1.15	316.19	—
Dec. 31, 2012	11.21	4 199	375	1.15	1.15	255.12	—
Dec. 31, 2011	11.41	2 346	206	1.16	1.16	162.93	—
Dec. 31, 2010 ⁴	10.97	—	—	1.13	1.13	149.79	—
Series D							
Dec. 31, 2014	11.16	18 979	1 700	0.60	0.60	218.50	—
Dec. 31, 2013	10.60	17 931	1 691	0.60	0.60	316.19	—
Dec. 31, 2012	11.14	22 251	1 998	0.61	0.61	255.12	—
Dec. 31, 2011	11.34	21 546	1 900	0.62	0.62	162.93	—
Dec. 31, 2010	10.90	20 990	1 926	0.60	0.60	149.79	—
Series F							
Dec. 31, 2014	11.21	4 983	445	0.61	0.61	218.50	—
Dec. 31, 2013	10.64	4 060	382	0.61	0.61	316.19	—
Dec. 31, 2012	11.18	3 808	341	0.61	0.61	255.12	—
Dec. 31, 2011	11.38	3 467	305	0.61	0.61	162.93	—
Dec. 31, 2010	10.94	3 215	294	0.61	0.61	149.79	—
Series O							
Dec. 31, 2014	11.03	119 158	10 801	0.06	0.06	218.50	—
Dec. 31, 2013	10.48	113 627	10 840	0.06	0.06	316.19	—
Dec. 31, 2012	11.01	108 817	9 882	0.06	0.06	255.12	—
Dec. 31, 2011	11.21	98 386	8 774	0.06	0.06	162.93	—
Dec. 31, 2010	10.78	100 103	9 290	0.06	0.06	149.79	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.00%	50%	50%
Advisor Series	1.00%	50%	50%
Series D	0.50%	30%	70%
Series F	0.50%	–	100%

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

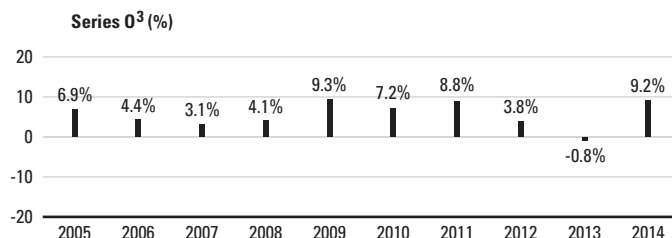
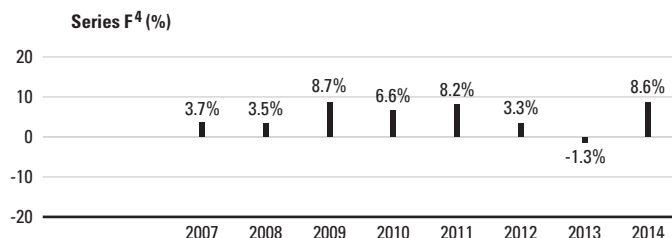
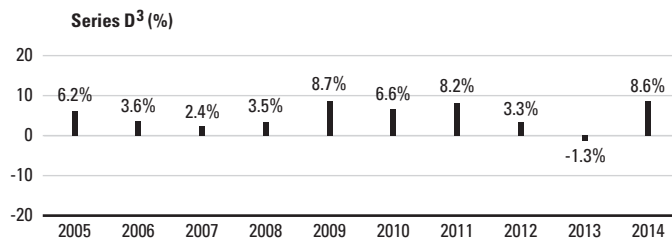
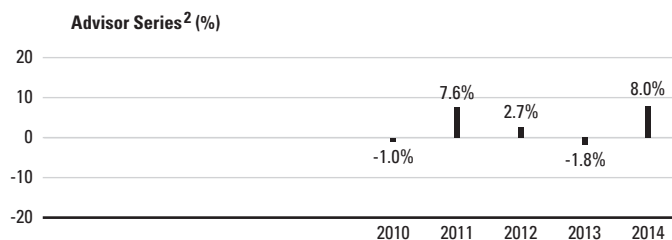
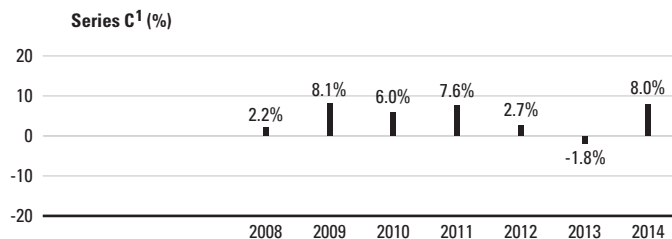
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund’s performance for each of the years shown, and illustrates how the Fund’s performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

FTSE TMX Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	8.0	2.9	4.4	—	5.3
Benchmark	8.8	3.7	5.4	—	5.9
Advisor Series ²	8.0	2.9	—	—	3.6
Benchmark	8.8	3.7	—	—	4.7
Series D ³	8.6	3.4	5.0	4.9	—
Benchmark	8.8	3.7	5.4	5.3	—
Series F ⁴	8.6	3.4	5.0	—	5.5
Benchmark	8.8	3.7	5.4	—	5.8
Series O ³	9.2	4.0	5.6	5.5	—
Benchmark	8.8	3.7	5.4	5.3	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date September 2002.

⁴ Inception date June 2007.

Series D was known as Series A prior to November 17, 2008. Although the Fund was prospectused in August 2002, Series A and Series O units were not offered for sale until September 2002. We are therefore not permitted to disclose performance data for this Fund for any period prior to September 2002.

INDEX DESCRIPTION

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Corporate Bonds	37.7
Provincial Bonds	34.2
Federal Bonds	17.9
Municipal Bonds	0.4
Cash/Other	9.8

Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	9.2
Province of Ontario 6.500% Mar 8 29	7.5
Province of Ontario 7.600% Jun 2 27	5.1
Province of Ontario 3.450% Jun 2 45	3.8
Government of Canada 3.500% Dec 1 45	3.4
Province of Ontario 3.500% Jun 2 24	2.8
Canada Housing Trust No. 1 2.000% Dec 15 19	2.6
Canada Housing Trust No. 1 3.800% Jun 15 21	2.4
Province of Ontario 3.500% Jun 2 43	2.2
National Grid Electricity Transmission Plc. CAD 2.730% Sep 20 17	1.8
Province of Quebec 8.500% Apr 1 26	1.8
Canadian Imperial Bank of Commerce 1.750% Jun 1 16	1.7
Province of Ontario 8.100% Sep 8 23	1.7
Canada Housing Trust No. 1 4.100% Dec 15 18	1.6
Bank of Nova Scotia 2.100% Nov 8 16	1.5
Canada Housing Trust No. 1 3.350% Dec 15 20	1.5
Canada Housing Trust No. 1 1.950% Jun 15 19	1.4
Province of Ontario 8.500% Dec 2 25	1.4
Canada Housing Trust No. 1 3.750% Mar 15 20	1.2
Royal Bank of Canada 2.260% Mar 12 18	1.0
Ontario Electricity Financial Corp. 8.250% Jun 22 26	1.0
Bank of Montreal 3.490% Jun 10 16	0.9
Royal Bank of Canada 2.770% Dec 11 18	0.9
Province of Quebec 9.375% Jan 16 23	0.9
Canada Housing Trust No. 1 2.650% Mar 15 22	0.8
Top 25 Holdings	60.1

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH
TOTAL RETURN BOND FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with stability of capital by investing primarily in a well-diversified portfolio of fixed-income securities issued primarily by Canadian governments and corporations. It also invests in derivatives. Through a mix of interest income and capital appreciation, the Fund aims to provide a competitive rate of return while controlling the interest rate and credit risks to which it is exposed. To achieve the Fund's investment objective, we invest primarily in medium- to high-quality corporate bonds and government bonds of Canadian, U.S. and other foreign issuers. The Fund may also invest in asset-backed commercial paper to enhance its return (the Fund's weighting in high-yield bonds is generally restricted to a maximum of 20% of its total assets). The average term to maturity of the portfolio is managed within strict guidelines, and typically falls between seven and 12 years.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$6.0 billion as of December 31, 2014, from \$2.6 billion at the end of 2013. Of the change, \$3.0 billion was due to net inflows and \$319.5 million to investment returns.

Over the past year, the Fund's Series D units gained 8.6%, which underperformed the benchmark return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

At the beginning of the year, the portfolio manager felt that interest rates were close to their fair value, given the environment of slow economic growth, political risks and market imbalances. The Fund began the year with a neutral position on interest rates relative to its benchmark, the FTSE TMX Canada Universe Bond Index. As interest rates declined in the first half of the year, the portfolio manager felt that yields had become unsustainably low, and modestly shifted the positioning of the Fund in anticipation that interest rates would rise from those levels. Over the summer, with a new, slower economic

growth picture developing, the portfolio manager moved the Fund's interest rate position back towards neutral for the remainder of the year. Additionally, the portfolio manager positioned the Fund with an overweight in seven- to 10-year bonds, which were among the best performing along the yield curve. The combination of these two strategies was slightly accretive to performance.

The portfolio manager held varying degrees of an overweight position in corporate bonds throughout the year, due to their attractive yield premium over federal government bonds and a sound fundamental environment. The Fund's corporate bonds were a strong source of performance. The yield premium fell slightly over the first half of the year and corporate fundamentals, while still sound, became marginally less compelling. Accordingly, the overweight position in corporate bonds was reduced in the second half of the year. The Fund's high-yield exposure was reduced throughout the year from 4% at the start of year to 1% by year-end, thereby side-stepping much of the downturn in the high-yield sector late in the year. The portfolio manager found the yield premium of provincial bonds more compelling, and maintained a more meaningful overweight position (when compared to the benchmark) in that sector over the year. Provincial bonds were also accretive to performance.

Recent Developments

Global socio-political uncertainty and crashing oil prices have brought renewed risk awareness and volatility to capital markets, including bond prices and yields. Economic growth expectations have been pared back in most developed nations, with the U.S. being an exception. On strong economic momentum, the U.S. Federal Reserve has indicated that hikes to its target rate could occur sometime in 2015, bringing an end to the "zero" interest rate policy in place since 2008. The anticipation of this long-awaited move has contributed to volatility. The end result for interest rates will be the difficult-to-predict outcome of a tug-of-war between a strong U.S. economy and a weakening Europe/Japan.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series, Series H and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	11.12	0.47	(0.13)	0.15	0.46	0.95	(0.27)	–	(0.05)	–	(0.32)	11.69
Dec. 31, 2013	11.69	0.43	(0.13)	0.05	(0.54)	(0.19)	(0.31)	–	(0.09)	–	(0.40)	11.11
Dec. 31, 2012	11.62	0.45	(0.14)	0.07	–	0.38	(0.32)	–	–	–	(0.32)	11.69
Dec. 31, 2011	11.18	0.48	(0.13)	0.18	0.29	0.82	(0.35)	–	(0.04)	–	(0.39)	11.62
Dec. 31, 2010	11.05	0.48	(0.12)	0.19	0.12	0.67	(0.35)	–	(0.17)	–	(0.52)	11.18
Advisor Series												
Dec. 31, 2014	11.13	0.46	(0.13)	0.15	0.46	0.94	(0.26)	–	(0.05)	–	(0.31)	11.69
Dec. 31, 2013	11.69	0.43	(0.13)	0.05	(0.54)	(0.19)	(0.31)	–	(0.09)	–	(0.40)	11.11
Dec. 31, 2012	11.62	0.45	(0.14)	0.07	–	0.38	(0.32)	–	–	–	(0.32)	11.69
Dec. 31, 2011	11.18	0.48	(0.13)	0.18	0.29	0.82	(0.35)	–	(0.04)	–	(0.39)	11.62
Dec. 31, 2010 ³	11.52 [†]	0.08	(0.02)	0.03	0.02	0.11	(0.05)	–	(0.17)	–	(0.22)	11.18
Series H												
Dec. 31, 2014	11.13	0.36	(0.13)	0.11	0.36	0.70	(0.27)	–	(0.05)	–	(0.32)	11.71
Dec. 31, 2013 ⁴	11.79 [†]	0.30	(0.08)	0.03	(0.37)	(0.12)	(0.24)	–	(0.09)	–	(0.33)	11.12
Series D												
Dec. 31, 2014	11.12	0.46	(0.07)	0.15	0.46	1.00	(0.33)	–	(0.05)	–	(0.38)	11.69
Dec. 31, 2013	11.68	0.43	(0.07)	0.05	(0.54)	(0.13)	(0.38)	–	(0.09)	–	(0.47)	11.10
Dec. 31, 2012	11.61	0.46	(0.07)	0.07	–	0.46	(0.38)	–	–	–	(0.38)	11.68
Dec. 31, 2011	11.18	0.48	(0.06)	0.18	0.29	0.89	(0.43)	–	(0.04)	–	(0.47)	11.61
Dec. 31, 2010	11.03	0.48	(0.06)	0.19	0.12	0.73	(0.40)	–	(0.17)	–	(0.57)	11.18
Series F												
Dec. 31, 2014	11.13	0.47	(0.07)	0.15	0.47	1.02	(0.33)	–	(0.05)	–	(0.38)	11.70
Dec. 31, 2013	11.70	0.44	(0.07)	0.05	(0.54)	(0.12)	(0.38)	–	(0.09)	–	(0.47)	11.12
Dec. 31, 2012	11.62	0.45	(0.07)	0.07	–	0.45	(0.38)	–	–	–	(0.38)	11.70
Dec. 31, 2011	11.20	0.48	(0.07)	0.18	0.29	0.88	(0.43)	–	(0.04)	–	(0.47)	11.62
Dec. 31, 2010	11.05	0.48	(0.07)	0.19	0.12	0.72	(0.40)	–	(0.17)	–	(0.57)	11.20
Series I												
Dec. 31, 2014	11.14	0.40	(0.06)	0.13	0.40	0.87	(0.33)	–	(0.05)	–	(0.38)	11.72
Dec. 31, 2013 ⁴	11.80 [†]	0.30	(0.04)	0.03	(0.38)	(0.09)	(0.29)	–	(0.09)	–	(0.38)	11.12

FINANCIAL HIGHLIGHTS (cont.)

Change in Net Assets Per Unit (\$) (cont.)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series O												
Dec. 31, 2014	11.06	0.40	–	0.12	0.39	0.91	(0.39)	–	(0.05)	–	(0.44)	11.63
Dec. 31, 2013	11.62	0.43	–	0.05	(0.54)	(0.06)	(0.44)	–	(0.09)	–	(0.53)	11.05
Dec. 31, 2012	11.54	0.45	–	0.07	–	0.52	(0.44)	–	–	–	(0.44)	11.62
Dec. 31, 2011	11.12	0.48	–	0.18	0.29	0.95	(0.49)	–	(0.04)	–	(0.53)	11.54
Dec. 31, 2010	10.99	0.47	–	0.19	0.12	0.78	(0.47)	–	(0.17)	–	(0.64)	11.12

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

⁴ From April 2013.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	11.69	166 803	14 272	1.16	1.16	256.07	–
Dec. 31, 2013	11.12	172 400	15 497	1.16	1.16	283.61	–
Dec. 31, 2012	11.70	253 997	21 710	1.16	1.16	207.49	–
Dec. 31, 2011	11.63	218 565	18 788	1.16	1.16	123.09	–
Dec. 31, 2010	11.20	190 033	16 969	1.14	1.14	136.37	–
Advisor Series							
Dec. 31, 2014	11.69	98 269	8 404	1.16	1.16	256.07	–
Dec. 31, 2013	11.13	98 849	8 885	1.16	1.16	283.61	–
Dec. 31, 2012	11.70	120 449	10 295	1.16	1.16	207.49	–
Dec. 31, 2011	11.63	45 403	3 903	1.16	1.16	123.09	–
Dec. 31, 2010 ⁴	11.20	2 800	250	1.14	1.14	136.37	–
Series H							
Dec. 31, 2014	11.71	19 429	1 660	1.08	1.08	256.07	–
Dec. 31, 2013 ⁵	11.13	1 282	115	1.09	1.09	283.61	–
Series D							
Dec. 31, 2014	11.69	527 221	45 109	0.59	0.59	256.07	–
Dec. 31, 2013	11.12	487 125	43 821	0.59	0.59	283.61	–
Dec. 31, 2012	11.69	725 163	62 034	0.60	0.60	207.49	–
Dec. 31, 2011	11.62	804 147	69 210	0.60	0.60	123.09	–
Dec. 31, 2010	11.20	826 458	73 803	0.58	0.58	136.37	–

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data (cont.)

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series F							
Dec. 31, 2014	11.70	339 951	29 051	0.61	0.61	256.07	—
Dec. 31, 2013	11.13	334 696	30 066	0.61	0.61	283.61	—
Dec. 31, 2012	11.71	320 752	27 394	0.61	0.61	207.49	—
Dec. 31, 2011	11.64	223 472	19 202	0.61	0.61	123.09	—
Dec. 31, 2010	11.22	156 757	13 977	0.60	0.60	136.37	—
Series I							
Dec. 31, 2014	11.72	48 745	4 160	0.50	0.50	256.07	—
Dec. 31, 2013 ⁵	11.14	8 257	741	0.50	0.50	283.61	—
Series O							
Dec. 31, 2014	11.63	4 777 705	410 781	0.02	0.02	256.07	—
Dec. 31, 2013	11.06	1 526 426	137 995	0.02	0.02	283.61	—
Dec. 31, 2012	11.63	1 494 742	128 536	0.02	0.02	207.49	—
Dec. 31, 2011	11.56	1 249 599	108 130	0.02	0.02	123.09	—
Dec. 31, 2010	11.14	1 263 961	113 481	0.02	0.02	136.37	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

⁵ From April 2013.

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.00%	50%	50%
Advisor Series	1.00%	50%	50%
Series H	0.90%	56%	44%
Series D	0.50%	30%	70%
Series F	0.50%	—	100%
Series I	0.40%	—	100%

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

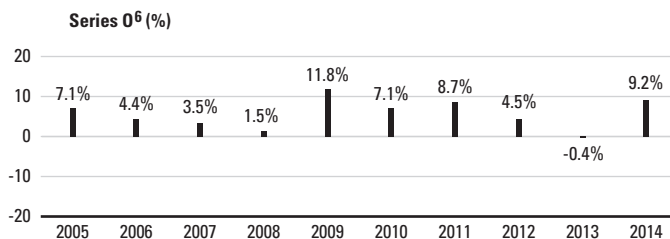
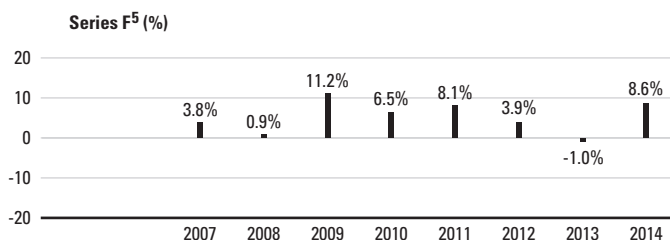
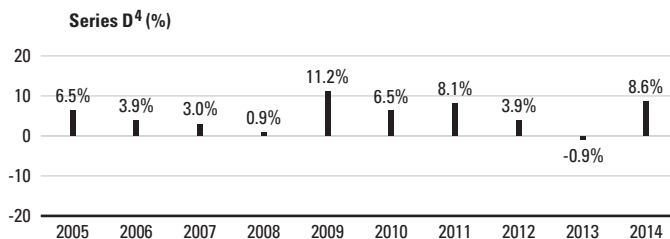
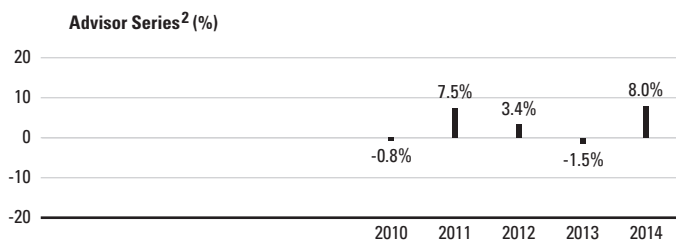
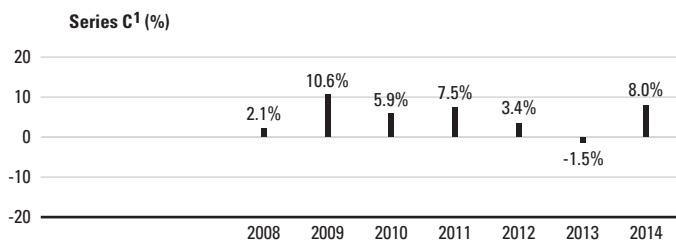
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

FTSE TMX Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	8.0	3.2	4.6	—	5.9
Benchmark	8.8	3.7	5.4	—	5.9
Advisor Series ²	8.0	3.2	—	—	3.9
Benchmark	8.8	3.7	—	—	4.7
Series H ³	8.1	—	—	—	2.9
Benchmark	8.8	—	—	—	3.3
Series D ⁴	8.6	3.8	5.2	5.1	—
Benchmark	8.8	3.7	5.4	5.3	—
Series F ⁵	8.6	3.8	5.2	—	5.5
Benchmark	8.8	3.7	5.4	—	5.8
Series I ³	8.7	—	—	—	3.5
Benchmark	8.8	—	—	—	3.3
Series O ⁶	9.2	4.4	5.8	5.7	—
Benchmark	8.8	3.7	5.4	5.3	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date April 2013.

⁴ Inception date July 2000.

⁵ Inception date June 2007.

⁶ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008. Although Series A units of the Fund were created in June 2000, units were not offered for sale under a Simplified Prospectus until July 2000. We are therefore not permitted to disclose performance data for this Fund for any period prior to July 2000.

INDEX DESCRIPTION

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Corporate Bonds	40.5
Provincial Bonds	33.7
Federal Bonds	17.4
Municipal Bonds	0.3
Mortgages	0.2
Cash/Other	7.9

Top 25 Holdings

	% of Net Asset Value
Province of Ontario 6.500% Mar 8 29	7.4
Cash & Cash Equivalents	7.2
Province of Ontario 7.600% Jun 2 27	4.7
Province of Ontario 3.450% Jun 2 45	4.0
Province of Ontario 3.500% Jun 2 24	2.9
Government of Canada 3.500% Dec 1 45	2.6
Canada Housing Trust No. 1 2.000% Dec 15 19	2.6
Canada Housing Trust No. 1 3.800% Jun 15 21	2.3
Province of Ontario 3.500% Jun 2 43	2.2
Canada Housing Trust No. 1 3.350% Dec 15 20	2.0
Province of Ontario 8.100% Sep 8 23	1.7
Canada Housing Trust No. 1 1.950% Jun 15 19	1.5
Canada Housing Trust No. 1 4.100% Dec 15 18	1.4
Province of Quebec 8.500% Apr 1 26	1.4
Royal Bank of Canada 2.580% Apr 13 17	1.3
Bank of Nova Scotia 2.100% Nov 8 16	1.3
Phillips, Hager & North High Yield Bond Fund	1.1
Canada Housing Trust No. 1 3.750% Mar 15 20	1.1
Province of Ontario 8.500% Dec 2 25	1.1
Bank of Nova Scotia 1.800% May 9 16	1.0
Canadian Imperial Bank of Commerce 1.750% Jun 1 16	1.0
Province of Ontario 3.150% Jun 2 22	1.0
Genesis Trust II 2.433% May 15 19	0.9
Ontario Electricity Financial Corp. 8.250% Jun 22 26	0.9
Canada Housing Trust No. 1 2.650% Mar 15 22	0.8
Top 25 Holdings	55.4

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH
INFLATION-LINKED BOND FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to generate inflation-protected interest income to help investors preserve their real (or inflation-adjusted) purchasing power over the long term. To achieve the Fund's investment objective, we invest primarily in real return bonds and inflation-linked bonds issued or guaranteed by Canadian and foreign governments and corporations, including Canadian Real Return Bonds ("RRBs") and U.S. issued Treasury Inflation Protected Securities ("TIPs").

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value decreased to \$64.4 million as of December 31, 2014, from \$84.8 million at the end of 2013. Of the change, \$9.3 million was due to investment returns, offset by \$29.7 million of net outflows.

Over the past year, the Fund's Series D units gained 13.8%, which outperformed the benchmark return of 13.2%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The Fund had a very strong return in the first half of 2014 as real yields retreated back below 1%, followed by a moderately strong performance in the second half as real yields settled at 0.6%. While it is tempting to celebrate the short-term performance boost that retreating yields bring, it is important to remember that longer-term returns become harder to achieve given the low-yield starting point. It is also worth remembering that movements in real yields, when up instead of down, cause a short-term performance setback for real return bonds, similar to what was experienced in 2013.

The Fund's long duration makes it especially sensitive to fluctuations in real yields over shorter periods. The portfolio manager has witnessed this whip-saw effect in quarterly returns, particularly in the past two years. Within the Fund, the portfolio manager took active positions in provincial issues, managed the Fund's maturity around the benchmark, and used other strategies (such as small positions in nominal bonds when they thought the inflation expectation built into the nominal yield was attractive), but none of these strategies override the powerful

effects of fluctuating real yield levels on absolute returns. Strategically, the two strategies that helped the Fund outperform its benchmark were choosing the best-priced real return bonds ("RRBs") amongst the major RRB issues at various times, and having more sensitivity than the benchmark to RRB prices as they rallied. Short-term fluctuations notwithstanding, there is an expectation that real yields will eventually rise over time. This would likely result in longer-term returns being much more modest than in the past.

Recent Developments

Global socio-political uncertainty and crashing oil prices have brought renewed risk awareness and volatility to capital markets, including bond prices and yields. Economic growth expectations have been pared back in most developed nations, with the U.S. being an exception. On strong economic momentum, the U.S. Federal Reserve has indicated that hikes to its target rate could occur sometime in 2015, bringing an end to the "zero" interest rate policy in place since 2008. The anticipation of this long-awaited move has contributed to volatility. The end result for interest rates will be the difficult-to-predict outcome of a tug-of-war between a strong U.S. economy and a weakening Europe/Japan.

Related-Party Transactions***Manager and Portfolio Advisor***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.24	0.71	(0.10)	(1.00)	1.82	1.43	(0.61)	–	–	–	(0.61)	10.99
Dec. 31, 2013	12.54	0.54	(0.11)	(1.75)	(0.48)	(1.80)	(0.53)	–	–	–	(0.53)	10.23
Dec. 31, 2012	12.76	0.56	(0.12)	0.02	(0.22)	0.24	(0.46)	–	–	–	(0.46)	12.54
Dec. 31, 2011	11.34	0.53	(0.11)	0.38	1.10	1.90	(0.44)	–	–	–	(0.44)	12.76
Dec. 31, 2010	10.76	0.41	(0.10)	0.22	0.67	1.20	(0.31)	–	(0.21)	–	(0.52)	11.34
Advisor Series												
Dec. 31, 2014	10.24	0.71	(0.10)	(1.00)	1.82	1.43	(0.61)	–	–	–	(0.61)	10.99
Dec. 31, 2013	12.54	0.51	(0.11)	(1.67)	(0.46)	(1.73)	(0.53)	–	–	–	(0.53)	10.22
Dec. 31, 2012	12.76	0.56	(0.12)	0.02	(0.22)	0.24	(0.46)	–	–	–	(0.46)	12.54
Dec. 31, 2011	11.34	0.53	(0.11)	0.38	1.10	1.90	(0.44)	–	–	–	(0.44)	12.76
Dec. 31, 2010 ³	11.69 [†]	0.08	(0.02)	0.04	0.11	0.21	(0.16)	–	(0.21)	–	(0.37)	11.34
Series D												
Dec. 31, 2014	10.29	0.72	(0.06)	(1.01)	1.85	1.50	(0.67)	–	–	–	(0.67)	11.03
Dec. 31, 2013	12.61	0.54	(0.06)	(1.78)	(0.49)	(1.79)	(0.59)	–	–	–	(0.59)	10.27
Dec. 31, 2012	12.84	0.57	(0.07)	0.02	(0.23)	0.29	(0.52)	–	–	–	(0.52)	12.61
Dec. 31, 2011	11.37	0.53	(0.06)	0.38	1.10	1.95	(0.46)	–	–	–	(0.46)	12.84
Dec. 31, 2010	10.76	0.40	(0.06)	0.22	0.70	1.26	(0.32)	–	(0.21)	–	(0.53)	11.37
Series F												
Dec. 31, 2014	10.27	0.71	(0.04)	(1.00)	1.82	1.49	(0.69)	–	–	–	(0.69)	11.01
Dec. 31, 2013	12.60	0.55	(0.04)	(1.78)	(0.49)	(1.76)	(0.61)	–	–	–	(0.61)	10.25
Dec. 31, 2012	12.82	0.57	(0.05)	0.02	(0.22)	0.32	(0.54)	–	–	–	(0.54)	12.60
Dec. 31, 2011	11.36	0.53	(0.04)	0.38	1.10	1.97	(0.48)	–	–	–	(0.48)	12.82
Dec. 31, 2010	10.77	0.44	(0.04)	0.21	0.66	1.27	(0.33)	–	(0.24)	–	(0.57)	11.36
Series O												
Dec. 31, 2014	10.35	0.72	–	(1.01)	1.85	1.56	(0.73)	–	–	–	(0.73)	11.10
Dec. 31, 2013	12.69	0.57	–	(1.85)	(0.51)	(1.79)	(0.65)	–	–	–	(0.65)	10.34
Dec. 31, 2012	12.91	0.57	–	0.02	(0.23)	0.36	(0.58)	–	–	–	(0.58)	12.69
Dec. 31, 2011	11.44	0.54	–	0.39	1.11	2.04	(0.52)	–	–	–	(0.52)	12.91
Dec. 31, 2010	10.78	0.45	–	0.20	0.61	1.26	(0.33)	–	(0.21)	–	(0.54)	11.44

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	10.99	18 486	1 751	0.94	0.94	836.48	—
Dec. 31, 2013	10.24	26 592	2 597	0.93	0.93	496.60	—
Dec. 31, 2012	12.57	72 950	5 803	0.93	0.93	86.81	—
Dec. 31, 2011	12.77	81 511	6 383	0.93	0.93	93.37	—
Dec. 31, 2010	11.35	52 550	4 631	0.92	0.92	91.58	—
Advisor Series							
Dec. 31, 2014	10.99	2 094	198	0.94	0.94	836.48	—
Dec. 31, 2013	10.24	3 123	305	0.93	0.93	496.60	—
Dec. 31, 2012	12.57	7 069	562	0.93	0.93	86.81	—
Dec. 31, 2011	12.77	4 474	350	0.93	0.93	93.37	—
Dec. 31, 2010 ⁴	11.35	624	55	0.92	0.92	91.58	—
Series D							
Dec. 31, 2014	11.03	15 239	1 438	0.55	0.55	836.48	—
Dec. 31, 2013	10.29	15 575	1 514	0.55	0.55	496.60	—
Dec. 31, 2012	12.64	34 751	2 749	0.55	0.55	86.81	—
Dec. 31, 2011	12.85	37 723	2 936	0.56	0.56	93.37	—
Dec. 31, 2010	11.38	16 317	1 433	0.55	0.55	91.58	—
Series F							
Dec. 31, 2014	11.01	7 793	737	0.39	0.39	836.48	—
Dec. 31, 2013	10.27	12 557	1 223	0.39	0.39	496.60	—
Dec. 31, 2012	12.63	25 030	1 982	0.39	0.39	86.81	—
Dec. 31, 2011	12.83	26 677	2 079	0.39	0.39	93.37	—
Dec. 31, 2010	11.37	30 840	2 713	0.38	0.38	91.58	—
Series O							
Dec. 31, 2014	11.10	18 250	1 711	0.03	0.03	836.48	—
Dec. 31, 2013	10.35	26 918	2 600	0.02	0.02	496.60	—
Dec. 31, 2012	12.73	30 534	2 400	0.02	0.02	86.81	—
Dec. 31, 2011	12.93	40 019	3 096	0.02	0.02	93.37	—
Dec. 31, 2010	11.45	44 855	3 917	0.02	0.02	91.58	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	0.80%	62%	38%
Advisor Series	0.80%	62%	38%
Series D	0.45%	33%	67%
Series F	0.30%	—	100%

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

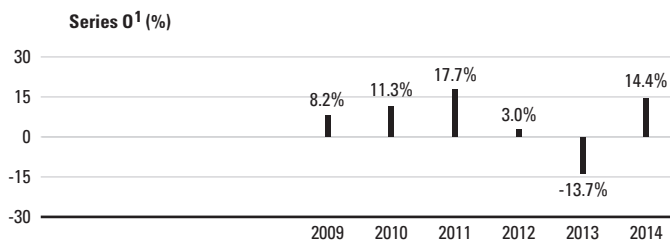
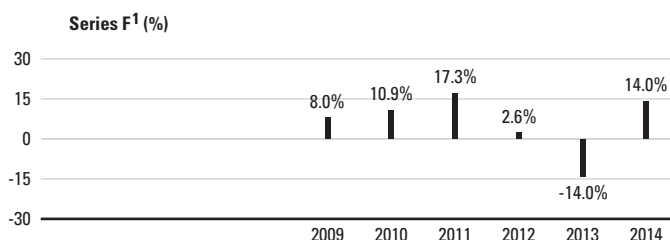
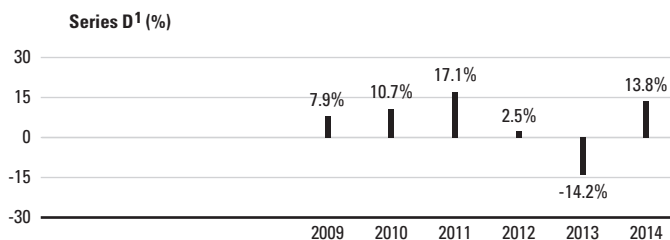
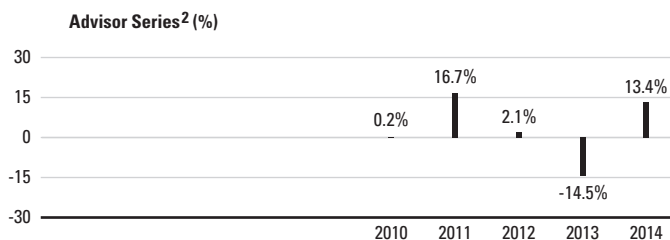
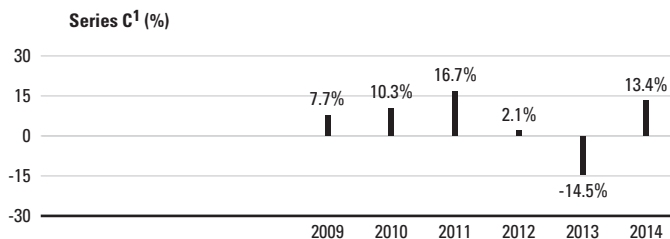
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

FTSE TMX Canada Real Return Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	13.4	-0.3	5.0	—	5.9
Benchmark	13.2	0.4	5.9	—	6.8
Advisor Series ²	13.4	-0.4	—	—	3.6
Benchmark	13.2	0.4	—	—	4.5
Series D ¹	13.8	0.0	5.4	—	6.3
Benchmark	13.2	0.4	5.9	—	6.8
Series F ¹	14.0	0.2	5.5	—	6.5
Benchmark	13.2	0.4	5.9	—	6.8
Series O ¹	14.4	0.6	5.9	—	6.9
Benchmark	13.2	0.4	5.9	—	6.8

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date June 2009.

² Inception date October 2010.

INDEX DESCRIPTION

FTSE TMX Canada Real Return Bond Index* This index is a broad measure of the performance of Canadian inflation-indexed real return bonds.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Federal Bonds	83.2
Provincial Bonds	13.8
Corporate Bonds	0.9
Cash/Other	2.1

Top 25 Holdings*

	% of Net Asset Value
Government of Canada 4.250% Dec 1 26	16.2
Government of Canada 1.500% Dec 1 44	14.9
Government of Canada 3.000% Dec 1 36	14.5
Government of Canada 4.000% Dec 1 31	11.8
Government of Canada 2.000% Dec 1 41	10.5
Government of Canada 4.250% Dec 1 21	7.8
Province of Ontario 2.000% Dec 1 36	5.6
Government of Canada 1.250% Dec 1 47	5.4
Province of Quebec 4.250% Dec 1 31	3.8
Province of Quebec 4.500% Dec 1 26	3.2
Government of Canada 3.500% Dec 1 45	2.1
Cash & Cash Equivalents	2.1
Province of Quebec 4.500% Dec 1 21	1.2
Teranet Holdings LP 3.270% Dec 1 31	0.9
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH
HIGH YIELD BOND FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with a high level of income and the opportunity for capital appreciation by investing primarily in medium quality Canadian and/or foreign corporate bonds, convertible bonds, preferred shares and government bonds issued or traded in Canadian and U.S. dollars. In addition, we may also invest in asset backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, typically between three and 10 years.

The investment objectives of the Fund set out above became effective on November 28, 2011 pursuant to receiving unitholder approval for a change in the investment objectives of the Fund.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$3.5 billion as of December 31, 2014, from \$3.3 billion at the end of 2013. Of the change, \$117.9 million was due to net inflows and \$141.7 million to investment returns.

Over the past year, the Fund's Series D units gained 4.0%, which underperformed the benchmark return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Returns for high-yield bonds were strong in the first half of 2014 as declining government bond yields and strong inflows into the high-yield sector drove high-yield bond prices higher. Despite an extremely defensive portfolio, the Fund continued to benefit from the overall positive tone in high-yield bonds, generating solid returns despite low levels of risk. In the second half of the year, the high-yield bond market experienced a significant sell-off in the fourth quarter due in part to the sharp decline in oil prices and its corresponding impact on energy bonds in the high-yield universe. Price declines of 15%–25% for more speculative oil and gas bonds were common, leading to a contagion effect across many unrelated industry groups. The Fund's defensive portfolio bias was helpful during this sell-off, although some of its high-quality Canadian energy bonds suffered disproportionate mark-downs. This volatility, while jarring, has created some very interesting opportunities for 2015.

Currently, the broad high-yield bond index yields approximately 6.75%, or nearly 200 basis points higher than mid-year levels – a vivid illustration of the sharpness of the recent sell-off. In the portfolio manager's view, as long as economic growth remains solid, corporate profits remain steady and default rates remain sound, "high quality high yield" can deliver solid performance relative to other fixed income alternatives thanks to the more appealing valuation backdrop. Despite the portfolio manager's optimism for high-yield bonds, it is understood that we may be in the later innings of the credit cycle, and the prospect of a U.S. Federal Reserve (the "Fed") interest rate hike in 2015 presents potential for further volatility. Accordingly, the portfolio manager maintained a strong bias to lower-duration, higher-quality issuers while being fairly opportunistic in certain inefficient and dislocated sectors, like best-in-class Canadian energy names. In our experience, it is this opportunism in the face of rampant fear that allows the Fund to generate returns in excess of its running yield.

Recent Developments

Global socio-political uncertainty and crashing oil prices have brought renewed risk awareness and volatility to capital markets, including bond prices and yields. Economic growth expectations have been pared back in most developed nations, with the U.S. being an exception. On strong economic momentum, the Fed has indicated that hikes to its target rate could occur sometime in 2015, bringing an end to the "zero" interest rate policy in place since 2008. The anticipation of this long-awaited move has contributed to volatility. The end result for interest rates will be the difficult-to-predict outcome of a tug-of-war between a strong U.S. economy and a weakening Europe/Japan.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	12.18	0.81	(0.18)	(0.06)	(0.18)	0.39	(0.62)	–	–	–	(0.62)	11.97
Dec. 31, 2013	12.19	0.76	(0.18)	0.02	(0.06)	0.54	(0.58)	–	–	–	(0.58)	12.14
Dec. 31, 2012	11.75	0.76	(0.17)	0.24	0.33	1.16	(0.59)	–	(0.14)	–	(0.73)	12.19
Dec. 31, 2011	11.87	0.81	(0.16)	(0.07)	(0.08)	0.50	(0.62)	–	–	–	(0.62)	11.75
Dec. 31, 2010	11.63	0.74	(0.17)	0.56	(0.06)	1.07	(0.51)	–	(0.41)	–	(0.92)	11.87
Advisor Series												
Dec. 31, 2014	12.18	0.80	(0.18)	(0.06)	(0.17)	0.39	(0.62)	–	–	–	(0.62)	11.97
Dec. 31, 2013	12.19	0.67	(0.18)	0.01	(0.06)	0.44	(0.58)	–	–	–	(0.58)	12.14
Dec. 31, 2012	11.75	0.76	(0.17)	0.24	0.33	1.16	(0.59)	–	(0.14)	–	(0.73)	12.19
Dec. 31, 2011	11.87	0.81	(0.16)	(0.07)	(0.08)	0.50	(0.62)	–	–	–	(0.62)	11.75
Dec. 31, 2010 ³	12.45 [†]	0.12	(0.03)	0.09	(0.01)	0.17	(0.18)	–	(0.41)	–	(0.59)	11.87
Series D												
Dec. 31, 2014	12.06	0.80	(0.11)	(0.06)	(0.18)	0.45	(0.69)	–	–	–	(0.69)	11.84
Dec. 31, 2013	12.07	0.75	(0.11)	0.02	(0.06)	0.60	(0.65)	–	–	–	(0.65)	12.02
Dec. 31, 2012	11.64	0.75	(0.11)	0.24	0.33	1.21	(0.65)	–	(0.14)	–	(0.79)	12.07
Dec. 31, 2011	11.77	0.80	(0.10)	(0.07)	(0.08)	0.55	(0.68)	–	–	–	(0.68)	11.64
Dec. 31, 2010	11.51	0.75	(0.10)	0.56	(0.06)	1.15	(0.56)	–	(0.40)	–	(0.96)	11.77
Series F												
Dec. 31, 2014	12.12	0.81	(0.11)	(0.06)	(0.18)	0.46	(0.69)	–	–	–	(0.69)	11.91
Dec. 31, 2013	12.14	0.75	(0.11)	0.02	(0.06)	0.60	(0.65)	–	–	–	(0.65)	12.08
Dec. 31, 2012	11.70	0.76	(0.11)	0.24	0.33	1.22	(0.65)	–	(0.14)	–	(0.79)	12.14
Dec. 31, 2011	11.82	0.81	(0.10)	(0.07)	(0.08)	0.56	(0.68)	–	–	–	(0.68)	11.70
Dec. 31, 2010	11.57	0.74	(0.10)	0.56	(0.06)	1.14	(0.56)	–	(0.40)	–	(0.96)	11.82
Series O												
Dec. 31, 2014	11.64	0.78	–	(0.06)	(0.17)	0.55	(0.77)	–	–	–	(0.77)	11.43
Dec. 31, 2013	11.66	0.72	–	0.02	(0.06)	0.68	(0.73)	–	–	–	(0.73)	11.61
Dec. 31, 2012	11.24	0.73	–	0.23	0.32	1.28	(0.72)	–	(0.14)	–	(0.86)	11.66
Dec. 31, 2011	11.36	0.77	–	(0.07)	(0.08)	0.62	(0.75)	–	–	–	(0.75)	11.24
Dec. 31, 2010	11.15	0.71	–	0.53	(0.05)	1.19	(0.66)	–	(0.40)	–	(1.06)	11.36

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	11.97	390 812	32 643	1.44	1.44	92.99	—
Dec. 31, 2013	12.18	404 326	33 203	1.44	1.44	100.39	—
Dec. 31, 2012	12.22	468 242	38 311	1.43	1.43	71.80	—
Dec. 31, 2011	11.79	453 278	38 439	1.43	1.43	68.79	—
Dec. 31, 2010	11.91	463 492	38 920	1.40	1.40	103.75	—
Advisor Series							
Dec. 31, 2014	11.97	57 002	4 761	1.45	1.45	92.99	—
Dec. 31, 2013	12.18	13 651	1 121	1.44	1.44	100.39	—
Dec. 31, 2012	12.22	14 350	1 174	1.43	1.43	71.80	—
Dec. 31, 2011	11.79	10 757	912	1.43	1.43	68.79	—
Dec. 31, 2010 ⁴	11.91	6 979	586	1.40	1.40	103.75	—
Series D							
Dec. 31, 2014	11.84	701 096	59 194	0.87	0.87	92.99	—
Dec. 31, 2013	12.06	665 058	55 152	0.87	0.87	100.39	—
Dec. 31, 2012	12.11	773 936	63 913	0.89	0.89	71.80	—
Dec. 31, 2011	11.68	741 101	63 428	0.89	0.89	68.79	—
Dec. 31, 2010	11.80	720 116	61 023	0.87	0.87	103.75	—
Series F							
Dec. 31, 2014	11.91	395 716	33 229	0.88	0.88	92.99	—
Dec. 31, 2013	12.12	266 739	22 003	0.88	0.88	100.39	—
Dec. 31, 2012	12.17	335 285	27 545	0.89	0.89	71.80	—
Dec. 31, 2011	11.74	354 188	30 164	0.89	0.89	68.79	—
Dec. 31, 2010	11.86	354 476	29 896	0.87	0.87	103.75	—
Series O							
Dec. 31, 2014	11.43	2 004 105	175 361	0.03	0.03	92.99	—
Dec. 31, 2013	11.64	1 939 348	166 580	0.03	0.03	100.39	—
Dec. 31, 2012	11.69	1 709 240	146 173	0.03	0.03	71.80	—
Dec. 31, 2011	11.29	1 393 589	123 477	0.03	0.03	68.79	—
Dec. 31, 2010	11.40	1 022 563	89 717	0.03	0.03	103.75	—

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.25%	40%	60%
Advisor Series	1.25%	40%	60%
Series D	0.75%	20%	80%
Series F	0.75%	–	100%

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

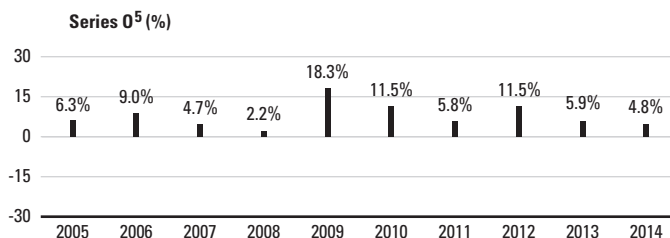
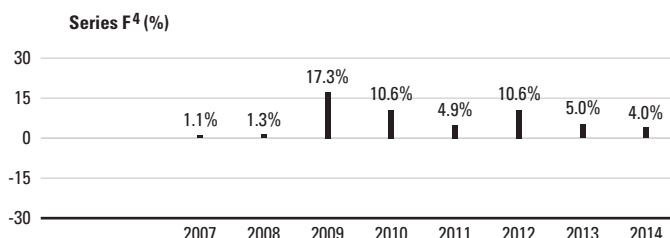
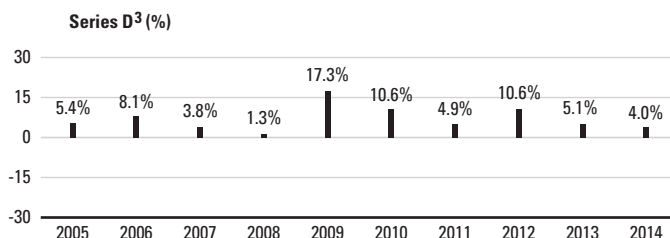
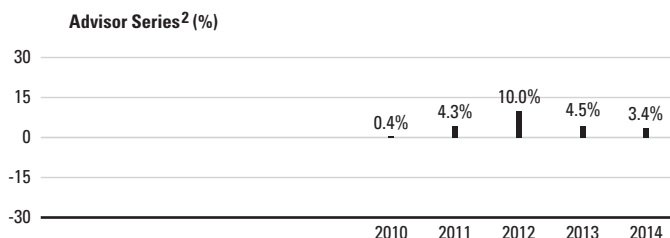
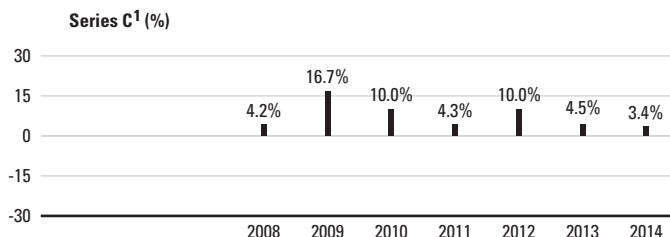
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

FTSE TMX Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	3.4	5.9	6.4	—	8.7
Benchmark	8.8	3.7	5.4	—	5.9
Advisor Series ²	3.4	5.9	—	—	5.4
Benchmark	8.8	3.7	—	—	4.7
Series D ³	4.0	6.5	7.0	7.0	—
Benchmark	8.8	3.7	5.4	5.3	—
Series F ⁴	4.0	6.5	7.0	—	7.2
Benchmark	8.8	3.7	5.4	—	5.8
Series O ⁵	4.8	7.4	7.9	7.9	—
Benchmark	8.8	3.7	5.4	5.3	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date July 2000.

⁴ Inception date June 2007.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008. Although Series A units of the Fund were created in June 2000, units were not offered for sale under a Simplified Prospectus until July 2000. We are therefore not permitted to disclose performance data for this Fund for any period prior to July 2000.

INDEX DESCRIPTION

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Corporate Bonds	88.2
Federal Bonds	0.8
Cash/Other	11.0

Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	10.4
Quebecor Media Inc. 6.625% Jan 15 23	5.8
Reynolds Group Issuer Inc. 7.125% Apr 15 19	4.2
CCO Holdings LLC 7.000% Jan 15 19	4.1
Baytex Energy Corp. 6.625% Jul 19 22	3.1
Trilogy Energy Corp. 7.250% Dec 13 19	2.8
EP Energy LLC 6.875% May 1 19	2.6
Quebecor Media Inc. 7.375% Jan 15 21	2.4
Western Energy Services Corp. 7.875% Jan 30 19	2.3
The Howard Hughes Corp. 6.875% Oct 1 21	2.1
Reynolds Group Issuer Inc. 7.875% Aug 15 19	2.0
Great Canadian Gaming Corp. 6.625% Jul 25 22	2.0
Reynolds Group Issuer Inc. 6.875% Feb 15 21	2.0
CCO Holdings LLC 8.125% Apr 30 20	1.9
Canadian Energy Services & Technology Corp. 7.375% Apr 17 20	1.9
T-Mobile USA Inc. 6.625% Apr 1 23	1.8
Chrysler Group LLC 8.250% Jun 15 21	1.8
HCA Holdings Inc. 7.750% May 15 21	1.8
Superior Plus LP 6.500% Dec 9 21	1.8
Gibson Energy Inc. 7.000% Jul 15 20	1.8
Sprint Nextel Corp. 7.000% Aug 15 20	1.7
Numericable Group S.A. USD 4.875% May 15 19	1.7
Kruger Products LP 8.000% Aug 9 18	1.7
Sprint Corp. 7.875% Sep 15 23	1.6
Newalta Corp. 7.750% Nov 14 19	1.5
Top 25 Holdings	66.8

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH SHORT
INFLATION-LINKED BOND FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

PHILLIPS, HAGER & NORTH
SHORT INFLATION-LINKED BOND FUND

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to generate interest income that is hedged against inflation by investing in shorter-term real return bonds and inflation-linked bonds issued by Canadian and foreign governments and corporations.

To achieve the Fund's investment objectives, we invest primarily in the above-mentioned securities. The Fund's portfolio will include various shorter-term maturities that are intended to match shorter-term liabilities and to manage the interest-rate risk of the Phillips, Hager & North LifeTime Funds, which may hold the Fund in their portfolios.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$1.7 million as of December 31, 2014, from \$836,000 at the end of 2013. Of the change, \$772,000 was due to net inflows and the remainder to investment returns.

Over the past year, the Fund's Series O units gained 6.8%, which underperformed the benchmark return of 13.2%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Real return bonds ("RRBs") had a strong performance in 2014, which was in contrast to the poor performance in 2013, but consistent with the cycle of strong performance previous to 2013. Real interest rates declined substantially due to weaker-than-anticipated global economic data and socio-political events, leading to lower inflation expectations and a rush to safe-haven assets which included Canadian RRBs. By the end of the 2014, seven-year real yields had fallen approximately 50 basis points. The Fund only invests in the Government of Canada Real Return Bond which matures in 2021. The 2021 issue began the year with a real yield of 0.7% and then declined to 0.2% by year-end, resulting in the strong return for the Fund.

Recent Developments

The portfolio has only a single holding: the Government of Canada Real Return Bond with a coupon of 4.25% and maturing in 2021. The portfolio manager keeps the Fund fully invested in this bond. The

Fund's performance will therefore depend entirely on the performance of this bond. The portfolio manager believes that the current negative real interest rate of the 2021 RRB is not sustainable, and that real yields will ultimately rise.

Related-Party Transactions

Manager, Portfolio Advisor and Registrar

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager, principal portfolio advisor and registrar of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM, as registrar, also keeps the records of who owns the units of the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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.

**PHILLIPS, HAGER & NORTH
SHORT INFLATION-LINKED BOND FUND**

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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH
SHORT INFLATION-LINKED BOND FUND
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series O												
Dec. 31, 2014	9.74	0.50	(0.03)	(0.04)	0.12	0.55	(0.43)	–	–	–	(0.43)	9.97
Dec. 31, 2013	10.70	0.38	(0.04)	(0.04)	(0.98)	(0.68)	(0.34)	–	–	–	(0.34)	9.74
Dec. 31, 2012	10.85	0.41	–	–	(0.16)	0.25	(0.38)	–	–	–	(0.38)	10.70
Dec. 31, 2011 ³	10.00 [†]	0.52	–	–	0.84	1.36	(0.49)	–	–	–	(0.49)	10.85

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From January 2011.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series O							
Dec. 31, 2014	9.97	1 686	169	0.02	0.24	9.11	–
Dec. 31, 2013	9.74	836	86	0.02	0.37	8.87	–
Dec. 31, 2012	10.72	469	44	0.02	1.12	0.65	–
Dec. 31, 2011 ⁴	10.85	216	20	0.02	2.08	–	–

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From January 2011.

Management Fees

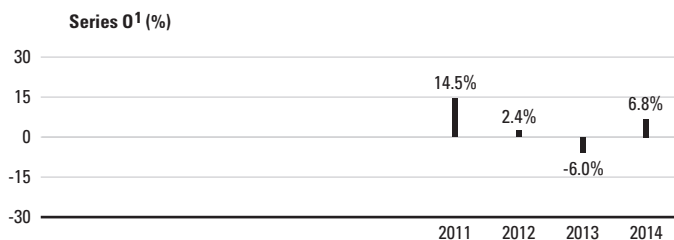
RBC GAM is the manager, portfolio advisor and registrar of the Fund. No management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

PHILLIPS, HAGER & NORTH
SHORT INFLATION-LINKED BOND FUND
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Annual Compound Returns (%)

The table shows the annual compound returns for Series 0 of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

FTSE TMX Canada Real Return Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0 ¹	6.8	0.9	–	–	4.3
Benchmark	13.2	0.4	–	–	5.7

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date January 2011.

INDEX DESCRIPTION

FTSE TMX Canada Real Return Bond Index* This index is a broad measure of the performance of Canadian inflation-indexed real return bonds.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Federal Bonds	97.0
Cash/Other	3.0

Top 25 Holdings*

	% of Net Asset Value
Government of Canada 4.250% Dec 1 21	97.2
Cash & Cash Equivalents	2.8
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH LONG
INFLATION-LINKED BOND FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

PHILLIPS, HAGER & NORTH
LONG INFLATION-LINKED BOND FUND

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to generate interest income that is hedged against inflation by investing primarily in longer-term real-return bonds and inflation-linked bonds issued by Canadian and foreign governments and corporations.

To achieve the Fund's investment objectives, we invest primarily in the above-mentioned securities. The Fund's portfolio will include various longer-term maturities that are intended to match longer-term liabilities and to manage the interest-rate risk of the Phillips, Hager & North LifeTime Funds, which may hold the Fund in their portfolios. The Fund may also invest in asset-backed securities, including mortgage-backed securities and may invest all or a portion of the Fund's assets in one or more securities as permitted by securities legislation.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$34.5 million as of December 31, 2014, from \$19.0 million at the end of 2013. Of the change, \$10.8 million was due to net inflows and \$4.6 million to investment returns.

Over the past year, the Fund's Series O units gained 20.4%, which outperformed the benchmark return of 13.2%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Real return bonds ("RRBs") had a strong performance in 2014, which was in contrast to the poor performance in 2013, but consistent with the cycle of strong performance previous to 2013. Real interest rates declined substantially due to weaker-than-anticipated global economic data and socio-political events, leading to lower inflation expectations and a rush to safe-haven assets which included Canadian RRBs. By the end of the 2014, 30-year real yields had fallen approximately 60 basis points. The Fund only invests in the Government of Canada Real Return Bond which matures in 2044. The 2044 issue began the year with a real yield of 1.3% and then declined to 0.7% by year-end, resulting in the strong return for the Fund.

Recent Developments

The portfolio has only a single holding: the Government of Canada Real Return Bond with a coupon of 1.5% and maturing in 2044. The portfolio manager keeps the Fund fully invested in this bond. The Fund's performance will therefore depend entirely on the performance of this bond. The portfolio manager believes that real interest rates are low by historical standards and below Canada's expected economic growth rate, and expects that real yields will ultimately rise. Given the long duration of this asset class, this could lead to meaningful negative performance.

Related-Party Transactions

Manager, Portfolio Advisor and Registrar

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager, principal portfolio advisor and registrar of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM, as registrar, also keeps the records of who owns the units of the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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

PHILLIPS, HAGER & NORTH
LONG INFLATION-LINKED BOND FUND

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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH
LONG INFLATION-LINKED BOND FUND
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹				Annual Distributions ²				Net Assets End of Year/Period		
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital			
Series 0												
Dec. 31, 2014	9.91	0.35	–	0.01	1.57	1.93	(0.29)	–	(0.02)	–	(0.31)	11.63
Dec. 31, 2013	12.30	0.20	–	(0.04)	(2.27)	(2.11)	(0.15)	–	–	–	(0.15)	9.90
Dec. 31, 2012	12.04	0.25	–	0.05	0.23	0.53	(0.19)	–	(0.03)	–	(0.22)	12.30
Dec. 31, 2011 ³	10.00 [†]	0.40	–	0.27	2.39	3.06	(0.28)	–	(0.20)	–	(0.48)	12.04

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From January 2011.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series 0							
Dec. 31, 2014	11.63	34 454	2 964	0.02	0.03	7.14	–
Dec. 31, 2013	9.91	19 047	1 921	0.02	0.04	3.95	–
Dec. 31, 2012	12.31	9 206	747	0.02	0.09	4.36	–
Dec. 31, 2011 ⁴	12.05	2 495	207	0.02	0.27	23.15	–

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From January 2011.

Management Fees

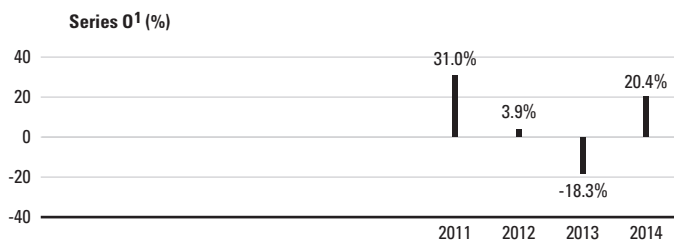
RBC GAM is the manager, portfolio advisor and registrar of the Fund. No management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

PHILLIPS, HAGER & NORTH
LONG INFLATION-LINKED BOND FUND
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Annual Compound Returns (%)

The table shows the annual compound returns for Series 0 of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

FTSE TMX Canada Real Return Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0 ¹	20.4	0.7	–	–	7.7
Benchmark	13.2	0.4	–	–	5.7

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date January 2011.

INDEX DESCRIPTION

FTSE TMX Canada Real Return Bond Index* This index is a broad measure of the performance of Canadian inflation-indexed real return bonds.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Federal Bonds	95.7
Cash/Other	4.3

Top 25 Holdings*

	% of Net Asset Value
Government of Canada 1.500% Dec 1 44	95.8
Cash & Cash Equivalents	4.2
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

BALANCED FUND

**PHILLIPS, HAGER & NORTH
MONTHLY INCOME FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with monthly income that may consist of dividend income, interest income, realized capital gains and return of capital. Investors in the Fund will also have the potential for modest capital growth. To achieve the Fund's investment objective, we primarily invest in a well diversified balanced portfolio of income-producing equity securities, including, but not limited to, common shares of dividend-paying Canadian companies and income trusts. The Fund may also invest in fixed-income securities such as preferred shares, government and corporate bonds, debentures and notes, asset backed commercial paper, mortgage backed securities and other income-generating securities.

The Fund's target weightings for each asset class are 50% for fixed income and 50% for equities. The target weightings for each asset class may be adjusted based on changes in the market outlook for each asset class.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$3.5 billion as of December 31, 2014, from \$3.2 billion at the end of 2013. Of the change, \$44.5 million was due to net inflows and \$232.0 million to investment returns.

Over the past year, the Fund's Series D units gained 7.5%, which underperformed the benchmark return of 8.9% and the broad-based index return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The Fund made monthly distributions of 4.5 cents per Series D unit in 2014. For the year, the Fund made distributions of 114 cents per Series D unit, consisting of 8 cents of dividends, 18 cents of interest and 88 cents of capital gains.

The fixed income portion of the Fund had a strong year mainly due to falling interest rates, which was widely unexpected. The Fund was defensively positioned against rising rates during the reporting period (and has been for some time). Interest rates fell over the course

of the year, but the Fund was able to benefit from tactical trading by the portfolio manager. The Fund benefited from its overweight position in provincial bonds and corporate bonds. The yield premium that corporate bonds pay over government bonds has narrowed considerably since the credit crisis, and is no longer high enough to be compelling.

During the first part of the reporting period, the portfolio manager added to holdings of gold producers which performed well. Later in the reporting period, positions in Barrick Gold and Eldorado Gold were reduced. Within the Consumer Discretionary sector, the Fund held an overweight position in Tim Hortons, which was subject to a takeover by Burger King at a large premium. Within the Consumer Staples sector, overweight positions in the grocers Loblaw Companies and Alimentation Couche-Tard contributed significantly to performance.

The Energy sector was the largest detractor to relative performance during the reporting period. This was due to overweight positions in exploration and production companies, including Trilogy Energy, Crescent Point Energy and Talisman Energy.

Recent Developments

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

Effective June 27, 2014, the RBC Phillips, Hager & North Monthly Income Fund was merged into the Fund. Units of the RBC Phillips, Hager & North Monthly Income Fund were exchanged on a tax-deferred basis for units of the Fund having a net asset value on the effective date equal to the net asset value of the units tendered.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series, Series H and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$1,019,000 (2013 – \$1,152,000), or 13% (2013 – 14%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.45	0.36	(0.21)	0.71	(0.24)	0.62	(0.08)	(0.17)	(0.86)	–	(1.11)	10.03
Dec. 31, 2013	10.43	0.39	(0.20)	0.42	0.09	0.70	(0.15)	(0.19)	(0.36)	–	(0.70)	10.44
Dec. 31, 2012	10.19	0.43	(0.20)	0.17	0.35	0.75	(0.15)	(0.20)	(0.12)	(0.04)	(0.51)	10.43
Dec. 31, 2011	10.63	0.45	(0.19)	(0.20)	(0.09)	(0.03)	(0.23)	(0.19)	(0.08)	(0.03)	(0.53)	10.19
Dec. 31, 2010	9.99	0.61	(0.19)	0.28	1.10	1.80	(0.16)	(0.13)	(0.19)	(0.02)	(0.50)	10.63
Advisor Series												
Dec. 31, 2014	10.45	0.37	(0.20)	0.73	(0.25)	0.65	(0.08)	(0.17)	(0.86)	–	(1.11)	10.03
Dec. 31, 2013	10.43	0.38	(0.20)	0.41	0.09	0.68	(0.15)	(0.19)	(0.36)	–	(0.70)	10.44
Dec. 31, 2012	10.19	0.43	(0.20)	0.17	0.35	0.75	(0.15)	(0.20)	(0.12)	(0.04)	(0.51)	10.43
Dec. 31, 2011	10.63	0.45	(0.19)	(0.20)	(0.09)	(0.03)	(0.23)	(0.19)	(0.08)	(0.03)	(0.53)	10.19
Dec. 31, 2010 ³	10.50 [†]	0.10	(0.03)	0.05	0.18	0.30	(0.03)	(0.02)	(0.03)	–	(0.08)	10.63
Series H												
Dec. 31, 2014	10.48	0.37	(0.19)	0.73	(0.25)	0.66	(0.08)	(0.17)	(0.86)	–	(1.11)	10.08
Dec. 31, 2013	10.44	0.39	(0.18)	0.42	0.09	0.72	(0.15)	(0.19)	(0.36)	–	(0.70)	10.47
Dec. 31, 2012 ⁴	10.22 [†]	0.19	(0.09)	0.08	0.16	0.34	(0.07)	(0.11)	(0.06)	(0.02)	(0.26)	10.44
Series D												
Dec. 31, 2014	10.82	0.39	(0.12)	0.76	(0.26)	0.77	(0.08)	(0.18)	(0.88)	–	(1.14)	10.49
Dec. 31, 2013	10.70	0.40	(0.12)	0.43	0.09	0.80	(0.15)	(0.19)	(0.37)	–	(0.71)	10.81
Dec. 31, 2012	10.36	0.44	(0.12)	0.18	0.36	0.86	(0.15)	(0.21)	(0.12)	(0.04)	(0.52)	10.70
Dec. 31, 2011	10.72	0.46	(0.11)	(0.20)	(0.09)	0.06	(0.23)	(0.19)	(0.08)	(0.03)	(0.53)	10.36
Dec. 31, 2010	9.99	0.56	(0.11)	0.26	1.00	1.71	(0.16)	(0.13)	(0.19)	(0.02)	(0.50)	10.72
Series F												
Dec. 31, 2014	10.94	0.39	(0.09)	0.77	(0.26)	0.81	(0.08)	(0.18)	(0.89)	–	(1.15)	10.64
Dec. 31, 2013	10.79	0.40	(0.09)	0.44	0.10	0.85	(0.15)	(0.19)	(0.37)	–	(0.71)	10.93
Dec. 31, 2012	10.42	0.44	(0.09)	0.18	0.36	0.89	(0.15)	(0.20)	(0.13)	(0.04)	(0.52)	10.79
Dec. 31, 2011	10.75	0.46	(0.08)	(0.20)	(0.09)	0.09	(0.23)	(0.19)	(0.08)	(0.03)	(0.53)	10.42
Dec. 31, 2010	9.99	0.64	(0.08)	0.30	1.15	2.01	(0.16)	(0.13)	(0.19)	(0.02)	(0.50)	10.75
Series I												
Dec. 31, 2014	10.97	0.39	(0.07)	0.77	(0.26)	0.83	(0.08)	(0.18)	(0.89)	–	(1.15)	10.69
Dec. 31, 2013	10.80	0.40	(0.07)	0.44	0.10	0.87	(0.15)	(0.19)	(0.37)	–	(0.71)	10.96
Dec. 31, 2012 ⁴	10.52 [†]	0.20	(0.03)	0.08	0.17	0.42	(0.08)	(0.10)	(0.06)	(0.02)	(0.26)	10.80

FINANCIAL HIGHLIGHTS (cont.)

Change in Net Assets Per Unit (\$) (cont.)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series O												
Dec. 31, 2014	11.27	0.42	(0.01)	0.81	(0.28)	0.94	(0.09)	(0.19)	(0.90)	—	(1.18)	11.06
Dec. 31, 2013	11.03	0.41	(0.01)	0.45	0.10	0.95	(0.15)	(0.20)	(0.38)	—	(0.73)	11.26
Dec. 31, 2012	10.56	0.45	(0.01)	0.18	0.37	0.99	(0.15)	(0.21)	(0.13)	(0.04)	(0.53)	11.03
Dec. 31, 2011	10.80	0.46	(0.01)	(0.20)	(0.09)	0.16	(0.23)	(0.19)	(0.08)	(0.03)	(0.53)	10.56
Dec. 31, 2010 ⁵	10.34 [†]	0.24	—	0.11	0.24	0.59	(0.12)	(0.10)	(0.15)	(0.01)	(0.38)	10.80

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

⁴ From July 2012.

⁵ From April 2010.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	10.03	2 754 742	274 644	1.94	1.94	187.77	0.24
Dec. 31, 2013	10.45	573 572	54 901	1.92	1.92	220.70	0.27
Dec. 31, 2012	10.44	568 106	55 703	1.94	1.94	192.25	0.27
Dec. 31, 2011	10.20	541 416	53 076	1.94	1.94	206.93	0.46
Dec. 31, 2010	10.65	297 913	27 986	1.91	1.91	152.84	0.44
Advisor Series							
Dec. 31, 2014	10.03	133 056	13 265	1.92	1.92	187.77	0.24
Dec. 31, 2013	10.45	131 135	12 551	1.92	1.92	220.70	0.27
Dec. 31, 2012	10.44	115 749	9 771	1.94	1.94	192.25	0.27
Dec. 31, 2011	10.20	69 861	6 849	1.94	1.94	206.93	0.46
Dec. 31, 2010 ⁴	10.65	10 539	990	1.91	1.91	152.84	0.44
Series H							
Dec. 31, 2014	10.08	58 352	5 789	1.74	1.74	187.77	0.24
Dec. 31, 2013	10.48	36 308	3 466	1.74	1.74	220.70	0.27
Dec. 31, 2012 ⁵	10.45	33 912	3 245	1.77	1.77	192.25	0.27
Series D							
Dec. 31, 2014	10.49	153 635	14 642	1.08	1.08	187.77	0.24
Dec. 31, 2013	10.82	138 932	12 840	1.09	1.09	220.70	0.27
Dec. 31, 2012	10.72	114 623	10 695	1.12	1.12	192.25	0.27
Dec. 31, 2011	10.38	92 254	8 890	1.12	1.12	206.93	0.46
Dec. 31, 2010	10.73	49 125	4 577	1.10	1.10	152.84	0.44

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data (cont.)

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series F							
Dec. 31, 2014	10.64	85 017	7 994	0.83	0.83	187.77	0.24
Dec. 31, 2013	10.94	81 613	7 459	0.83	0.83	220.70	0.27
Dec. 31, 2012	10.81	70 056	6 481	0.83	0.83	192.25	0.27
Dec. 31, 2011	10.44	61 264	5 869	0.83	0.83	206.93	0.46
Dec. 31, 2010	10.76	34 288	3 186	0.82	0.82	152.84	0.44
Series I							
Dec. 31, 2014	10.69	16 892	1 581	0.65	0.65	187.77	0.24
Dec. 31, 2013	10.97	10 218	932	0.66	0.66	220.70	0.27
Dec. 31, 2012 ⁵	10.82	14 179	1 310	0.68	0.68	192.25	0.27
Series O							
Dec. 31, 2014	11.06	250 753	22 678	0.06	0.06	187.77	0.24
Dec. 31, 2013	11.27	2 204 094	195 565	0.06	0.06	220.70	0.27
Dec. 31, 2012	11.04	1 718 395	155 627	0.06	0.06	192.25	0.27
Dec. 31, 2011	10.58	1 266 670	119 746	0.06	0.06	206.93	0.46
Dec. 31, 2010 ⁶	10.82	459 420	42 463	0.06	0.06	152.84	0.44

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

⁵ From July 2012.

⁶ From April 2010.

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.65%	61%	39%
Advisor Series	1.65%	61%	39%
Series H	1.50%	67%	33%
Series D	0.90%	28%	72%
Series F	0.65%	—	100%
Series I	0.50%	—	100%

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

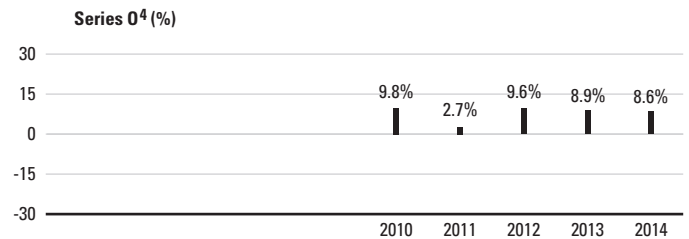
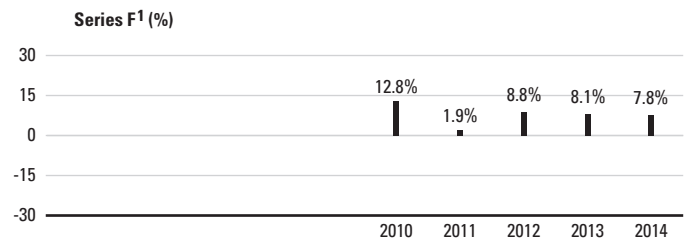
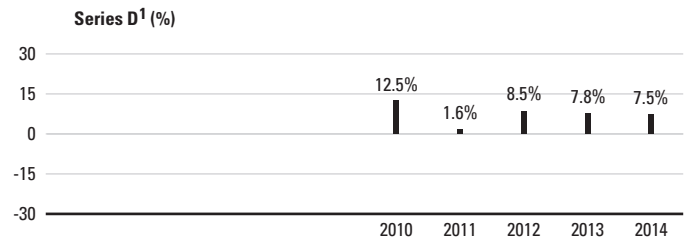
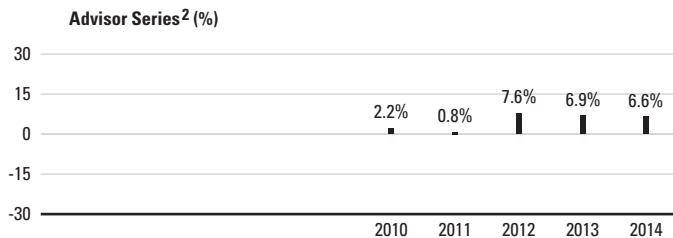
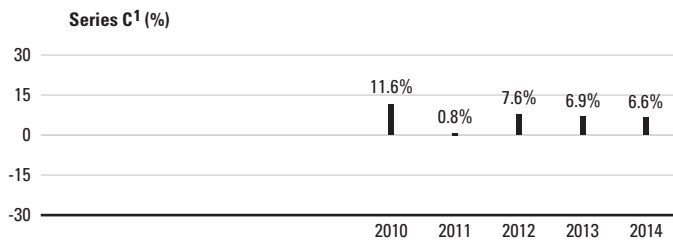
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 50% S&P/TSX Capped Composite Total Return Index
- 35% FTSE TMX Canada Universe Bond Index
- 10% Merrill Lynch Canadian High Yield Index
- 5% S&P/TSX Preferred Share Total Return Index

The broad-based index is the FTSE TMX Canada Universe Bond Index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	6.6	7.0	6.6	—	6.6
Benchmark	8.9	7.4	7.0	—	7.0
Broad-based index	8.8	3.7	5.4	—	5.4
Advisor Series ²	6.6	7.0	—	—	5.8
Benchmark	8.9	7.4	—	—	7.0
Broad-based index	8.8	3.7	—	—	5.4
Series H ³	6.8	—	—	—	7.6
Benchmark	8.9	—	—	—	8.5
Broad-based index	8.8	—	—	—	3.4
Series D ¹	7.5	7.9	7.5	—	7.5
Benchmark	8.9	7.4	7.0	—	7.0
Broad-based index	8.8	3.7	5.4	—	5.4
Series F ¹	7.8	8.2	7.8	—	7.8
Benchmark	8.9	7.4	7.0	—	7.0
Broad-based index	8.8	3.7	5.4	—	5.4
Series J ³	8.0	—	—	—	8.8
Benchmark	8.9	—	—	—	8.5
Broad-based index	8.8	—	—	—	3.4
Series O ⁴	8.6	9.0	—	—	8.2
Benchmark	8.9	7.4	—	—	6.6
Broad-based index	8.8	3.7	—	—	5.6

The returns of each series may vary because of differences in management fees and expenses. The Benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark and broad-based index.

¹ Inception date December 2009.

² Inception date October 2010.

³ Inception date July 2012.

⁴ Inception date April 2010.

INDEX DESCRIPTIONS

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

Merrill Lynch Canadian High Yield Index This index tracks the performance of U.S. dollar- and Canadian dollar- denominated below-investment-grade corporate debt publicly issued by Canadian issuers in the Canadian or U.S. domestic markets.

S&P/TSX Preferred Share Total Return Index This index is composed of preferred stocks trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity, issuer rating and exchange listing.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Canadian Equities	55.5
Bonds	42.4
Cash/Other	2.1

Top 25 Holdings

	% of Net Asset Value
RBC High Yield Bond Fund	5.8
Royal Bank of Canada	3.9
Phillips, Hager & North High Yield Bond Fund	3.5
Toronto-Dominion Bank	3.5
Bank of Nova Scotia	3.3
Government of Canada 1.000% Feb 1 15	3.2
Province of Ontario 6.500% Mar 8 29	2.6
Canadian Imperial Bank of Commerce	2.0
Canadian National Railway Co.	1.9
Province of Ontario 7.600% Jun 2 27	1.9
Bank of Montreal	1.8
Brookfield Asset Management Inc., Class A	1.8
Enbridge Inc.	1.7
Manulife Financial Corporation	1.5
Cash & Cash Equivalents	1.5
TransCanada Corp.	1.4
Province of Ontario 3.450% Jun 2 45	1.3
Government of Canada 3.500% Dec 1 45	1.1
Finning International Inc.	1.1
Rogers Communications Inc., Class B	1.0
TELUS Corp.	1.0
CI Financial Corp.	1.0
Crombie Real Estate Investment Trust	1.0
Canada Housing Trust No. 1 3.800% Jun 15 21	0.9
Pure Industrial Real Estate Investment Trust	0.9
Top 25 Holdings	50.6

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

BALANCED FUND

**PHILLIPS, HAGER & NORTH
BALANCED FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth and income by investing primarily in a strategic asset mix of Canadian and foreign equities, Canadian fixed-income securities and money market instruments. Its asset mix is adjusted periodically to reflect changing economic and market conditions. The magnitude and timing of all rebalancing decisions within the Fund are made by a team of investment professionals who focus on determining the best asset mix in any given economic environment. To achieve the Fund's investment objective, we invest a significant portion or even all of the net asset value of the Fund in other funds managed by RBC GAM where the investment is consistent with the investment objectives and strategies of the Fund.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$722.3 million as of December 31, 2014, from \$677.5 million at the end of 2013. Of the change, \$74.4 million was due to investment returns, offset by \$29.6 million of net outflows.

Over the past year, the Fund's Series D units gained 11.1%, which outperformed the benchmark return of 10.6% and the broad-based index return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China's economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

The Fund was positioned to hold an overweight position in stocks and an underweight position in bonds, and this allocation had a positive effect on performance in 2014.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds, had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts. The Fund's fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Bond Fund.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC's late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the "Fed") to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015. All of the fund's equity holdings contributed positively, with the majority of the performance coming from the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North U.S. Equity Fund.

Recent Developments

The world's major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds. As a result, the portfolio manager has maintained overweight exposure to equities and an underweight position in bonds.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	18.97	0.51	(0.39)	2.40	(0.63)	1.89	(0.04)	(0.10)	(1.93)	–	(2.07)	18.78
Dec. 31, 2013	17.03	0.51	(0.35)	0.25	1.70	2.11	(0.07)	(0.11)	–	–	(0.18)	18.97
Dec. 31, 2012	16.23	0.52	(0.33)	0.09	0.80	1.08	(0.08)	(0.15)	(0.05)	–	(0.28)	17.03
Dec. 31, 2011	17.50	0.58	(0.33)	0.21	(1.26)	(0.80)	(0.14)	(0.08)	(0.24)	–	(0.46)	16.23
Dec. 31, 2010	16.58	0.54	(0.33)	0.35	0.63	1.19	(0.22)	(0.02)	(0.06)	–	(0.30)	17.50
Advisor Series												
Dec. 31, 2014	18.98	0.51	(0.39)	2.40	(0.63)	1.89	(0.04)	(0.10)	(1.93)	–	(2.07)	18.79
Dec. 31, 2013	17.03	0.49	(0.36)	0.25	1.64	2.02	(0.07)	(0.11)	–	–	(0.18)	18.98
Dec. 31, 2012	16.23	0.52	(0.33)	0.09	0.80	1.08	(0.08)	(0.15)	(0.05)	–	(0.28)	17.03
Dec. 31, 2011	17.50	0.58	(0.33)	0.21	(1.26)	(0.80)	(0.14)	(0.08)	(0.24)	–	(0.46)	16.23
Dec. 31, 2010 ³	17.28 [†]	0.09	(0.05)	0.06	0.11	0.21	(0.10)	(0.01)	(0.06)	–	(0.17)	17.50
Series D												
Dec. 31, 2014	18.73	0.50	(0.17)	2.37	(0.63)	2.07	(0.09)	(0.26)	(1.93)	–	(2.28)	18.52
Dec. 31, 2013	16.81	0.50	(0.15)	0.25	1.68	2.28	(0.14)	(0.22)	–	–	(0.36)	18.73
Dec. 31, 2012	16.01	0.51	(0.14)	0.09	0.79	1.25	(0.14)	(0.27)	(0.05)	–	(0.46)	16.81
Dec. 31, 2011	17.28	0.57	(0.14)	0.21	(1.24)	(0.60)	(0.26)	(0.16)	(0.24)	–	(0.66)	16.01
Dec. 31, 2010	16.36	0.53	(0.14)	0.34	0.62	1.35	(0.36)	(0.04)	(0.06)	–	(0.46)	17.28
Series F												
Dec. 31, 2014	18.74	0.50	(0.18)	2.37	(0.63)	2.06	(0.09)	(0.25)	(1.93)	–	(2.27)	18.54
Dec. 31, 2013	16.82	0.50	(0.16)	0.25	1.68	2.27	(0.14)	(0.22)	–	–	(0.36)	18.74
Dec. 31, 2012	16.03	0.52	(0.15)	0.09	0.79	1.25	(0.14)	(0.27)	(0.05)	–	(0.46)	16.82
Dec. 31, 2011	17.30	0.57	(0.15)	0.21	(1.24)	(0.61)	(0.26)	(0.16)	(0.24)	–	(0.66)	16.03
Dec. 31, 2010	16.37	0.53	(0.15)	0.34	0.62	1.34	(0.36)	(0.04)	(0.06)	–	(0.46)	17.30
Series O												
Dec. 31, 2014	18.54	0.50	–	2.34	(0.62)	2.22	(0.13)	(0.38)	(1.93)	–	(2.44)	18.32
Dec. 31, 2013	16.64	0.49	–	0.25	1.66	2.40	(0.20)	(0.30)	–	–	(0.50)	18.54
Dec. 31, 2012	15.86	0.51	–	0.09	0.78	1.38	(0.19)	(0.36)	(0.05)	–	(0.60)	16.64
Dec. 31, 2011	17.11	0.57	–	0.20	(1.23)	(0.46)	(0.35)	(0.21)	(0.24)	–	(0.80)	15.86
Dec. 31, 2010	16.15	0.52	–	0.34	0.61	1.47	(0.45)	(0.05)	(0.06)	–	(0.56)	17.11

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	18.78	23 095	1 230	1.99	1.99	53.33	0.08
Dec. 31, 2013	18.97	22 353	1 178	2.00	2.00	118.83	0.11
Dec. 31, 2012	17.04	21 146	1 241	2.03	2.03	104.10	0.12
Dec. 31, 2011	16.24	21 655	1 333	2.03	2.03	108.76	0.03
Dec. 31, 2010	17.52	18 669	1 065	1.99	1.99	64.26	0.11
Advisor Series							
Dec. 31, 2014	18.79	3 940	210	1.99	1.99	53.33	0.08
Dec. 31, 2013	18.98	2 852	150	2.00	2.00	118.83	0.11
Dec. 31, 2012	17.04	1 676	98	2.03	2.03	104.10	0.12
Dec. 31, 2011	16.24	1 106	68	2.03	2.03	108.76	0.03
Dec. 31, 2010 ⁴	17.52	18	1	1.99	1.99	64.26	0.11
Series D							
Dec. 31, 2014	18.52	647 200	34 942	0.88	0.88	53.33	0.08
Dec. 31, 2013	18.73	595 989	31 823	0.88	0.88	118.83	0.11
Dec. 31, 2012	16.81	590 173	35 105	0.90	0.90	104.10	0.12
Dec. 31, 2011	16.02	652 471	40 725	0.91	0.91	108.76	0.03
Dec. 31, 2010	17.30	751 233	43 422	0.89	0.89	64.26	0.11
Series F							
Dec. 31, 2014	18.54	9 185	495	0.91	0.91	53.33	0.08
Dec. 31, 2013	18.74	8 864	473	0.91	0.91	118.83	0.11
Dec. 31, 2012	16.82	7 821	465	0.91	0.91	104.10	0.12
Dec. 31, 2011	16.03	7 078	441	0.92	0.92	108.76	0.03
Dec. 31, 2010	17.32	7 541	435	0.91	0.91	64.26	0.11
Series O							
Dec. 31, 2014	18.32	38 910	2 124	0.04	0.04	53.33	0.08
Dec. 31, 2013	18.54	47 414	2 557	0.04	0.04	118.83	0.11
Dec. 31, 2012	16.64	40 811	2 452	0.03	0.03	104.10	0.12
Dec. 31, 2011	15.86	39 513	2 491	0.04	0.04	108.76	0.03
Dec. 31, 2010	17.13	47 023	2 745	0.04	0.04	64.26	0.11

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	0.75%	33%	67%
Series F	0.75%	–	100%

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

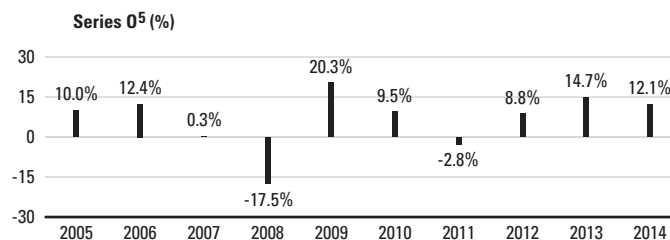
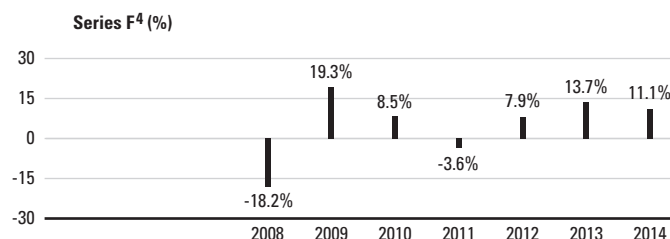
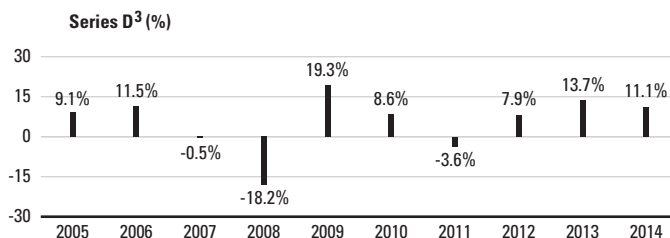
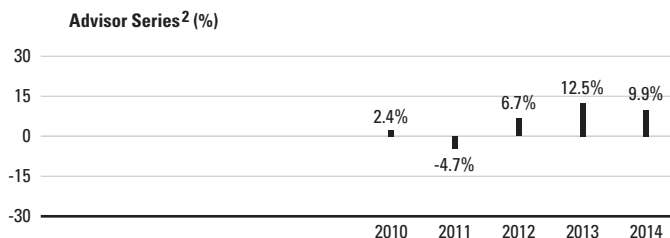
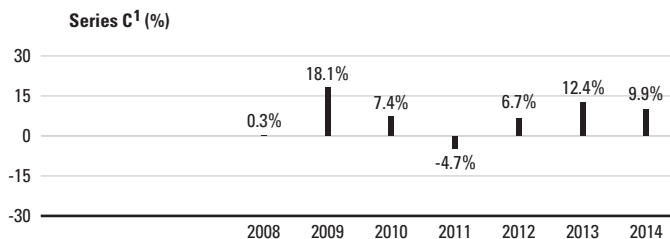
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

The new blended benchmark (the "New benchmark") is composed of:

- 38% FTSE TMX Canada Universe Bond Index
- 30% S&P/TSX Capped Composite Total Return Index
- 26% MSCI World Total Return Net Index (CAD)
- 4% MSCI Emerging Markets Total Return Net Index (CAD)
- 2% FTSE TMX Canada 30 Day TBill Index

The old blended benchmark (the "Old benchmark") is composed of:

- 35% FTSE TMX Canada Universe Bond Index
- 35% S&P/TSX Capped Composite Total Return Index
- 25% MSCI World ex Canada Total Return Net Index (CAD)
- 5% FTSE TMX Canada 30 Day TBill Index

The change in benchmark better reflects the composition of the Fund.

The broad-based index is the FTSE TMX Canada Universe Bond Index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	9.9	9.7	6.2	—	8.0
New benchmark	10.6	10.1	7.9	—	9.5
Old benchmark	10.5	10.0	7.9	—	9.3
Broad-based index	8.8	3.7	5.4	—	5.9
Advisor Series ²	9.9	9.7	—	—	6.2
New benchmark	10.6	10.1	—	—	7.6
Old benchmark	10.5	10.0	—	—	7.7
Broad-based index	8.8	3.7	—	—	4.7
Series D ³	11.1	10.9	7.4	5.4	—
New benchmark	10.6	10.1	7.9	6.4	—
Old benchmark	10.5	10.0	7.9	6.3	—
Broad-based index	8.8	3.7	5.4	5.3	—
Series F ⁴	11.1	10.9	7.3	—	4.8
New benchmark	10.6	10.1	7.9	—	5.1
Old benchmark	10.5	10.0	7.9	—	5.1
Broad-based index	8.8	3.7	5.4	—	5.6
Series O ⁵	12.1	11.8	8.3	6.2	—
New benchmark	10.6	10.1	7.9	6.4	—
Old benchmark	10.5	10.0	7.9	6.3	—
Broad-based index	8.8	3.7	5.4	5.3	—

The returns of each series may vary because of differences in management fees and expenses. The New benchmark, Old benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the New benchmark, Old benchmark and broad-based index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date September 1991.

⁴ Inception date December 2007.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

MSCI World Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI Emerging Markets Total Return Net Index (CAD) This index is a broad measure of the Canadian dollar performance of emerging-market equities. As of May 2010, the index consisted of the following 21 emerging-market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, South Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

FTSE TMX Canada 30 Day TBill Index* This index is a measure of the performance of Canadian short-term cash investments.

MSCI World ex Canada Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world (ex Canada). The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Bonds	32.3
Canadian Equities	31.6
United States Equities	16.2
Overseas Equities	14.2
Mortgages	0.2
Cash/Other	5.5

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	33.4
Phillips, Hager & North Canadian Equity Underlying Fund	27.4
RBC Global Equity Focus Fund	20.7
RBC QUBE Global Equity Fund	6.4
Cash & Cash Equivalents	4.6
RBC Emerging Markets Equity Fund	4.0
RBC High Yield Bond Fund	2.0
RBC Institutional Cash Fund	1.5
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

BALANCED FUND

**PHILLIPS, HAGER & NORTH
COMMUNITY VALUES BALANCED FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth and income by investing in a strategic asset mix of Canadian and foreign equities, Canadian fixed-income securities and money market instruments of companies that conduct themselves in a socially responsible manner. The Fund's asset mix is adjusted periodically to reflect changing economic and market conditions. The magnitude and timing of all rebalancing decisions within the Fund are made by a team of investment professionals who focus on determining the best asset mix in any given economic environment. To achieve the Fund's investment objective, we invest a significant portion or even all of the net asset value of the Fund in other funds managed by RBC GAM where the investment is consistent with the investment objectives and strategies of the Fund.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$46.1 million as of December 31, 2014, from \$16.6 million at the end of 2013. Of the change, \$25.3 million was due to net inflows and \$4.2 million due to investment returns.

Over the past year, the Fund's Series D units gained 11.3%, which outperformed the benchmark return of 10.9% and the broad-based index return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China's economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

The Fund was positioned to hold an overweight position in stocks and an underweight position in bonds, and this allocation had a positive effect on performance in 2014.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds, had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts. The Fund's sole fixed-income holding, the Phillips, Hager & North Community Values Bond Fund, had a positive impact on performance.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC's late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the "Fed") to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015. Both of the Fund's equity holdings, the Phillips, Hager & North Community Values Global Equity Fund and the Phillips, Hager & North Community Values Canadian Equity Fund, had a strong positive impact on returns.

Recent Developments

The world's major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

**PHILLIPS, HAGER & NORTH COMMUNITY
VALUES BALANCED FUND**

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds. As a result, the portfolio manager has maintained overweight exposure to equities and an underweight position in bonds.

Related-Party Transactions
Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH COMMUNITY
VALUES BALANCED FUND**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	13.98	0.43	(0.30)	1.02	0.27	1.42	(0.03)	(0.06)	(0.83)	–	(0.92)	14.47
Dec. 31, 2013	12.48	0.36	(0.27)	0.27	1.27	1.63	–	(0.09)	(0.02)	–	(0.11)	13.98
Dec. 31, 2012	11.81	0.34	(0.25)	0.10	0.61	0.80	–	(0.09)	(0.04)	–	(0.13)	12.48
Dec. 31, 2011	12.77	0.35	(0.25)	0.25	(0.88)	(0.53)	(0.05)	(0.04)	(0.33)	–	(0.42)	11.81
Dec. 31, 2010	12.12	0.36	(0.24)	0.10	0.59	0.81	(0.06)	(0.05)	(0.03)	–	(0.14)	12.77
Advisor Series												
Dec. 31, 2014	13.98	0.43	(0.30)	1.02	0.27	1.42	(0.03)	(0.06)	(0.83)	–	(0.92)	14.47
Dec. 31, 2013	12.48	0.36	(0.27)	0.27	1.26	1.62	–	(0.09)	(0.02)	–	(0.11)	13.98
Dec. 31, 2012	11.81	0.34	(0.25)	0.10	0.61	0.80	–	(0.09)	(0.04)	–	(0.13)	12.48
Dec. 31, 2011	12.77	0.35	(0.25)	0.25	(0.88)	(0.53)	(0.05)	(0.04)	(0.33)	–	(0.42)	11.81
Dec. 31, 2010 ³	12.68 [†]	0.06	(0.04)	0.02	0.10	0.14	(0.06)	(0.05)	(0.03)	–	(0.14)	12.77
Series D												
Dec. 31, 2014	13.80	0.43	(0.14)	1.02	0.27	1.58	(0.07)	(0.18)	(0.83)	–	(1.08)	14.28
Dec. 31, 2013	12.31	0.36	(0.12)	0.27	1.26	1.77	(0.01)	(0.23)	(0.02)	–	(0.26)	13.80
Dec. 31, 2012	11.66	0.34	(0.12)	0.10	0.61	0.93	(0.01)	(0.22)	(0.04)	–	(0.27)	12.31
Dec. 31, 2011	12.62	0.34	(0.12)	0.25	(0.88)	(0.41)	(0.12)	(0.10)	(0.33)	–	(0.55)	11.66
Dec. 31, 2010	11.97	0.36	(0.11)	0.10	0.59	0.94	(0.14)	(0.11)	(0.03)	–	(0.28)	12.62
Series F												
Dec. 31, 2014	13.98	0.44	(0.14)	1.03	0.27	1.60	(0.07)	(0.19)	(0.83)	–	(1.09)	14.47
Dec. 31, 2013	12.48	0.36	(0.12)	0.27	1.28	1.79	(0.01)	(0.24)	(0.02)	–	(0.27)	13.98
Dec. 31, 2012	11.81	0.35	(0.11)	0.10	0.61	0.95	(0.01)	(0.22)	(0.04)	–	(0.27)	12.48
Dec. 31, 2011	12.78	0.35	(0.12)	0.25	(0.89)	(0.41)	(0.13)	(0.10)	(0.33)	–	(0.56)	11.81
Dec. 31, 2010	12.12	0.36	(0.11)	0.10	0.60	0.95	(0.14)	(0.12)	(0.03)	–	(0.29)	12.78
Series O												
Dec. 31, 2014	13.84	0.40	(0.02)	0.94	0.25	1.57	(0.11)	(0.26)	(0.83)	–	(1.20)	14.32
Dec. 31, 2013	12.35	0.36	(0.02)	0.27	1.28	1.89	(0.02)	(0.33)	(0.02)	–	(0.37)	13.84
Dec. 31, 2012	11.69	0.34	(0.02)	0.10	0.61	1.03	(0.01)	(0.32)	(0.04)	–	(0.37)	12.35
Dec. 31, 2011	12.66	0.35	(0.02)	0.25	(0.88)	(0.30)	(0.19)	(0.14)	(0.33)	–	(0.66)	11.69
Dec. 31, 2010	12.01	0.36	(0.02)	0.10	0.59	1.03	(0.20)	(0.16)	(0.03)	–	(0.39)	12.66

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From December 31, 2010.

[†] Initial offering net asset value per unit.

**PHILLIPS, HAGER & NORTH COMMUNITY
VALUES BALANCED FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	14.47	5 335	369	2.15	2.16	13.84	0.11
Dec. 31, 2013	13.98	3 354	240	2.17	2.17	23.10	0.08
Dec. 31, 2012	12.48	2 589	208	2.18	2.18	21.43	0.12
Dec. 31, 2011	11.81	1 990	168	2.19	2.19	24.52	0.12
Dec. 31, 2010	12.77	1 603	125	2.14	2.14	19.82	0.09
Advisor Series							
Dec. 31, 2014	14.47	2 460	170	2.15	2.16	13.84	0.11
Dec. 31, 2013	13.98	1 492	107	2.17	2.17	23.10	0.08
Dec. 31, 2012	12.48	493	40	2.18	2.18	21.43	0.12
Dec. 31, 2011	11.81	204	17	2.19	2.19	24.52	0.12
Dec. 31, 2010 ⁴	12.77	51	4	2.14	2.14	19.82	0.09
Series D							
Dec. 31, 2014	14.28	14 009	981	1.03	1.04	13.84	0.11
Dec. 31, 2013	13.80	10 670	773	1.05	1.05	23.10	0.08
Dec. 31, 2012	12.31	10 127	822	1.08	1.08	21.43	0.12
Dec. 31, 2011	11.66	10 141	870	1.08	1.08	24.52	0.12
Dec. 31, 2010	12.62	10 892	863	0.95	0.95	19.82	0.09
Series F							
Dec. 31, 2014	14.47	758	52	1.00	1.01	13.84	0.11
Dec. 31, 2013	13.98	586	42	1.02	1.02	23.10	0.08
Dec. 31, 2012	12.48	383	31	1.03	1.03	21.43	0.12
Dec. 31, 2011	11.81	508	43	1.05	1.05	24.52	0.12
Dec. 31, 2010	12.78	234	18	0.92	0.92	19.82	0.09
Series O							
Dec. 31, 2014	14.32	23 491	1 640	0.21	0.22	13.84	0.11
Dec. 31, 2013	13.84	526	38	0.22	0.22	23.10	0.08
Dec. 31, 2012	12.35	276	22	0.24	0.24	21.43	0.12
Dec. 31, 2011	11.69	319	27	0.25	0.25	24.52	0.12
Dec. 31, 2010	12.66	2 947	233	0.23	0.23	19.82	0.09

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

**PHILLIPS, HAGER & NORTH COMMUNITY
VALUES BALANCED FUND**

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	0.75%	33%	67%
Series F	0.75%	—	100%

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

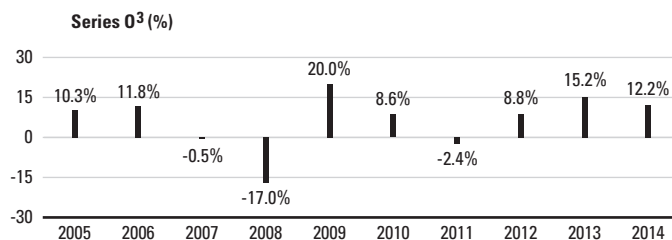
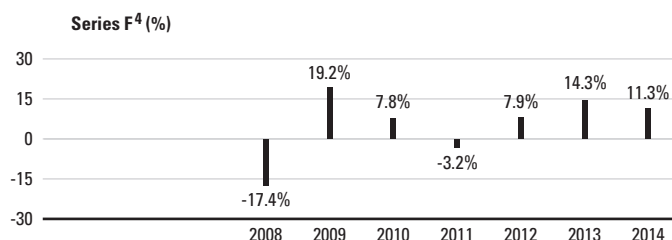
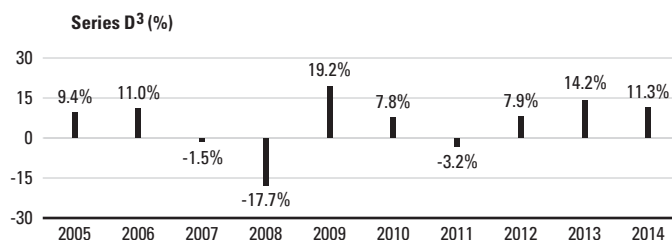
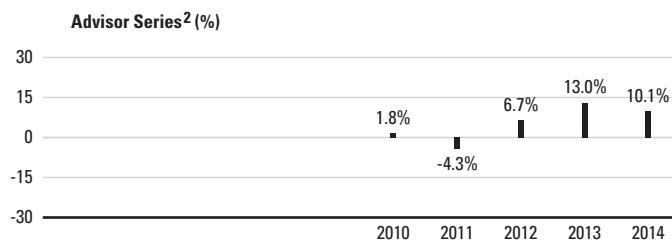
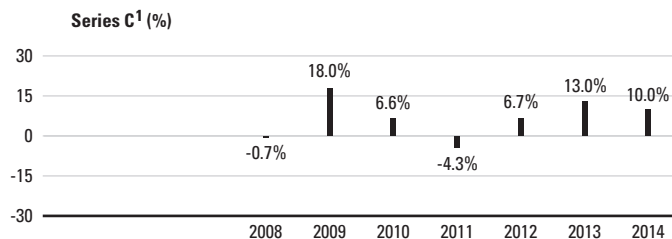
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



**PHILLIPS, HAGER & NORTH COMMUNITY
VALUES BALANCED FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

The new blended benchmark (the "New benchmark") is composed of:

- 38% FTSE TMX Canada Universe Bond Index
- 30% S&P/TSX Capped Composite Total Return Index
- 30% MSCI World Total Return Net Index (CAD)
- 2% FTSE TMX Canada 30 Day TBill Index

The old blended benchmark (the "Old benchmark") is composed of:

- 35% FTSE TMX Canada Universe Bond Index
- 35% S&P/TSX Capped Composite Total Return Index
- 25% MSCI World ex Canada Total Return Net Index (CAD)
- 5% FTSE TMX Canada 30 Day TBill Index

The change in benchmark better reflects the composition of the Fund.

The broad-based index is the FTSE TMX Canada Universe Bond Index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	10.0	9.9	6.2	–	7.9
New benchmark	10.9	10.5	8.2	–	9.5
Old benchmark	10.5	10.0	7.9	–	9.3
Broad-based index	8.8	3.7	5.4	–	5.9
Advisor Series ²	10.1	9.9	–	–	6.4
New benchmark	10.9	10.5	–	–	8.1
Old benchmark	10.5	10.0	–	–	7.7
Broad-based index	8.8	3.7	–	–	4.7
Series D ³	11.3	11.1	7.4	5.3	–
New benchmark	10.9	10.5	8.2	6.3	–
Old benchmark	10.5	10.0	7.9	6.3	–
Broad-based index	8.8	3.7	5.4	5.3	–
Series F ⁴	11.3	11.1	7.4	–	5.0
New benchmark	10.9	10.5	8.2	–	5.3
Old benchmark	10.5	10.0	7.9	–	5.1
Broad-based index	8.8	3.7	5.4	–	5.6
Series O ³	12.2	12.0	8.3	6.2	–
New benchmark	10.9	10.5	8.2	6.3	–
Old benchmark	10.5	10.0	7.9	6.3	–
Broad-based index	8.8	3.7	5.4	5.3	–

The returns of each series may vary because of differences in management fees and expenses. The New benchmark, Old benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the New benchmark, Old benchmark and broad-based index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date September 2002.

⁴ Inception date December 2007.

Series D was known as Series A prior to November 17, 2008. Although the Fund was prospectused in August 2002, Series A and Series O units were not offered for sale until September 2002. We are therefore not permitted to disclose performance data for this Fund for any period prior to September 2002.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

MSCI World Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

FTSE TMX Canada 30 Day TBill Index* This index is a measure of the performance of Canadian short-term cash investments.

MSCI World ex Canada Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world (ex Canada). The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Bonds	32.1
Canadian Equities	30.5
United States Equities	18.6
Overseas Equities	12.6
Cash/Other	6.2

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Community Values Bond Fund	35.3
Phillips, Hager & North Community Values Global Equity Fund	31.6
Phillips, Hager & North Community Values Canadian Equity Fund	31.1
Cash & Cash Equivalents	2.0
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
DIVIDEND INCOME FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth and income by investing primarily in a well-diversified portfolio of dividend income-producing Canadian securities that have a relatively high yield. The securities are selected based on their long-term earnings potential and their ability to sustain an attractive yield over the long term. To achieve the Fund's investment objective, we invest primarily in large-capitalization, dividend-paying Canadian common shares and, to a lesser extent, preferred shares and bonds. U.S. stocks may be held in the Fund to complement its Canadian holdings, and will typically be concentrated in industries that are not well represented in the Canadian market.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$2.7 billion as of December 31, 2014, from \$2.6 billion at the end of 2013. Of the change, \$268.7 million was due to investment returns, offset by \$229.5 million of net redemptions.

Over the past year, the Fund's Series D units gained 10.0%, which underperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Equity markets in the developed world delivered positive returns in 2014, with the U.S. and Japan leading the way. After a strong first half where the S&P/TSX outperformed most other global markets, the latter half proved more difficult on the back of weaker commodity prices. Base and precious metals pulled back modestly but a significant correction in oil prices had a negative impact on Canadian equity performance.

Price volatility across a number of asset classes picked up as the year progressed. Concerns by market participants about the end of quantitative easing by the U.S. Federal Reserve was the initial catalyst for heightened volatility. Subsequently, markets focused on slowing global growth outside of the U.S. economy and the dislocations caused by the severe slump in oil prices. While the decline is of benefit to consumers, it is causing stress within the corporate bond market and stock markets of major energy producers.

One of the biggest surprises of 2014 was the steady decline in global bond yields. European and Japanese central bank support, sluggish global economies and deflationary concerns spreading through the commodity complex were the primary drivers for lower interest rates.

The Fund's performance during the year was driven primarily by stock selection in a variety of sectors. More specifically, the Fund benefited from its investments in Brookfield Asset Management, Loblaw Companies and Magna.

During the year, shares of Brookfield Asset Management performed well as the company exhibited an increased ability to raise third-party funds as well as showcased the value of its growing asset management platform. Furthermore, Brookfield also successfully launched Brookfield Property Partners LP, adding to the widening set of opportunities with the Brookfield structure. As a global alternative asset manager, Brookfield now has approximately \$200 billion in assets under management with a focus on property, renewable energy, infrastructure and private equity.

The Fund also benefited from its investment in Loblaw. As the nation's largest retailer, Loblaw is Canada's food and pharmacy leader and a majority unitholder in Choice Properties REIT. Recently, Loblaw reported solid results and we expect them to continue to deliver modest top-line and earnings growth against a stable grocery market, while they work to achieve the targeted \$300 million of synergies related to the acquisition of Shoppers. Furthermore, the strong free cash being generated by the business will enable rapid reduction in debt and improved returns to shareholders through both dividend increases and share buyback programs.

In the Consumer Discretionary sector, Magna continued to perform well, driven primarily by strong quarterly results and a positive outlook for 2015. Auto production volumes in North America and Europe are expected to remain stable which will enable Magna to further improve its margins in Europe. Additionally, Magna's strong balance sheet gives it flexibility to make investments in capital expenditures, tuck-in acquisitions, increase its dividend or buy back its stock.

Additionally, the Fund's relative performance during the period was helped by not being invested in several poorly performing stocks. These include oil producers such as Canadian Oil Sands, Penn West Petroleum, Pacific Rubiales Energy and gold producer Yamana Gold.

The Fund's performance was hurt by Canexus Corporation, Cenovus Energy and CI Financial. Additionally, the Fund was hurt by not being invested in several strong-performing stocks, including Valeant Pharmaceuticals, Alimentation Couche-Tard and Tim Hortons.

The portfolio manager remained active in the Fund during the year, adding several new names and eliminating or trimming several others. Positions were added in WSP Global, Chemtrade Logistics, Allied Properties REIT, PrairieSky Royalty and Whitecap Resources to name a few. The Fund's

weightings in Goldcorp, Potash Corporation of Saskatchewan, Medical Facilities, Alaris Royalty and Cardinal Energy were also increased. The portfolio manager reduced the Fund's weightings in Power Financial, Power Corporation of Canada, Rogers Communications, Cenovus Energy and CI Financial. Finally, the Fund's holdings in Empire, Pattern Energy Group, Baytex Energy and HudBay Minerals were eliminated.

Recent Developments

In the U.S., a durable/low inflation expansion rolls on. Recovering real estate and capital markets and firming momentum in job creation have restored confidence, bolstering consumption. Low rates have increased flexibility for households and corporate balance sheets are strong.

Slower global growth and a variety of domestic structural pressures have reduced the sustainable growth rates for emerging nations, but growth continues at a comparatively good rate, now supported by significant monetary and regulatory relief in China. Europe is again struggling as a too-strong currency, with too-timid monetary stimulus and a too-low inflation rate, and proximity/economic ties with Russia are economic headwinds. The threat of a fall back into general recession, though, seems contained as the European Central Bank contemplates more aggressive monetary policy. In Japan, growth expectations are again being trimmed, but the portfolio manager remains cautiously optimistic as the nation embraces reform.

In the portfolio manager's view, the outlook for economic growth and corporate profits continues to favour stocks. But as the bull market moves into its sixth year, valuations are more demanding, especially in the U.S. That said, even in a sluggish growth environment, corporate profits and margins are solid and surprising still-cautious analysts, providing fuel for ongoing gains. Higher valuations, an aging bull market and less-than-ideal liquidity conditions indicate the likelihood of more market corrections, similar to September/October.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the

Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$42,000 (2013 – \$72,000), or 8% (2013 – 15%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	90.69	3.23	(1.96)	3.05	3.99	8.31	—	(1.17)	(0.31)	—	(1.48)	97.40
Dec. 31, 2013	79.60	2.88	(1.71)	1.37	9.57	12.11	—	(1.06)	—	—	(1.06)	90.66
Dec. 31, 2012	73.98	2.57	(1.58)	2.69	3.87	7.55	—	(0.73)	(1.21)	—	(1.94)	79.60
Dec. 31, 2011	78.50	2.44	(1.52)	3.22	(6.72)	(2.58)	—	(0.33)	(1.44)	—	(1.77)	73.98
Dec. 31, 2010	71.37	2.32	(1.42)	0.90	5.92	7.72	—	(0.70)	—	—	(0.70)	78.50
Advisor Series												
Dec. 31, 2014	90.70	3.23	(1.96)	3.05	3.99	8.31	—	(1.17)	(0.31)	—	(1.48)	97.42
Dec. 31, 2013	79.60	2.88	(1.74)	1.36	9.55	12.05	—	(1.06)	—	—	(1.06)	90.68
Dec. 31, 2012	73.98	2.57	(1.58)	2.69	3.87	7.55	—	(0.73)	(1.21)	—	(1.94)	79.60
Dec. 31, 2011	78.50	2.44	(1.52)	3.22	(6.72)	(2.58)	—	(0.33)	(1.44)	—	(1.77)	73.98
Dec. 31, 2010 ³	75.18 [†]	0.39	(0.24)	0.15	0.99	1.29	—	(0.36)	—	—	(0.36)	78.50
Series D												
Dec. 31, 2014	89.87	3.20	(1.11)	3.02	3.95	9.06	—	(1.98)	(0.31)	—	(2.29)	96.54
Dec. 31, 2013	78.85	2.85	(0.97)	1.36	9.49	12.73	—	(1.75)	—	—	(1.75)	89.85
Dec. 31, 2012	73.30	2.55	(0.90)	2.67	3.84	8.16	—	(1.41)	(1.21)	—	(2.62)	78.85
Dec. 31, 2011	77.79	2.41	(0.86)	3.19	(6.65)	(1.91)	—	(1.02)	(1.43)	—	(2.45)	73.30
Dec. 31, 2010	70.71	2.29	(0.81)	0.89	5.85	8.22	—	(1.29)	—	—	(1.29)	77.79
Series F												
Dec. 31, 2014	90.51	3.23	(0.89)	3.05	3.98	9.37	—	(2.17)	(0.31)	—	(2.48)	97.28
Dec. 31, 2013	79.40	2.87	(0.78)	1.37	9.56	13.02	—	(1.95)	—	—	(1.95)	90.48
Dec. 31, 2012	73.81	2.57	(0.73)	2.69	3.86	8.39	—	(1.60)	(1.21)	—	(2.81)	79.40
Dec. 31, 2011	78.36	2.43	(0.70)	3.22	(6.70)	(1.75)	—	(1.21)	(1.46)	—	(2.67)	73.81
Dec. 31, 2010	71.26	2.31	(0.65)	0.90	5.91	8.47	—	(1.48)	—	—	(1.48)	78.36
Series O												
Dec. 31, 2014	88.43	3.15	(0.02)	2.97	3.89	9.99	—	(2.93)	(0.31)	—	(3.24)	95.08
Dec. 31, 2013	77.50	2.81	(0.02)	1.34	9.35	13.48	—	(2.58)	—	—	(2.58)	88.40
Dec. 31, 2012	72.01	2.51	(0.02)	2.63	3.78	8.90	—	(2.23)	(1.18)	—	(3.41)	77.50
Dec. 31, 2011	76.37	2.37	(0.02)	3.14	(6.54)	(1.05)	—	(1.81)	(1.41)	—	(3.22)	72.01
Dec. 31, 2010	69.42	2.25	(0.02)	0.88	5.75	8.86	—	(2.10)	—	—	(2.10)	76.37

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	97.40	72 740	747	2.03	2.03	12.85	0.02
Dec. 31, 2013	90.69	71 435	788	2.03	2.03	13.49	0.02
Dec. 31, 2012	79.73	65 023	816	2.05	2.05	17.02	0.03
Dec. 31, 2011	74.09	58 549	790	2.05	2.05	25.12	0.04
Dec. 31, 2010	78.62	50 892	647	2.00	2.00	44.91	0.11
Advisor Series							
Dec. 31, 2014	97.42	7 596	78	2.03	2.03	12.85	0.02
Dec. 31, 2013	90.70	7 258	80	2.03	2.03	13.49	0.02
Dec. 31, 2012	79.73	4 886	61	2.05	2.05	17.02	0.03
Dec. 31, 2011	74.09	2 553	34	2.05	2.05	25.12	0.04
Dec. 31, 2010 ⁴	78.62	236	3	2.00	2.00	44.91	0.11
Series D							
Dec. 31, 2014	96.54	1 801 970	18 665	1.16	1.16	12.85	0.02
Dec. 31, 2013	89.87	1 780 315	19 809	1.16	1.16	13.49	0.02
Dec. 31, 2012	78.98	1 765 567	22 355	1.18	1.18	17.02	0.03
Dec. 31, 2011	73.41	1 805 881	24 600	1.18	1.18	25.12	0.04
Dec. 31, 2010	77.92	2 059 340	26 430	1.14	1.14	44.91	0.11
Series F							
Dec. 31, 2014	97.28	29 891	307	0.92	0.92	12.85	0.02
Dec. 31, 2013	90.51	25 654	283	0.93	0.93	13.49	0.02
Dec. 31, 2012	79.53	21 181	266	0.94	0.94	17.02	0.03
Dec. 31, 2011	73.92	26 270	355	0.94	0.94	25.12	0.04
Dec. 31, 2010	78.48	23 634	301	0.92	0.92	44.91	0.11
Series O							
Dec. 31, 2014	95.08	771 709	8 117	0.02	0.02	12.85	0.02
Dec. 31, 2013	88.43	760 069	8 596	0.02	0.02	13.49	0.02
Dec. 31, 2012	77.63	525 399	6 768	0.02	0.02	17.02	0.03
Dec. 31, 2011	72.12	416 612	5 777	0.02	0.02	25.12	0.04
Dec. 31, 2010	76.49	419 867	5 489	0.02	0.02	44.91	0.11

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	–	100%

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

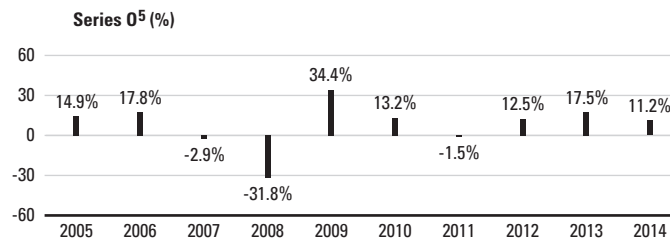
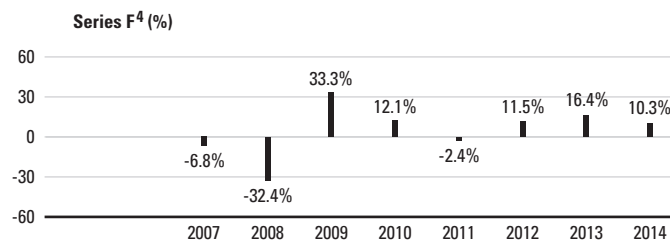
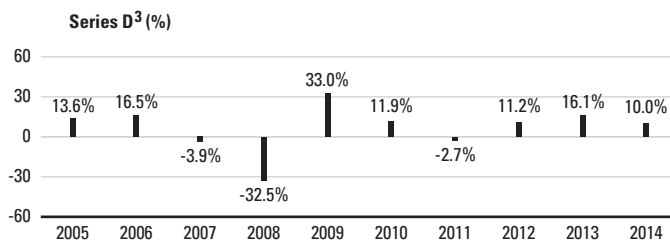
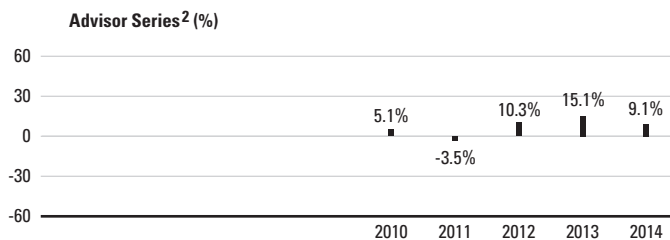
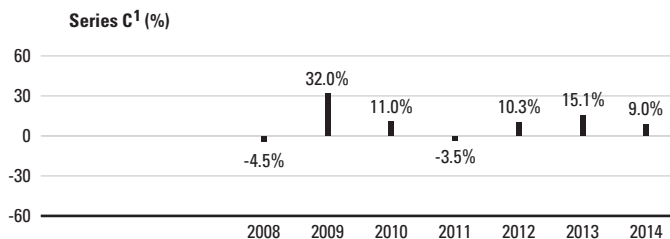
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	9.0	11.4	8.2	—	10.8
Benchmark	10.6	10.2	7.5	—	11.0
Advisor Series ²	9.1	11.5	—	—	8.5
Benchmark	10.6	10.2	—	—	6.5
Series D ³	10.0	12.4	9.1	5.9	—
Benchmark	10.6	10.2	7.5	7.6	—
Series F ⁴	10.3	12.7	9.4	—	3.7
Benchmark	10.6	10.2	7.5	—	3.7
Series O ⁵	11.2	13.7	10.4	7.0	—
Benchmark	10.6	10.2	7.5	7.6	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date June 1977.

⁴ Inception date June 2007.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	45.5
Energy	21.2
Industrials	7.1
Utilities	6.5
Telecommunication Services	5.5
Consumer Discretionary	5.2
Materials	4.8
Consumer Staples	1.8
Information Technology	0.6
Health Care	0.4
Cash/Other	1.4

Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	8.0
Toronto-Dominion Bank	7.3
Bank of Nova Scotia	5.3
Canadian National Railway Co.	4.3
Bank of Montreal	3.7
Enbridge Inc.	3.6
Brookfield Asset Management Inc., Class A	3.6
Canadian Imperial Bank of Commerce	3.5
Suncor Energy Inc.	3.0
Manulife Financial Corporation	2.8
Atco Ltd., Class I, Non-Voting	2.7
TransCanada Corp.	2.6
TELUS Corp.	2.3
Canadian Natural Resources Ltd.	2.1
Magna International Inc., Class A	2.1
BCE Inc.	2.1
Sun Life Financial Inc.	1.7
CI Financial Corp.	1.6
Potash Corporation of Saskatchewan Inc.	1.6
Cenovus Energy Inc.	1.6
Power Corporation of Canada	1.4
Loblaw Companies Ltd.	1.4
Shaw Communications Inc., Class B	1.3
Cash & Cash Equivalents	1.2
Intact Financial Corp.	1.2
Top 25 Holdings	72.0

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CANADIAN EQUITY FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of common shares of Canadian companies. To achieve the Fund's investment objective, we invest in companies that we believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, strong earnings potential and a reasonable valuation.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value remained steady at \$1.2 billion as of December 31, 2014, from \$1.2 billion at the end of 2013. Of the change, \$142.9 million was due to investment returns, offset by \$191.4 million of net redemptions.

Over the past year, the Fund's Series D units gained 11.0%, which outperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Capped Composite Index maintained its positive momentum from last year and rallied over 10% during 2014. In the Fund, the portfolio manager added value in seven out of 10 sectors, with Materials, Consumer Staples and Consumer Discretionary contributing the most to relative performance.

The Materials sector was the most significant contributor to performance over the year, driven by an underweight position in the sector and strong stock selection. In terms of security selection, an overweight position in specialty packaging company CCL Industries contributed to performance. Within the Consumer Discretionary sector, the Fund held an overweight position in Tim Hortons, which was subject to a takeover by Burger King at a large premium. Within the Consumer Staples sector, an overweight position in Alimentation Couche-Tard contributed significantly to performance.

The Industrials sector was the largest detractor to relative performance during the reporting period due to not holding Canadian Pacific Railway over valuation concerns. Overweight positions in Trilogy Energy, Crescent Point Energy and Cenovus Energy hurt performance as oil prices fell dramatically during the second half of 2014.

Recent Developments

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$91,000 (2013 – \$56,000), or 10% (2013 – 8%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	91.45	2.47	(2.00)	9.07	0.14	9.68	—	(0.60)	(5.75)	—	(6.35)	94.27
Dec. 31, 2013	77.99	2.16	(1.67)	2.51	10.72	13.72	—	(0.45)	—	—	(0.45)	91.42
Dec. 31, 2012	72.72	1.98	(1.52)	1.14	4.14	5.74	—	(0.51)	—	—	(0.51)	77.99
Dec. 31, 2011	85.81	2.17	(1.60)	2.27	(12.74)	(9.90)	—	(0.07)	(2.80)	—	(2.87)	72.72
Dec. 31, 2010	77.53	1.98	(1.53)	5.50	2.63	8.58	—	(0.70)	—	—	(0.70)	85.81
Advisor Series												
Dec. 31, 2014	91.46	2.48	(2.01)	9.10	0.14	9.71	—	(0.60)	(5.75)	—	(6.35)	94.29
Dec. 31, 2013	77.99	2.15	(1.73)	2.49	10.70	13.61	—	(0.45)	—	—	(0.45)	91.43
Dec. 31, 2012	72.72	1.98	(1.52)	1.14	4.14	5.74	—	(0.51)	—	—	(0.51)	77.99
Dec. 31, 2011	85.81	2.17	(1.60)	2.27	(12.74)	(9.90)	—	(0.07)	(2.80)	—	(2.87)	72.72
Dec. 31, 2010 ³	81.44 [†]	0.33	(0.26)	0.92	0.44	1.43	—	(0.70)	—	—	(0.70)	85.81
Series D												
Dec. 31, 2014	88.91	2.41	(1.11)	8.84	0.13	10.27	—	(1.41)	(5.75)	—	(7.16)	91.51
Dec. 31, 2013	75.83	2.10	(0.93)	2.44	10.44	14.05	—	(1.20)	—	—	(1.20)	88.89
Dec. 31, 2012	70.70	1.93	(0.86)	1.11	4.02	6.20	—	(1.14)	—	—	(1.14)	75.83
Dec. 31, 2011	84.22	2.13	(0.91)	2.23	(12.50)	(9.05)	—	(1.29)	(2.82)	—	(4.11)	70.70
Dec. 31, 2010	76.09	1.94	(0.86)	5.38	2.58	9.04	—	(1.41)	—	—	(1.41)	84.22
Series F												
Dec. 31, 2014	90.62	2.46	(0.91)	9.03	0.13	10.71	—	(1.63)	(5.75)	—	(7.38)	93.41
Dec. 31, 2013	77.29	2.15	(0.77)	2.50	10.69	14.57	—	(1.42)	—	—	(1.42)	90.60
Dec. 31, 2012	72.07	1.97	(0.70)	1.13	4.11	6.51	—	(1.36)	—	—	(1.36)	77.29
Dec. 31, 2011	85.79	2.18	(0.74)	2.27	(12.75)	(9.04)	—	(1.49)	(2.83)	—	(4.32)	72.07
Dec. 31, 2010	77.44	1.99	(0.71)	5.52	2.64	9.44	—	(1.55)	—	—	(1.55)	85.79
Series O												
Dec. 31, 2014	88.46	2.41	(0.02)	8.82	0.13	11.34	—	(2.45)	(5.75)	—	(8.20)	91.06
Dec. 31, 2013	75.45	2.10	(0.02)	2.45	10.47	15.00	—	(2.19)	—	—	(2.19)	88.43
Dec. 31, 2012	70.36	1.93	(0.02)	1.11	4.03	7.05	—	(2.04)	—	—	(2.04)	75.45
Dec. 31, 2011	83.87	2.13	(0.02)	2.23	(12.49)	(8.15)	—	(2.16)	(2.83)	—	(4.99)	70.36
Dec. 31, 2010	75.81	1.93	(0.02)	5.38	2.57	9.86	—	(2.40)	—	—	(2.40)	83.87

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	94.27	14 195	151	2.02	2.02	31.71	0.09
Dec. 31, 2013	91.45	12 632	138	2.02	2.02	21.73	0.08
Dec. 31, 2012	78.11	13 022	167	2.04	2.04	39.99	0.16
Dec. 31, 2011	72.83	11 586	159	2.03	2.03	58.64	0.14
Dec. 31, 2010	85.95	11 389	133	1.99	1.99	36.06	0.14
Advisor Series							
Dec. 31, 2014	94.29	1 445	15	2.02	2.02	31.71	0.09
Dec. 31, 2013	91.46	983	11	2.02	2.02	21.73	0.08
Dec. 31, 2012	78.11	405	5	2.04	2.04	39.99	0.16
Dec. 31, 2011	72.83	379	5	2.03	2.03	58.64	0.14
Dec. 31, 2010 ⁴	85.95	–	–	1.99	1.99	36.06	0.14
Series D							
Dec. 31, 2014	91.51	532 249	5 816	1.15	1.15	31.71	0.09
Dec. 31, 2013	88.91	521 091	5 861	1.15	1.15	21.73	0.08
Dec. 31, 2012	75.94	576 966	7 597	1.18	1.18	39.99	0.16
Dec. 31, 2011	70.81	679 886	9 602	1.18	1.18	58.64	0.14
Dec. 31, 2010	84.36	893 993	10 597	1.14	1.14	36.06	0.14
Series F							
Dec. 31, 2014	93.41	7 413	79	0.92	0.92	31.71	0.09
Dec. 31, 2013	90.62	6 369	70	0.93	0.93	21.73	0.08
Dec. 31, 2012	77.40	5 747	74	0.94	0.94	39.99	0.16
Dec. 31, 2011	72.18	5 480	76	0.94	0.94	58.64	0.14
Dec. 31, 2010	85.93	5 864	68	0.91	0.91	36.06	0.14
Series O							
Dec. 31, 2014	91.06	635 688	6 981	0.02	0.02	31.71	0.09
Dec. 31, 2013	88.46	698 439	7 896	0.02	0.02	21.73	0.08
Dec. 31, 2012	75.56	640 593	8 478	0.02	0.02	39.99	0.16
Dec. 31, 2011	70.47	666 585	9 459	0.02	0.02	58.64	0.14
Dec. 31, 2010	84.01	903 087	10 750	0.02	0.02	36.06	0.14

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	–	100%

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

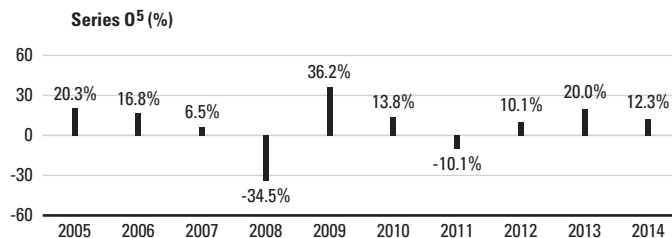
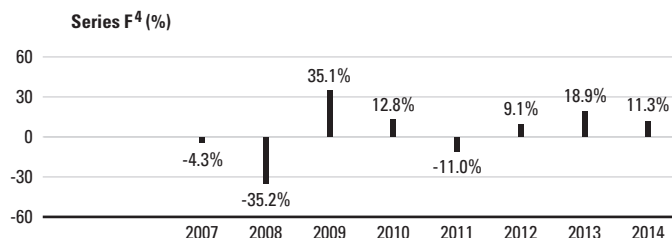
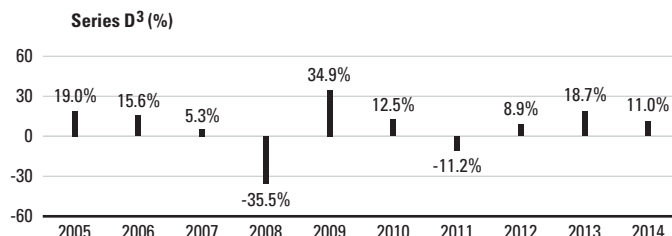
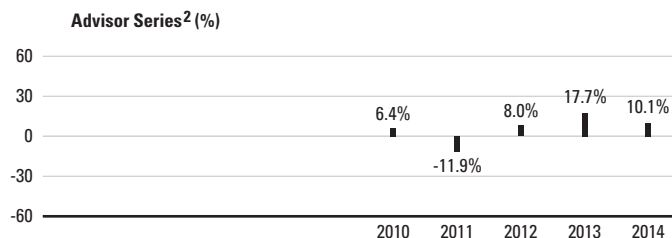
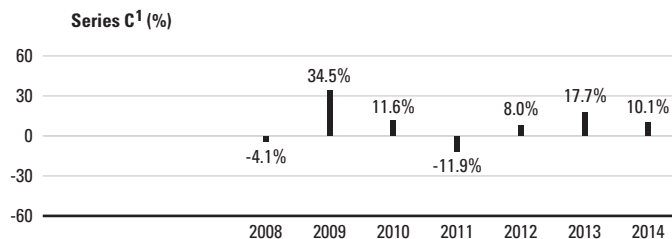
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	10.1	11.8	6.6	—	9.9
Benchmark	10.6	10.2	7.5	—	11.0
Advisor Series ²	10.1	11.8	—	—	6.7
Benchmark	10.6	10.2	—	—	6.5
Series D ³	11.0	12.8	7.5	6.1	—
Benchmark	10.6	10.2	7.5	7.6	—
Series F ⁴	11.3	13.0	7.7	—	2.6
Benchmark	10.6	10.2	7.5	—	3.7
Series O ⁵	12.3	14.1	8.7	7.3	—
Benchmark	10.6	10.2	7.5	7.6	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date June 1971.

⁴ Inception date June 2007.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	35.3
Energy	23.4
Materials	9.4
Industrials	8.4
Consumer Discretionary	8.2
Health Care	4.2
Consumer Staples	3.7
Telecommunication Services	3.0
Information Technology	3.0
Utilities	0.6
Cash/Other	0.8

Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	12.5
Toronto-Dominion Bank	7.4
Royal Bank of Canada	7.3
Bank of Nova Scotia	5.8
Enbridge Inc.	4.0
Canadian National Railway Co.	3.9
Valeant Pharmaceuticals International Inc.	3.2
Manulife Financial Corporation	3.2
Suncor Energy Inc.	3.0
Canadian Natural Resources Ltd.	3.0
Brookfield Asset Management Inc., Class A	2.8
TransCanada Corp.	2.4
Cenovus Energy Inc.	2.1
Bank of Montreal	2.1
Potash Corporation of Saskatchewan Inc.	2.0
TELUS Corp.	1.7
Alimentation Couche-Tard Inc.	1.7
Crescent Point Energy Corp.	1.5
ARC Resources Ltd.	1.4
Magna International Inc., Class A	1.3
Encana Corp.	1.3
Rogers Communications Inc., Class B	1.2
Canadian Imperial Bank of Commerce	1.2
Agrium Inc.	1.2
Thomson Corp.	1.2
Top 25 Holdings	78.4

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
COMMUNITY VALUES CANADIAN
EQUITY FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in common shares of high-quality Canadian companies. Our intention is that only the securities of companies that conduct themselves in a socially responsible manner will be included in the portfolio. To achieve the Fund's investment objective, we invest in companies that we believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and strong earnings potential.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$72.9 million as of December 31, 2014, from \$59.0 million at the end of 2013. Of the change, \$6.0 million was due to net inflows and \$7.9 million to investment returns.

Over the past year, the Fund's Series D units gained 10.8%, which outperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Capped Composite Index maintained its positive momentum from last year and rallied over 10% during 2014. In the Fund, the portfolio manager added value in eight out of 10 sectors, with Materials, Consumer Discretionary and Financials contributing the most to relative performance.

The Materials sector was the most significant contributor to performance over the year, driven by an underweight position in the sector, partially due to the Fund's socially responsible screen, removing Barrick Gold and Goldcorp. In terms of security selection, an overweight position in specialty packaging company CCL Industries contributed to performance. Within the Consumer Discretionary sector, the Fund held an overweight position in Tim Hortons, which was subject to a takeover by Burger King at a large premium.

The Energy sector was the largest detractor to relative performance due to overweight positions in Trilogy Energy, Crescent Point Energy and Cenovus Energy. Not owning Enbridge and Alimentation Couche-Tard, due to the Fund's socially responsible screen, also detracted from performance.

Recent Developments

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage arrangements at market rates with related-party dealers. These related-party commissions were \$5,000 (2013 – \$3,000), or 9% (2013 – 6%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

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

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	23.49	0.67	(0.52)	1.84	0.41	2.40	—	(0.12)	(1.24)	—	(1.36)	24.44
Dec. 31, 2013	19.80	0.60	(0.44)	0.71	3.00	3.87	—	(0.14)	—	—	(0.14)	23.48
Dec. 31, 2012	18.20	0.54	(0.39)	(0.16)	1.89	1.88	—	(0.15)	—	—	(0.15)	19.80
Dec. 31, 2011	20.46	0.54	(0.39)	0.79	(3.06)	(2.12)	—	(0.07)	(0.17)	—	(0.24)	18.20
Dec. 31, 2010	18.73	0.55	(0.37)	0.37	1.34	1.89	—	(0.13)	—	—	(0.13)	20.46
Advisor Series												
Dec. 31, 2014	23.49	0.67	(0.52)	1.83	0.41	2.39	—	(0.12)	(1.24)	—	(1.36)	24.43
Dec. 31, 2013	19.80	0.60	(0.45)	0.71	3.00	3.86	—	(0.14)	—	—	(0.14)	23.48
Dec. 31, 2012	18.20	0.54	(0.39)	(0.16)	1.89	1.88	—	(0.15)	—	—	(0.15)	19.80
Dec. 31, 2011	20.46	0.54	(0.39)	0.79	(3.06)	(2.12)	—	(0.07)	(0.17)	—	(0.24)	18.20
Dec. 31, 2010 ³	19.60 [†]	0.09	(0.06)	0.06	0.22	0.31	—	(0.13)	—	—	(0.13)	20.46
Series D												
Dec. 31, 2014	23.34	0.67	(0.30)	1.83	0.41	2.61	—	(0.33)	(1.24)	—	(1.57)	24.27
Dec. 31, 2013	19.67	0.59	(0.26)	0.71	2.99	4.03	—	(0.33)	—	—	(0.33)	23.33
Dec. 31, 2012	18.08	0.54	(0.23)	(0.16)	1.88	2.03	—	(0.31)	—	—	(0.31)	19.67
Dec. 31, 2011	20.33	0.54	(0.23)	0.79	(3.06)	(1.96)	—	(0.21)	(0.17)	—	(0.38)	18.08
Dec. 31, 2010	18.60	0.55	(0.22)	0.37	1.34	2.04	—	(0.29)	—	—	(0.29)	20.33
Series F												
Dec. 31, 2014	23.64	0.68	(0.24)	1.86	0.42	2.72	—	(0.40)	(1.24)	—	(1.64)	24.60
Dec. 31, 2013	19.93	0.61	(0.20)	0.73	3.05	4.19	—	(0.40)	—	—	(0.40)	23.63
Dec. 31, 2012	18.31	0.55	(0.18)	(0.16)	1.91	2.12	—	(0.37)	—	—	(0.37)	19.93
Dec. 31, 2011	20.58	0.54	(0.18)	0.80	(3.08)	(1.92)	—	(0.26)	(0.17)	—	(0.43)	18.31
Dec. 31, 2010	18.84	0.55	(0.17)	0.37	1.36	2.11	—	(0.35)	—	—	(0.35)	20.58
Series O												
Dec. 31, 2014	23.46	0.68	(0.03)	1.85	0.42	2.92	—	(0.61)	(1.24)	—	(1.85)	24.42
Dec. 31, 2013	19.78	0.60	(0.02)	0.72	3.01	4.31	—	(0.59)	—	—	(0.59)	23.45
Dec. 31, 2012	18.18	0.54	(0.02)	(0.16)	1.90	2.26	—	(0.54)	—	—	(0.54)	19.78
Dec. 31, 2011	20.44	0.54	(0.02)	0.79	(3.07)	(1.76)	—	(0.41)	(0.17)	—	(0.58)	18.18
Dec. 31, 2010	18.72	0.55	(0.02)	0.37	1.35	2.25	—	(0.53)	—	—	(0.53)	20.44

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES
CANADIAN EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	24.44	1 218	50	2.06	2.06	38.22	0.08
Dec. 31, 2013	23.49	1 092	46	2.06	2.06	31.14	0.09
Dec. 31, 2012	19.84	921	46	2.05	2.05	44.66	0.16
Dec. 31, 2011	18.23	911	50	2.02	2.02	73.06	0.22
Dec. 31, 2010	20.49	910	44	1.99	1.99	41.74	0.09
Advisor Series							
Dec. 31, 2014	24.43	706	29	2.06	2.06	38.22	0.08
Dec. 31, 2013	23.49	451	19	2.06	2.06	31.14	0.09
Dec. 31, 2012	19.84	113	6	2.05	2.05	44.66	0.16
Dec. 31, 2011	18.23	62	3	2.02	2.02	73.06	0.22
Dec. 31, 2010 ⁴	20.49	–	–	1.99	1.99	41.74	0.09
Series D							
Dec. 31, 2014	24.27	20 215	833	1.20	1.20	38.22	0.08
Dec. 31, 2013	23.34	18 305	784	1.21	1.21	31.14	0.09
Dec. 31, 2012	19.71	17 966	911	1.22	1.22	44.66	0.16
Dec. 31, 2011	18.12	18 880	1 042	1.22	1.22	73.06	0.22
Dec. 31, 2010	20.36	22 028	1 082	1.20	1.20	41.74	0.09
Series F							
Dec. 31, 2014	24.60	738	30	0.94	0.94	38.22	0.08
Dec. 31, 2013	23.64	595	25	0.95	0.95	31.14	0.09
Dec. 31, 2012	19.97	409	21	0.94	0.94	44.66	0.16
Dec. 31, 2011	18.35	327	18	0.93	0.93	73.06	0.22
Dec. 31, 2010	20.62	273	13	0.91	0.91	41.74	0.09
Series O							
Dec. 31, 2014	24.42	50 035	2 049	0.11	0.11	38.22	0.08
Dec. 31, 2013	23.46	38 539	1 642	0.12	0.12	31.14	0.09
Dec. 31, 2012	19.82	37 752	1 905	0.12	0.12	44.66	0.16
Dec. 31, 2011	18.22	42 105	2 311	0.12	0.12	73.06	0.22
Dec. 31, 2010	20.47	37 289	1 822	0.11	0.11	41.74	0.09

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
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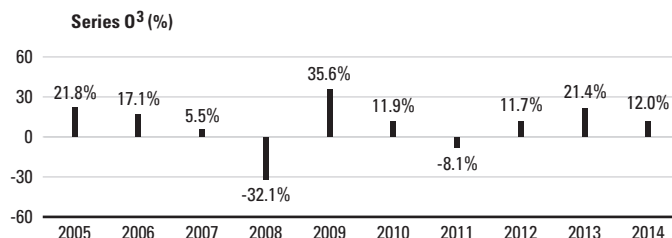
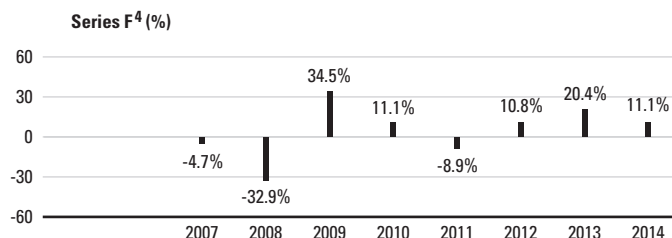
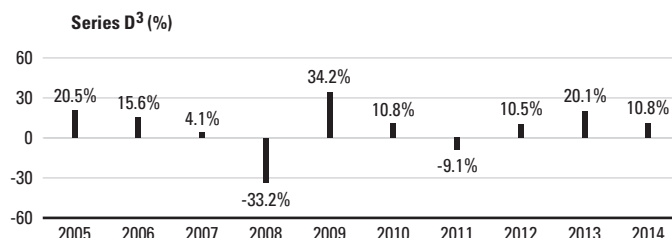
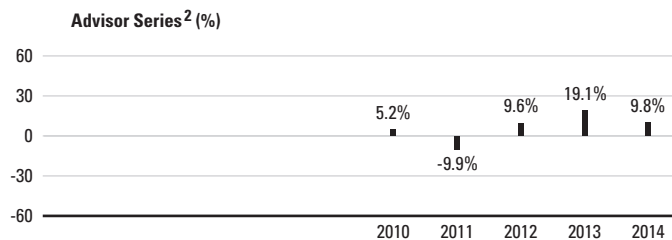
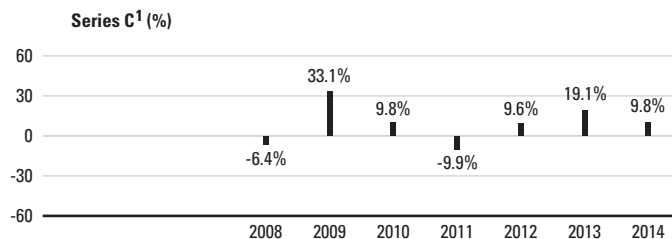
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

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Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



**PHILLIPS, HAGER & NORTH COMMUNITY VALUES
CANADIAN EQUITY FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	9.8	12.8	7.3	—	9.8
Benchmark	10.6	10.2	7.5	—	11.0
Advisor Series ²	9.8	12.8	—	—	7.6
Benchmark	10.6	10.2	—	—	6.5
Series D ³	10.8	13.7	8.2	6.8	—
Benchmark	10.6	10.2	7.5	7.6	—
Series F ⁴	11.1	14.0	8.4	—	3.5
Benchmark	10.6	10.2	7.5	—	3.7
Series O ³	12.0	15.0	9.3	8.0	—
Benchmark	10.6	10.2	7.5	7.6	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date September 2002.

⁴ Inception date June 2007.

Series D was known as Series A prior to November 17, 2008. Although the Fund was prospectused in August 2002, Series A and Series O units were not offered for sale until September 2002. We are therefore not permitted to disclose performance data for this Fund for any period prior to September 2002.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	36.7
Energy	18.9
Consumer Discretionary	8.8
Industrials	7.9
Materials	7.0
Telecommunication Services	5.9
Health Care	4.0
Index Funds	2.8
Information Technology	2.7
Consumer Staples	2.6
Utilities	0.6
Cash/Other	2.1

Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	7.3
Toronto-Dominion Bank	7.3
Bank of Nova Scotia	5.6
Canadian National Railway Co.	4.5
Manulife Financial Corporation	3.3
Valeant Pharmaceuticals International Inc.	3.2
Canadian Natural Resources Ltd.	3.2
Suncor Energy Inc.	3.1
Brookfield Asset Management Inc., Class A	2.8
TransCanada Corp.	2.5
Bank of Montreal	2.2
TELUS Corp.	2.2
Cenovus Energy Inc.	2.2
BCE Inc.	2.2
Potash Corporation of Saskatchewan Inc.	2.0
Great-West Lifeco Inc.	1.9
Cash & Cash Equivalents	1.9
Magna International Inc., Class A	1.7
Rogers Communications Inc., Class B	1.6
Crescent Point Energy Corp.	1.5
ARC Resources Ltd.	1.4
Thomson Corp.	1.4
Canadian Imperial Bank of Commerce	1.4
Encana Corp.	1.2
Agrium Inc.	1.1
Top 25 Holdings	68.7

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CANADIAN EQUITY VALUE FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide long-term capital growth. To achieve the Fund's investment objective, we invest primarily in equities of Canadian companies priced below the manager's assessment of their true value and offering long-term opportunities for growth.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value rose to \$896.0 million as of December 31, 2014, from \$501.3 million at the end of 2013. Of the change, \$323.0 million was due to net inflows and \$71.6 million to investment returns.

Over the past year, the Fund's Series D units rose 12.3%, which outperformed the 10.6% rise in the benchmark. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index rose through the first three quarters of 2014 and declined in the fourth quarter, trailing U.S. market returns for the year but outpacing those in other developed economies.

The decline in commodity prices weighed on many global markets beginning in September, but the drop was more pronounced in the resource-heavy S&P/TSX index. Crude oil led the commodity-price declines, as OPEC opted to maintain production levels even with a global oil glut caused by surging U.S. shale output. Slower economic growth in Europe and China also contributed to weaker demand for Canada's resources. Emerging-market economies broadly slowed during the year, also dragging down global demand for resources. The Canadian economy benefited from the steadily expanding U.S. economy, as gains in hiring and income boosted consumer spending.

In 2014, strong performance in the Energy, Materials and Financials sectors was offset by weaker performance in the Health Care and Telecommunication Services sectors.

Security selection drove outperformance in the Energy sector. A lack of exposure to the oil producers Crescent Point Energy, Canadian Oil Sands and Baytex Energy aided performance, as all the stocks fell significantly.

In the Materials sector, an overweight position in Interfor boosted the Fund's performance as the company benefited from acquisitions, a weaker Canadian dollar and expectations of improving lumber prices. An underweight position in gold producer Barrick Gold proved beneficial after the stock fell significantly during the year. The company's profits declined amid falling gold prices.

In the Financials sector, the Fund benefited from overweight exposure to Brookfield Asset Management as increased assets under management bolstered the outlook for fee revenue. An overweight position in Brookfield Property Partners and a lack of exposure to IGM Financial also contributed to relative outperformance.

Another key contributor to performance was an overweight position in Loblaw. The company recorded industry-leading same-store sales and profitability amid improving conditions in the grocery industry.

A relative lack of exposure to Valeant Pharmaceuticals had a negative impact on the Fund's returns. The company, which pulled out of a takeover battle for Allergan, outperformed the broader market after a better-than-expected quarterly profit and a forecast of strong 2015 earnings.

In the Telecommunication Services sector, an underweight position in BCE had a negative impact on relative performance, as sector valuations continued to rise in the low-interest-rate environment.

Recent Developments

Recent Canadian economic data has been mixed, with the impact of falling crude-oil prices somewhat muted by a substantially weaker Canadian dollar. Oil prices are difficult to forecast in the short run, but it now appears that prices will be lower on average and more volatile than in the recent past. In the view of the portfolio manager, a weaker Canadian dollar, coupled with a stronger U.S. economy, suggests the potential for improving manufacturing exports. However, falling energy prices and a fully valued housing market are likely to remain headwinds for the Canadian economy. While the Bank of Canada cut interest rates in early 2015, many investors expect the U.S. Federal Reserve to raise the fed-funds rate as early as the middle of this year amid a strengthening economy and signs of accelerating wages. Emerging-market economies are stabilizing, but Chinese economic growth has been slightly disappointing, and consumer confidence is declining across much of Asia.

Effective June 27, 2014, the RBC DS Canadian Focus Fund merged into the Fund, and unitholders of the RBC DS Canadian Focus Fund received units of the Fund on a dollar-for-dollar, tax-deferred basis.

Related-Party Transactions***Manager and Portfolio Advisor***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series, Series H and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$125,000 (2013 – \$89,000), or 14% (2013 – 13%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	12.86	0.41	(0.28)	1.43	(0.31)	1.25	—	(0.04)	(0.96)	—	(1.00)	13.31
Dec. 31, 2013	11.33	0.36	(0.24)	0.20	1.62	1.94	—	—	—	—	—	12.85
Dec. 31, 2012	10.45	0.31	(0.22)	0.37	0.84	1.30	—	—	(0.32)	—	(0.32)	11.33
Dec. 31, 2011	11.28	0.34	(0.22)	(0.24)	(0.82)	(0.94)	—	—	(0.14)	—	(0.14)	10.45
Dec. 31, 2010	10.04	0.31	(0.21)	0.74	1.57	2.41	—	—	(0.33)	—	(0.33)	11.28
Advisor Series												
Dec. 31, 2014	12.86	0.32	(0.29)	1.10	(0.24)	0.89	—	(0.04)	(0.95)	—	(0.99)	13.30
Dec. 31, 2013	11.33	0.35	(0.25)	0.19	1.56	1.85	—	—	—	—	—	12.85
Dec. 31, 2012	10.45	0.31	(0.22)	0.37	0.84	1.30	—	—	(0.32)	—	(0.32)	11.33
Dec. 31, 2011	11.28	0.34	(0.22)	(0.24)	(0.82)	(0.94)	—	—	(0.14)	—	(0.14)	10.45
Dec. 31, 2010 ³	10.99 [†]	0.05	(0.03)	0.12	0.26	0.40	—	—	(0.33)	—	(0.33)	11.28
Series H												
Dec. 31, 2014	12.86	0.37	(0.25)	1.28	(0.28)	1.12	—	(0.06)	(0.95)	—	(1.01)	13.33
Dec. 31, 2013 ⁴	11.75 [†]	0.12	(0.10)	0.06	0.52	0.60	—	—	—	—	—	12.85
Series D												
Dec. 31, 2014	13.00	0.42	(0.17)	1.45	(0.32)	1.38	—	(0.16)	(0.96)	—	(1.12)	13.47
Dec. 31, 2013	11.45	0.37	(0.15)	0.20	1.64	2.06	—	—	—	—	—	12.99
Dec. 31, 2012	10.54	0.30	(0.14)	0.37	0.82	1.35	(0.07)	—	(0.32)	—	(0.39)	11.45
Dec. 31, 2011	11.32	0.30	(0.13)	(0.21)	(0.72)	(0.76)	—	(0.03)	(0.14)	—	(0.17)	10.54
Dec. 31, 2010	10.04	0.31	(0.13)	0.74	1.57	2.49	—	(0.03)	(0.35)	—	(0.38)	11.32
Series F												
Dec. 31, 2014	13.03	0.39	(0.13)	1.37	(0.30)	1.33	—	(0.21)	(0.96)	—	(1.17)	13.49
Dec. 31, 2013	11.48	0.36	(0.11)	0.20	1.63	2.08	—	—	—	—	—	13.02
Dec. 31, 2012	10.57	0.31	(0.11)	0.37	0.84	1.41	(0.11)	—	(0.32)	—	(0.43)	11.48
Dec. 31, 2011	11.35	0.32	(0.10)	(0.23)	(0.78)	(0.79)	—	(0.06)	(0.14)	—	(0.20)	10.57
Dec. 31, 2010	10.04	0.24	(0.10)	0.58	1.24	1.96	—	(0.06)	(0.33)	—	(0.39)	11.35
Series I												
Dec. 31, 2014	13.02	0.40	(0.11)	1.40	(0.31)	1.38	—	(0.25)	(0.96)	—	(1.21)	13.45
Dec. 31, 2013 ⁴	11.99 [†]	0.13	(0.04)	0.07	0.56	0.72	—	—	—	—	—	13.01

FINANCIAL HIGHLIGHTS (cont.)

Change in Net Assets Per Unit (\$) (cont.)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series O												
Dec. 31, 2014	12.99	0.42	(0.01)	1.45	(0.32)	1.54	–	(0.40)	(0.96)	–	(1.36)	13.38
Dec. 31, 2013	11.45	0.36	(0.01)	0.20	1.62	2.17	–	–	–	–	–	12.99
Dec. 31, 2012	10.54	0.31	(0.01)	0.37	0.83	1.50	(0.21)	–	(0.32)	–	(0.53)	11.45
Dec. 31, 2011	11.32	0.28	(0.01)	(0.20)	(0.69)	(0.62)	–	(0.15)	(0.14)	–	(0.29)	10.54
Dec. 31, 2010	10.04	0.27	(0.01)	0.63	1.35	2.24	–	(0.15)	(0.37)	–	(0.52)	11.32

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

⁴ From August 2013.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	13.31	11 320	851	2.07	2.07	72.04	0.13
Dec. 31, 2013	12.86	10 343	804	2.06	2.06	70.36	0.18
Dec. 31, 2012	11.35	9 977	879	2.04	2.04	109.96	0.32
Dec. 31, 2011	10.46	8 990	859	2.02	2.02	168.85	0.48
Dec. 31, 2010	11.30	7 203	637	2.02	2.02	163.23	0.46
Advisor Series							
Dec. 31, 2014	13.30	279 083	20 990	2.06	2.06	72.04	0.13
Dec. 31, 2013	12.86	1 910	149	2.06	2.06	70.36	0.18
Dec. 31, 2012	11.35	1 363	120	2.04	2.04	109.96	0.32
Dec. 31, 2011	10.46	967	92	2.02	2.02	168.85	0.48
Dec. 31, 2010 ⁴	11.30	1 006	89	2.02	2.02	163.23	0.46
Series H							
Dec. 31, 2014	13.33	2 181	164	1.79	1.79	72.04	0.13
Dec. 31, 2013 ⁵	12.86	231	18	1.92	1.92	70.36	0.18
Series D							
Dec. 31, 2014	13.47	70 944	5 267	1.19	1.19	72.04	0.13
Dec. 31, 2013	13.00	62 460	4 804	1.21	1.21	70.36	0.18
Dec. 31, 2012	11.47	54 426	4 745	1.23	1.23	109.96	0.32
Dec. 31, 2011	10.56	27 641	2 618	1.23	1.23	168.85	0.48
Dec. 31, 2010	11.34	4 792	423	1.22	1.22	163.23	0.46

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data (cont.)

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series F							
Dec. 31, 2014	13.49	98 164	7 277	0.94	0.94	72.04	0.13
Dec. 31, 2013	13.03	48 817	3 747	0.95	0.95	70.36	0.18
Dec. 31, 2012	11.50	31 012	2 697	0.95	0.95	109.96	0.32
Dec. 31, 2011	10.59	19 262	1 820	0.94	0.94	168.85	0.48
Dec. 31, 2010	11.37	9 254	814	0.96	0.96	163.23	0.46
Series I							
Dec. 31, 2014	13.45	6 661	495	0.79	0.79	72.04	0.13
Dec. 31, 2013 ⁵	13.02	4 186	322	0.81	0.81	70.36	0.18
Series O							
Dec. 31, 2014	13.38	427 618	31 953	0.06	0.06	72.04	0.13
Dec. 31, 2013	12.99	373 388	28 737	0.06	0.06	70.36	0.18
Dec. 31, 2012	11.47	183 043	15 963	0.06	0.06	109.96	0.32
Dec. 31, 2011	10.56	87 282	8 267	0.06	0.06	168.85	0.48
Dec. 31, 2010	11.34	19 461	1 717	0.07	0.07	163.23	0.46

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

⁵ From August 2013.

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series H	1.60%	63%	37%
Series D	1.00%	25%	75%
Series F	0.75%	–	100%
Series I	0.60%	–	100%

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

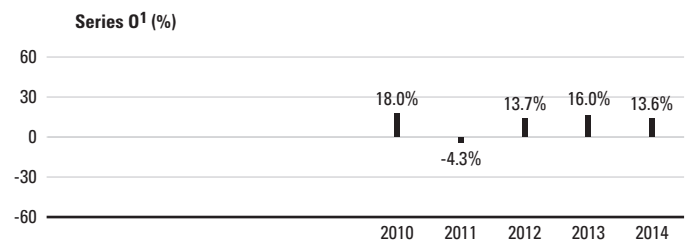
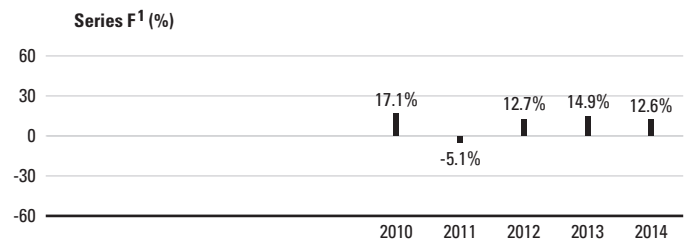
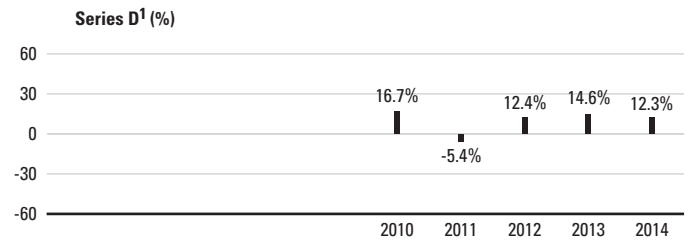
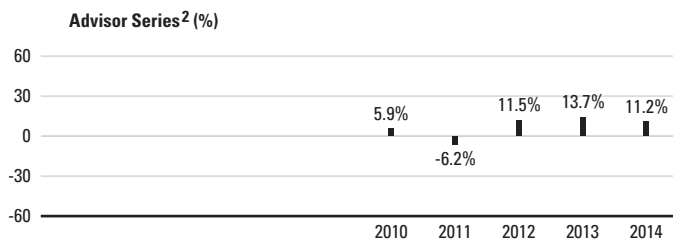
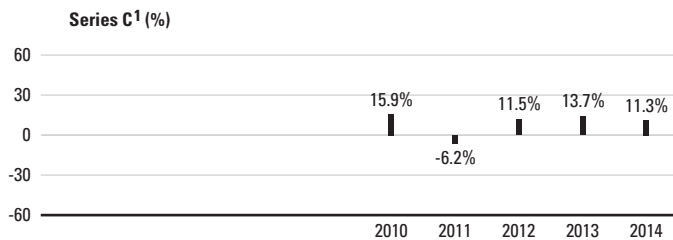
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	11.3	12.2	8.9	–	8.9
Benchmark	10.6	10.2	7.5	–	7.5
Advisor Series ²	11.2	12.1	–	–	8.4
Benchmark	10.6	10.2	–	–	7.5
Series H ³	11.7	–	–	–	16.0
Benchmark	10.6	–	–	–	14.8
Series D ¹	12.3	13.1	9.8	–	9.8
Benchmark	10.6	10.2	7.5	–	7.5
Series F ¹	12.6	13.4	10.1	–	10.1
Benchmark	10.6	10.2	7.5	–	7.5
Series I ³	12.8	–	–	–	17.2
Benchmark	10.6	–	–	–	14.8
Series O ¹	13.6	14.4	11.1	–	11.1
Benchmark	10.6	10.2	7.5	–	7.5

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date December 2009.

² Inception date October 2010.

³ Inception date August 2013.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	37.3
Energy	22.9
Materials	8.7
Industrials	8.0
Consumer Discretionary	4.4
Telecommunication Services	3.9
Consumer Staples	3.8
Utilities	1.6
Information Technology	1.4
Index Funds	1.0
Cash/Other	7.0

Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	6.9
Royal Bank of Canada	6.7
Toronto-Dominion Bank	5.7
Bank of Nova Scotia	4.5
Suncor Energy Inc.	3.7
Canadian National Railway Co.	3.6
Enbridge Inc.	3.4
Bank of Montreal	3.2
Canadian Natural Resources Ltd.	3.0
Manulife Financial Corporation	2.8
Brookfield Asset Management Inc., Class A	2.6
TransCanada Corp.	2.3
Canadian Pacific Railway Ltd.	2.3
Canadian Imperial Bank of Commerce	2.2
Loblaws Companies Ltd.	1.9
Potash Corporation of Saskatchewan Inc.	1.9
Power Corporation of Canada	1.6
TELUS Corp.	1.5
Sun Life Financial Inc.	1.4
Agrium Inc.	1.4
Thomson Corp.	1.4
Shaw Communications Inc., Class B	1.3
Rogers Communications Inc., Class B	1.3
Imperial Oil Ltd.	1.2
Cenovus Energy Inc.	1.2
Top 25 Holdings	69.0

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide significant long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks. The Fund is expected to be used primarily as an underlying fund for other mutual funds but may also be sold directly to other investors.

To achieve the Fund's investment objectives we will focus primarily on larger-capitalization stocks. We generally invest in growth companies that have superior management, industry leadership, a high level of profitability compared with competitors, a sound financial position, strong earnings growth and a reasonable valuation.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$2.5 billion as of December 31, 2014, from \$2.4 billion at the end of 2013. Of the change, \$312.2 million was due to investment returns, offset by \$156.8 million of net redemptions.

Over the past year, the Fund's Series O units gained 12.3%, which outperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Capped Composite Index maintained its positive momentum from last year and rallied over 10% during 2014. In the Fund, the portfolio manager added value in seven out of 10 sectors, with Materials, Consumer Staples and Consumer Discretionary contributing the most to relative performance.

The Materials sector was the most significant contributor to performance over the year, driven by an underweight position in the sector and strong stock selection. In terms of security selection, an overweight position in specialty packaging company CCL Industries contributed to performance. Within the Consumer Discretionary sector, the Fund held an overweight position in Tim Hortons, which was subject to a takeover by Burger King at a large premium. Within the Consumer Staples sector, an overweight position in Alimentation Couche-Tard contributed significantly to performance.

The Industrials sector was the largest detractor to relative performance during the reporting period due to not holding Canadian Pacific Railway over valuation concerns. Overweight positions in Trilogy Energy, Crescent Point Energy and Cenovus Energy hurt performance as oil prices fell dramatically during the second half of 2014.

Recent Developments

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

Related-Party Transactions
Manager, Portfolio Advisor and Registrar

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager, principal portfolio advisor and registrar of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM, as registrar, also keeps the records of who owns the units of the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$263,000 (2013 – \$171,000), or 11% (2013 – 10%) of the total transaction costs paid for this Fund.

**PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND**

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series 0												
Dec. 31, 2014	11.11	0.30	–	1.02	0.13	1.45	–	(0.32)	(1.09)	–	(1.41)	11.06
Dec. 31, 2013	9.49	0.27	–	0.26	2.10	2.63	–	(0.17)	(0.10)	–	(0.27)	11.10
Dec. 31, 2012	8.85	0.25	–	(0.19)	0.87	0.93	–	(0.27)	–	–	(0.27)	9.49
Dec. 31, 2011 ³	10.00 [†]	0.27	–	(0.55)	(1.10)	(1.38)	(0.02)	(0.12)	–	–	(0.14)	8.85

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From January 2011.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series 0							
Dec. 31, 2014	11.06	2 535 912	229 262	0.02	0.02	48.42	0.10
Dec. 31, 2013	11.11	2 380 463	214 294	0.02	0.02	37.75	0.12
Dec. 31, 2012	9.51	663 966	69 842	0.02	0.02	56.51	0.17
Dec. 31, 2011 ⁴	8.87	671 650	75 696	0.02	0.02	70.24	0.21

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From January 2011.

Management Fees

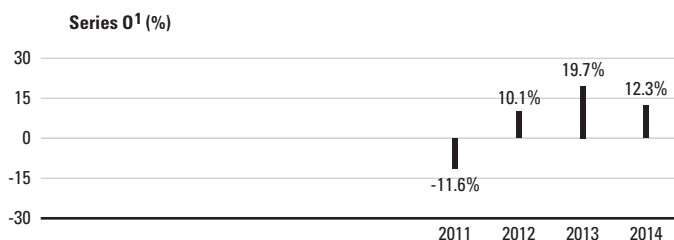
RBC GAM is the manager, portfolio advisor and registrar of the Fund. No management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Annual Compound Returns (%)

The table shows the annual compound returns for Series 0 of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0 ¹	12.3	14.0	—	—	7.1
Benchmark	10.6	10.2	—	—	5.0

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date January 2011.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	35.1
Energy	23.2
Materials	9.1
Industrials	8.0
Consumer Discretionary	7.8
Health Care	4.2
Consumer Staples	3.5
Information Technology	2.9
Telecommunication Services	2.9
Index Funds	1.4
Utilities	0.6
Cash/Other	1.3

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	7.5
Royal Bank of Canada	7.4
Bank of Nova Scotia	5.9
Enbridge Inc.	4.1
Canadian National Railway Co.	3.9
Manulife Financial Corporation	3.3
Valeant Pharmaceuticals International Inc.	3.3
Canadian Natural Resources Ltd.	3.1
Suncor Energy Inc.	3.0
Brookfield Asset Management Inc., Class A	2.7
TransCanada Corp.	2.4
Cenovus Energy Inc.	2.1
Bank of Montreal	2.0
Potash Corporation of Saskatchewan Inc.	2.0
TELUS Corp.	1.7
Alimentation Couche-Tard Inc.	1.7
Crescent Point Energy Corp.	1.5
ARC Resources Ltd.	1.3
Magna International Inc., Class A	1.3
Canadian Imperial Bank of Commerce	1.2
Encana Corp.	1.2
CGI Group Inc., Class A	1.2
Rogers Communications Inc., Class B	1.2
Thomson Corp.	1.2
Agrium Inc.	1.2
Top 25 Holdings	67.4

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND II***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks.

To achieve the Fund's investment objectives we will focus primarily on stocks with market capitalization greater than \$1 billion. We generally invest in growth companies that have superior management, industry leadership, a high level of profitability compared with competitors, a sound financial position, strong earnings growth and a reasonable valuation.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund was launched on August 6, 2014, and its net asset value was \$409.1 million as of December 31, 2014. Investment performance is not provided for a fund that has been available for less than one year.

Recent Developments

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

Related-Party Transactions
Manager, Portfolio Advisor and Registrar

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager, principal portfolio advisor and registrar of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM, as registrar, also keeps the records of who owns the units of the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$34,000, or 6% of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND II
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹				Total	Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)		From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series 0												
Dec. 31, 2014³	10.00[†]	0.10	-	(0.03)	0.18	0.25	-	(0.04)	(0.01)	-	(0.05)	9.64

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From July 2014.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series 0							
Dec. 31, 2014⁴	9.64	409 071	42 435	0.02	0.02	56.94	0.27

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From July 2014.

Management Fees

RBC GAM is the manager, portfolio advisor and registrar of the Fund. No management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

PHILLIPS, HAGER & NORTH
CANADIAN EQUITY UNDERLYING FUND II
PAST PERFORMANCE

Investment performance in respect of a fund that has been available for less than one year is not provided. Series O units of this Fund were launched on August 6, 2014.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	36.5
Energy	22.8
Materials	8.3
Consumer Discretionary	8.1
Industrials	7.3
Health Care	4.1
Consumer Staples	3.6
Telecommunication Services	3.5
Information Technology	2.2
Utilities	1.4
Other	0.3
Cash/Other	1.9

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	7.4
Royal Bank of Canada	7.4
Bank of Nova Scotia	5.9
Canadian National Railway Co.	4.3
Enbridge Inc.	3.9
Manulife Financial Corporation	3.5
Valeant Pharmaceuticals International Inc.	3.1
Brookfield Asset Management Inc., Class A	3.0
Canadian Natural Resources Ltd.	2.9
Suncor Energy Inc.	2.6
Bank of Montreal	2.5
TransCanada Corp.	2.4
Potash Corporation of Saskatchewan Inc.	2.0
Cenovus Energy Inc.	2.0
Thomson Corp.	1.9
TELUS Corp.	1.9
Magna International Inc., Class A	1.8
Cash & Cash Equivalents	1.7
Canadian Imperial Bank of Commerce	1.7
Dollarama Inc.	1.6
Rogers Communications Inc., Class B	1.6
Alimentation Couche-Tard Inc.	1.6
Finning International Inc.	1.6
Crescent Point Energy Corp.	1.5
SNC-Lavalin Group Inc.	1.5
Top 25 Holdings	71.3

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CANADIAN GROWTH FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks. The Fund also may invest a portion of its assets in U.S. and international securities in order to achieve greater exposure to industries that are not well represented in Canada. To achieve the Fund's investment objective, we invest primarily in companies that we believe, among other things, have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and strong earnings potential.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$452.4 million as of December 31, 2014, from \$443.6 million at the end of 2013. Of the change, \$46.6 million was due to investment returns, offset by \$37.8 million of net redemptions.

Over the past year, the Fund's Series D units gained 8.9%, which underperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Equity markets in the developed world delivered positive returns in 2014, with the U.S. and Japan leading the way. After a strong first half where the S&P/TSX outperformed most other global markets, the latter half proved more difficult on the back of weaker commodity prices. Base and precious metals pulled back modestly but a significant correction in oil prices had a negative impact on Canadian equity performance.

Price volatility across a number of asset classes picked up as the year progressed. Concerns by market participants about the end of quantitative easing by the U.S. Federal Reserve was the initial catalyst for heightened volatility. Subsequently, markets focused on slowing global growth outside of the U.S. economy and the dislocations caused by the severe slump in oil prices. While the decline is of benefit to consumers, it is causing stress within the corporate bond market and stock markets of major energy producers.

One of the biggest surprises of 2014 was the steady decline in global bond yields. European and Japanese central bank support, sluggish global economies and deflationary concerns spreading through the commodity complex were the primary drivers for lower interest rates.

The Fund's performance during the year was driven primarily by stock selection in a variety of sectors. More specifically, the Fund benefited from its investments in Prometic Life Sciences, Amaya, Magna International and Diversified Royalty.

During the year, shares of Prometic Life Sciences, a Canadian-based biopharmaceutical company that specializes in large-scale protein purification technologies serving the global pharmaceutical industry, rose strongly. Prometic had many positive announcements throughout the year including entering into several new development and sales agreements with existing clients and raising an additional \$45 million via convertible debt and equity to fund future growth.

Additionally, shares of Amaya rose significantly after it announced in mid-June that it would acquire PokerStars and Full Tilt. This transformative acquisition was essentially a public market listing of the Rational Group (owner of PokerStars and Full Tilt), which generates approximately five times the revenue and eight times the EBITDA of Amaya. Faster than expected regulatory approval and execution on this complex deal led to an accelerated close on August 1, 2014.

In the Consumer Discretionary sector, Magna continued to perform well driven primarily by strong quarterly results and a positive outlook for 2015. Auto production volumes in North America and Europe are expected to remain stable which will enable Magna to further improve its margins in Europe. Additionally, Magna's strong balance sheet gives it flexibility to make investments in capital expenditures, tuck-in acquisitions, increase its dividend or buy back its stock.

Additionally, the Fund's relative performance during the period was helped by not being invested in several poorly performing stocks. These included Canadian Oil Sands, Baytex Energy and Husky Energy.

The Fund's performance was hurt by selective investments in the resource sector including Bellatrix Exploration, Canexus and Trilogy Energy. Additionally, the Fund was hurt by not being invested in several strong-performing stocks, including Canadian Pacific Railway, Tim Hortons and Fairfax Financial Holdings.

The portfolio manager remained active in the Fund during the year, adding several new names and eliminating or trimming several others. During the year, the portfolio manager added Spartan Energy, Home Capital, Brookfield Property, Boyd Group Income Fund and Western Forest Products. The portfolio manager also increased the Fund's weightings in Potash Corporation and Loblaw. The portfolio manager reduced the Fund's weightings in Shaw Communications, Enerflex and easyhome and sold the Fund's investments in DHX Media, HealthLease Properties REIT, Air Canada and Summit Industrial Income.

Recent Developments

In the U.S., a durable/low inflation expansion rolls on. Recovering real estate and capital markets and firming momentum in job creation have restored confidence, bolstering consumption. Low rates have increased flexibility for households and corporate balance sheets are strong.

Slower global growth and a variety of domestic structural pressures have reduced the sustainable growth rates for emerging nations, but growth continues at a comparatively good rate, now supported by significant monetary and regulatory relief in China. Europe is again struggling as a too-strong currency, with too-timid monetary stimulus and a too-low inflation rate, and proximity/economic ties with Russia are economic headwinds. The threat of a fall back into general recession, though, seems contained as the European Central Bank contemplates more aggressive monetary policy. In Japan, growth expectations are again being trimmed, but the portfolio manager remains cautiously optimistic as the nation embraces reform.

In the portfolio manager's view, the outlook for economic growth and corporate profits continues to favour stocks. But as the bull market moves into its sixth year, valuations are more demanding, especially in the U.S. That said, even in a sluggish growth environment, corporate profits and margins are solid and surprising still-cautious analysts, providing fuel for ongoing gains. Higher valuations, an aging bull market and less-than-ideal liquidity conditions indicate the likelihood of more market corrections, similar to September/October.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$16,000 (2013 – \$20,000), or 4% (2013 – 7%) of the total transaction costs paid for this Fund during this period.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	31.23	0.87	(0.68)	1.79	0.86	2.84	—	(0.24)	—	—	(0.24)	33.47
Dec. 31, 2013	27.77	0.81	(0.58)	0.17	3.29	3.69	—	(0.17)	—	—	(0.17)	31.21
Dec. 31, 2012	26.10	0.68	(0.54)	0.40	1.21	1.75	—	(0.05)	—	—	(0.05)	27.77
Dec. 31, 2011	29.65	0.51	(0.56)	0.67	(4.11)	(3.49)	—	—	—	—	—	26.10
Dec. 31, 2010	25.34	0.78	(0.52)	1.16	4.09	5.51	—	—	—	—	—	29.65
Advisor Series												
Dec. 31, 2014	31.22	0.87	(0.68)	1.79	0.86	2.84	—	(0.24)	—	—	(0.24)	33.47
Dec. 31, 2013	27.77	0.76	(0.59)	0.16	3.07	3.40	—	(0.17)	—	—	(0.17)	31.20
Dec. 31, 2012	26.10	0.68	(0.54)	0.40	1.21	1.75	—	(0.05)	—	—	(0.05)	27.77
Dec. 31, 2011	29.65	0.51	(0.56)	0.67	(4.11)	(3.49)	—	—	—	—	—	26.10
Dec. 31, 2010 ³	27.89 [†]	0.13	(0.09)	0.19	0.68	0.91	—	—	—	—	—	29.65
Series D												
Dec. 31, 2014	30.83	0.86	(0.40)	1.77	0.85	3.08	—	(0.49)	—	—	(0.49)	33.07
Dec. 31, 2013	27.41	0.81	(0.34)	0.17	3.26	3.90	—	(0.41)	—	—	(0.41)	30.81
Dec. 31, 2012	25.77	0.67	(0.32)	0.40	1.20	1.95	—	(0.27)	—	—	(0.27)	27.41
Dec. 31, 2011	29.20	0.51	(0.33)	0.66	(4.06)	(3.22)	—	(0.14)	—	—	(0.14)	25.77
Dec. 31, 2010	24.77	0.79	(0.30)	1.17	4.14	5.80	—	—	—	—	—	29.20
Series F												
Dec. 31, 2014	31.03	0.87	(0.30)	1.78	0.86	3.21	—	(0.59)	—	—	(0.59)	33.28
Dec. 31, 2013	27.59	0.81	(0.26)	0.17	3.29	4.01	—	(0.50)	—	—	(0.50)	31.00
Dec. 31, 2012	25.93	0.67	(0.25)	0.40	1.21	2.03	—	(0.35)	—	—	(0.35)	27.59
Dec. 31, 2011	29.38	0.51	(0.25)	0.66	(4.10)	(3.18)	—	(0.22)	—	—	(0.22)	25.93
Dec. 31, 2010	24.88	0.79	(0.23)	1.18	4.18	5.92	—	(0.02)	—	—	(0.02)	29.38
Series O												
Dec. 31, 2014	31.64	0.89	(0.02)	1.82	0.88	3.57	—	(0.89)	—	—	(0.89)	33.93
Dec. 31, 2013	28.13	0.83	(0.01)	0.17	3.36	4.35	—	(0.78)	—	—	(0.78)	31.61
Dec. 31, 2012	26.46	0.69	(0.01)	0.41	1.24	2.33	—	(0.62)	—	—	(0.62)	28.13
Dec. 31, 2011	29.98	0.52	(0.01)	0.68	(4.19)	(3.00)	—	(0.46)	—	—	(0.46)	26.46
Dec. 31, 2010	25.33	0.57	(0.01)	0.84	2.98	4.38	—	(0.23)	—	—	(0.23)	29.98

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	33.47	3 037	91	2.01	2.01	41.63	0.08
Dec. 31, 2013	31.23	2 801	90	2.01	2.01	44.12	0.07
Dec. 31, 2012	27.82	2 722	98	2.03	2.03	63.37	0.10
Dec. 31, 2011	26.15	2 448	94	2.04	2.04	41.27	0.07
Dec. 31, 2010	29.71	2 157	73	1.99	1.99	56.14	0.16
Advisor Series							
Dec. 31, 2014	33.47	155	5	2.01	2.01	41.63	0.08
Dec. 31, 2013	31.22	147	5	2.01	2.01	44.12	0.07
Dec. 31, 2012	27.82	68	2	2.03	2.03	63.37	0.10
Dec. 31, 2011	26.15	56	2	2.04	2.04	41.27	0.07
Dec. 31, 2010 ⁴	29.71	–	–	1.99	1.99	56.14	0.16
Series D							
Dec. 31, 2014	33.07	134 270	4 061	1.19	1.19	41.63	0.08
Dec. 31, 2013	30.83	138 825	4 503	1.19	1.19	44.12	0.07
Dec. 31, 2012	27.46	149 035	5 427	1.22	1.22	63.37	0.10
Dec. 31, 2011	25.82	164 779	6 381	1.22	1.22	41.27	0.07
Dec. 31, 2010	29.26	207 213	7 082	1.19	1.19	56.14	0.16
Series F							
Dec. 31, 2014	33.28	437	13	0.89	0.89	41.63	0.08
Dec. 31, 2013	31.03	498	16	0.91	0.91	44.12	0.07
Dec. 31, 2012	27.64	473	17	0.94	0.94	63.37	0.10
Dec. 31, 2011	25.98	467	18	0.93	0.93	41.27	0.07
Dec. 31, 2010	29.44	222	8	0.92	0.92	56.14	0.16
Series O							
Dec. 31, 2014	33.93	314 503	9 268	0.04	0.04	41.63	0.08
Dec. 31, 2013	31.64	301 342	9 526	0.04	0.04	44.12	0.07
Dec. 31, 2012	28.18	222 437	7 893	0.04	0.04	63.37	0.10
Dec. 31, 2011	26.51	186 366	7 030	0.04	0.04	41.27	0.07
Dec. 31, 2010	30.04	193 425	6 440	0.05	0.05	56.14	0.16

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	–	100%

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

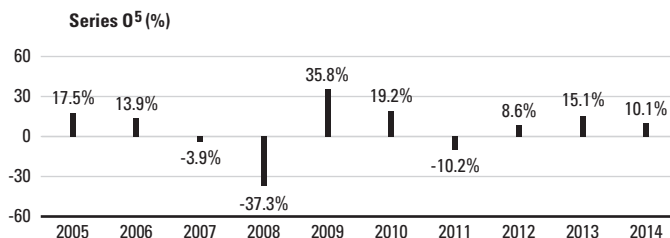
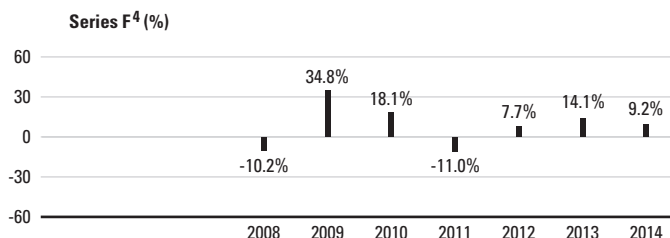
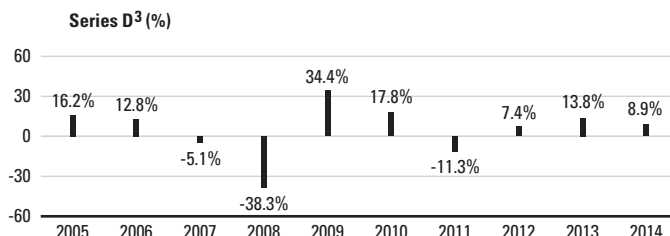
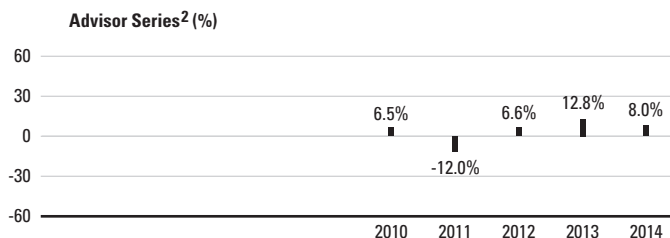
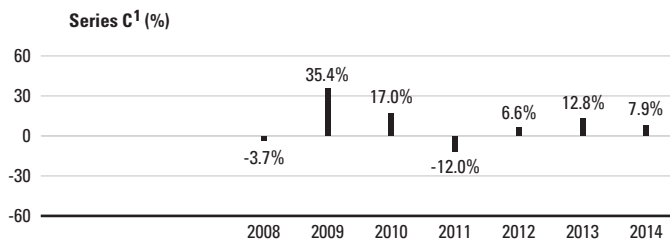
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	7.9	9.1	6.0	—	9.6
Benchmark	10.6	10.2	7.5	—	11.0
Advisor Series ²	8.0	9.1	—	—	4.8
Benchmark	10.6	10.2	—	—	6.5
Series D ³	8.9	10.0	6.8	3.7	—
Benchmark	10.6	10.2	7.5	7.6	—
Series F ⁴	9.2	10.3	7.1	—	9.1
Benchmark	10.6	10.2	7.5	—	10.0
Series O ⁵	10.1	11.2	8.1	4.9	—
Benchmark	10.6	10.2	7.5	7.6	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date February 1987.

⁴ Inception date October 2008.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	38.0
Energy	21.2
Materials	10.7
Industrials	7.1
Consumer Discretionary	6.9
Health Care	4.5
Telecommunication Services	2.8
Information Technology	2.3
Consumer Staples	2.1
Utilities	1.3
Cash/Other	3.1

Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	6.5
Toronto-Dominion Bank	5.9
Bank of Nova Scotia	4.6
Canadian National Railway Co.	4.3
Valeant Pharmaceuticals International Inc.	3.2
Suncor Energy Inc.	3.1
Bank of Montreal	2.9
Cash & Cash Equivalents	2.9
Enbridge Inc.	2.6
Canadian Imperial Bank of Commerce	2.4
TransCanada Corp.	2.4
Canadian Natural Resources Ltd.	2.4
Manulife Financial Corporation	2.3
Magna International Inc., Class A	2.1
BCE Inc.	2.0
Power Corporation of Canada	2.0
Potash Corporation of Saskatchewan Inc.	1.8
Brookfield Asset Management Inc., Class A	1.6
Cenovus Energy Inc.	1.2
Sun Life Financial Inc.	1.1
Goldcorp Inc.	1.1
Alimentation Couche-Tard Inc.	1.0
CI Financial Corp.	1.0
Thomson Corp.	1.0
Open Text Corp.	1.0
Top 25 Holdings	62.4

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CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CANADIAN INCOME FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

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A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with capital preservation and a reasonably consistent level of income. To achieve the Fund's investment objective, we invest primarily in a well-diversified portfolio of dividend-paying Canadian common shares, high-quality units of Canadian income trusts or real estate investment trusts ("REITs"), and other income-producing securities including bonds of the Canadian government, provincial governments and quality Canadian corporations and high quality money market securities including asset backed commercial paper. The Fund's assets are concentrated in mid- and large-capitalization securities and it does not invest in businesses with excessive financial leverage.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$837.8 million as of December 31, 2014, from \$179.2 million at the end of 2013. Of the change, \$635.2 million was due to net inflows and \$23.5 million to investment returns.

Over the past year, the Fund's Series D units gained 7.9%, which underperformed the benchmark return of 11.2% and the broad-based index return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Capped Composite Index maintained its positive momentum from last year and rallied over 10% during 2014. In the Fund, the portfolio manager added value in four out of 10 sectors, with Materials, Utilities and Consumer Discretionary being the most significant contributors.

During the reporting period, the portfolio manager added to holdings of gold producers, which performed well. The Fund doesn't typically hold these types of stocks, but the negative sentiment towards the sector over the past couple of years created a very attractive risk/reward opportunity in the high-quality large-cap gold stocks, such as Barrick Gold and Eldorado Gold. The portfolio manager reduced the Fund's exposure to gold stocks in the summer.

The Energy sector was the largest detractor to relative performance during the reporting period. This was due to overweight positions in Trilogy Energy, Crescent Point Energy and Cenovus Energy.

Recent Developments

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$360,000 (2013 – \$115,000), or 13% (2013 – 13%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	13.52	0.61	(0.30)	1.17	(0.88)	0.60	–	(0.11)	(0.01)	–	(0.12)	14.35
Dec. 31, 2013	11.80	0.40	(0.25)	1.11	0.56	1.82	–	(0.11)	–	–	(0.11)	13.51
Dec. 31, 2012	10.71	0.41	(0.23)	0.27	0.74	1.19	–	(0.12)	–	–	(0.12)	11.80
Dec. 31, 2011	11.28	0.41	(0.22)	0.41	(1.04)	(0.44)	–	(0.17)	–	–	(0.17)	10.71
Dec. 31, 2010	9.77	0.42	(0.20)	1.28	0.27	1.77	(0.07)	(0.17)	–	–	(0.24)	11.28
Advisor Series												
Dec. 31, 2014	13.52	0.61	(0.30)	1.16	(0.87)	0.60	–	(0.11)	(0.01)	–	(0.12)	14.35
Dec. 31, 2013	11.80	0.39	(0.26)	1.09	0.55	1.77	–	(0.11)	–	–	(0.11)	13.51
Dec. 31, 2012	10.71	0.41	(0.23)	0.27	0.74	1.19	–	(0.12)	–	–	(0.12)	11.80
Dec. 31, 2011	11.28	0.41	(0.22)	0.41	(1.04)	(0.44)	–	(0.17)	–	–	(0.17)	10.71
Dec. 31, 2010 ³	10.81 [†]	0.07	(0.03)	0.21	0.04	0.29	(0.03)	(0.06)	–	–	(0.09)	11.28
Series D												
Dec. 31, 2014	13.47	0.62	(0.17)	1.18	(0.88)	0.75	–	(0.22)	(0.01)	–	(0.23)	14.31
Dec. 31, 2013	11.76	0.40	(0.15)	1.11	0.56	1.92	–	(0.22)	–	–	(0.22)	13.46
Dec. 31, 2012	10.70	0.41	(0.14)	0.27	0.74	1.28	–	(0.24)	–	–	(0.24)	11.76
Dec. 31, 2011	11.23	0.41	(0.13)	0.41	(1.04)	(0.35)	–	(0.22)	–	–	(0.22)	10.70
Dec. 31, 2010	9.71	0.42	(0.12)	1.27	0.27	1.84	(0.09)	(0.21)	–	–	(0.30)	11.23
Series F												
Dec. 31, 2014	13.52	0.60	(0.14)	1.13	(0.85)	0.74	–	(0.28)	(0.01)	–	(0.29)	14.34
Dec. 31, 2013	11.82	0.40	(0.12)	1.11	0.56	1.95	–	(0.28)	–	–	(0.28)	13.51
Dec. 31, 2012	10.78	0.42	(0.11)	0.27	0.75	1.33	–	(0.29)	–	–	(0.29)	11.82
Dec. 31, 2011	11.34	0.42	(0.10)	0.41	(1.05)	(0.32)	–	(0.28)	–	–	(0.28)	10.78
Dec. 31, 2010	9.78	0.43	(0.09)	1.28	0.27	1.89	(0.09)	(0.21)	–	–	(0.30)	11.34
Series O												
Dec. 31, 2014	13.42	0.38	(0.01)	0.72	(0.54)	0.55	–	(0.35)	(0.01)	–	(0.36)	14.30
Dec. 31, 2013	11.71	0.40	(0.01)	1.10	0.56	2.05	–	(0.35)	–	–	(0.35)	13.42
Dec. 31, 2012	10.64	0.41	(0.01)	0.26	0.73	1.39	–	(0.35)	–	–	(0.35)	11.71
Dec. 31, 2011	11.21	0.41	(0.01)	0.40	(1.04)	(0.24)	–	(0.39)	–	–	(0.39)	10.64
Dec. 31, 2010	9.65	0.42	(0.01)	1.26	0.27	1.94	(0.12)	(0.25)	–	–	(0.37)	11.21

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	14.35	6 152	429	2.03	2.03	169.49	0.46
Dec. 31, 2013	13.52	5 619	416	2.03	2.03	187.07	0.53
Dec. 31, 2012	11.82	4 999	423	2.04	2.04	164.47	0.50
Dec. 31, 2011	10.72	4 989	465	2.06	2.06	267.31	0.84
Dec. 31, 2010	11.30	3 538	313	2.02	2.02	283.62	1.01
Advisor Series							
Dec. 31, 2014	14.35	1 334	93	2.03	2.03	169.49	0.46
Dec. 31, 2013	13.52	1 286	95	2.03	2.03	187.07	0.53
Dec. 31, 2012	11.82	559	47	2.04	2.04	164.47	0.50
Dec. 31, 2011	10.72	507	47	2.06	2.06	267.31	0.84
Dec. 31, 2010 ⁴	11.30	45	4	2.02	2.02	283.62	1.01
Series D							
Dec. 31, 2014	14.31	75 124	5 251	1.19	1.19	169.49	0.46
Dec. 31, 2013	13.47	73 018	5 421	1.20	1.20	187.07	0.53
Dec. 31, 2012	11.78	81 791	6 943	1.22	1.22	164.47	0.50
Dec. 31, 2011	10.72	88 068	8 218	1.23	1.23	267.31	0.84
Dec. 31, 2010	11.25	92 697	8 239	1.19	1.19	283.62	1.01
Series F							
Dec. 31, 2014	14.34	938	65	0.96	0.96	169.49	0.46
Dec. 31, 2013	13.52	733	54	0.95	0.95	187.07	0.53
Dec. 31, 2012	11.84	552	47	0.95	0.95	164.47	0.50
Dec. 31, 2011	10.80	939	87	0.96	0.96	267.31	0.84
Dec. 31, 2010	11.36	567	50	0.93	0.93	283.62	1.01
Series O							
Dec. 31, 2014	14.30	754 281	52 761	0.07	0.07	169.49	0.46
Dec. 31, 2013	13.42	98 535	7 340	0.07	0.07	187.07	0.53
Dec. 31, 2012	11.73	64 268	5 480	0.07	0.07	164.47	0.50
Dec. 31, 2011	10.66	29 938	2 808	0.07	0.07	267.31	0.84
Dec. 31, 2010	11.23	19 969	1 779	0.07	0.07	283.62	1.01

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

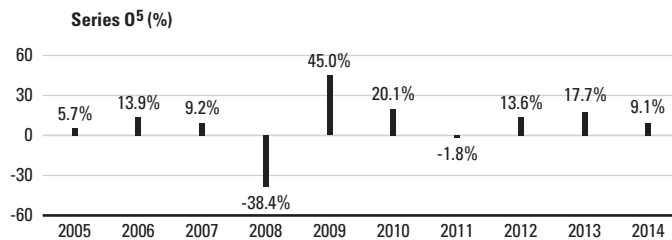
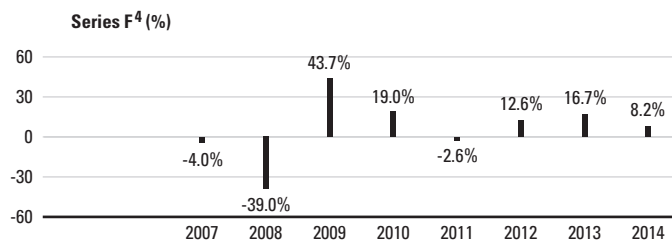
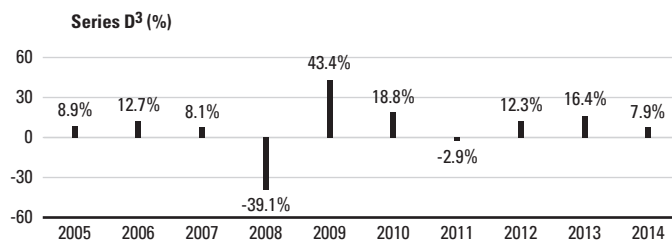
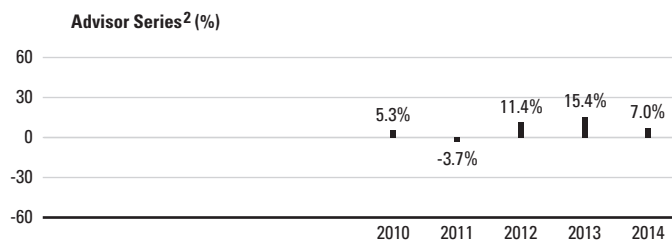
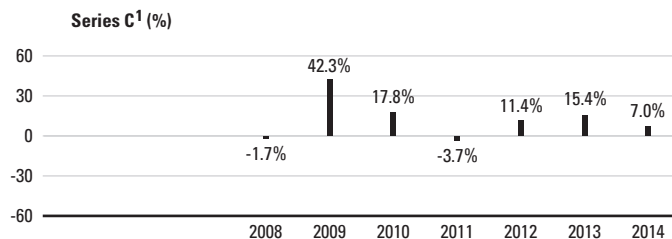
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index, which is also the broad-based index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	7.0	11.2	9.3	—	13.7
Benchmark	10.6	10.2	7.5	—	11.0
Advisor Series ²	7.0	11.2	—	—	8.3
Benchmark	10.6	10.2	—	—	6.5
Series D ³	7.9	12.1	10.2	—	6.9
Benchmark	10.6	10.2	7.5	—	7.1
Series F ⁴	8.2	12.4	10.5	—	4.4
Benchmark	10.6	10.2	7.5	—	3.7
Series O ⁵	9.1	13.4	11.5	—	7.9
Benchmark	10.6	10.2	7.5	—	6.1

The returns of each series may vary because of differences in management fees and expenses. The Benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date June 2005.

⁴ Inception date June 2007.

⁵ Inception date September 2005.

Series D was known as Series A prior to November 17, 2008. Although Series A units of the Fund were created in July 2003, units were not offered for sale under a Simplified Prospectus until June 2005. We are therefore not permitted to disclose performance data for this Fund for any period prior to June 2005.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	46.3
Energy	18.4
Industrials	8.0
Materials	5.4
Utilities	5.3
Consumer Discretionary	4.8
Telecommunication Services	3.8
Consumer Staples	2.4
Information Technology	0.9
Cash/Other	4.7

Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	7.4
Toronto-Dominion Bank	6.4
Bank of Nova Scotia	6.2
Cash & Cash Equivalents	4.5
Canadian Imperial Bank of Commerce	3.8
Canadian National Railway Co.	3.4
Brookfield Asset Management Inc., Class A	3.4
Bank of Montreal	3.3
Enbridge Inc.	3.2
CI Financial Corp.	2.7
Manulife Financial Corporation	2.6
TransCanada Corp.	2.5
Finning International Inc.	2.0
TELUS Corp.	1.9
Rogers Communications Inc., Class B	1.9
Agnico Eagle Mines Ltd.	1.8
SNC-Lavalin Group Inc.	1.8
Industrial Alliance Insurance & Financial Services Inc.	1.8
Pure Industrial Real Estate Investment Trust	1.7
Crombie Real Estate Investment Trust	1.7
Cenovus Energy Inc.	1.6
Fortis Inc.	1.6
Cominar Real Estate Investment Trust	1.4
ARC Resources Ltd.	1.4
Agrium Inc.	1.4
Top 25 Holdings	71.4

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
VINTAGE FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

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Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth and dividend income by investing primarily in a well-diversified portfolio of Canadian common stocks listed on the TSX. To achieve the Fund's investment objective, we focus on companies that earned a return on shareholders equity that is above average within their industry over the previous five to 10 years and maintained financial strength. The Fund's investments may also emphasize small-capitalization securities when valuation levels are attractive.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$50.5 million as of December 31, 2014, from \$40.1 million at the end of 2013. Of the change, \$5.4 million was due to net inflows and \$5.1 million to investment returns.

Over the past year, the Fund's Series D units gained 12.0%, which outperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The S&P/TSX Capped Composite Index maintained its positive momentum from last year and rallied over 10% during 2014. In the Fund, the portfolio manager added value in eight out of 10 sectors, with Materials, Information Technology and Consumer Discretionary contributing the most to relative performance.

The Materials sector was the most significant contributor to performance during the reporting period, driven by an underweight position in the sector and strong stock selection. In terms of security selection, an overweight position in specialty packaging company CCL Industries contributed to performance. Within the Consumer Discretionary sector, the Fund held an overweight position in Tim Hortons, which was subject to a takeover by Burger King at a large premium. Within the Consumer Staples sector, an overweight position in Alimentation Couche-Tard contributed significantly to performance, as it had a very strong year after a number of accretive acquisitions.

The Energy sector was the largest detractor to relative performance, due to stock selection as oil prices fell dramatically during the second half of the reporting period. Energy equipment and services companies were hit hard, as oil and gas companies scaled back their capital expenditures forecast, which hurt Trinidad Drilling and Calfrac Well Services.

Recent Developments

Equities continued to rally through 2014 and, despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, the portfolio manager expects total returns to investors to be lower, although still positive.

Uneven economic growth was one of the hallmarks of 2014. For 2015, the portfolio manager expects growth to come from a broader set of global economies. As the global economic recovery becomes self-sustaining, the portfolio manager expects rising corporate profits to maintain the bull market.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$4,000 (2013 – \$8,000), or 8% (2013 – 17%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	24.50	0.57	(0.62)	3.34	(0.73)	2.56	—	—	—	—	—	27.22
Dec. 31, 2013	18.37	0.42	(0.49)	1.53	4.64	6.10	—	—	—	—	—	24.47
Dec. 31, 2012	17.11	0.40	(0.40)	0.01	1.20	1.21	—	—	—	—	—	18.37
Dec. 31, 2011	19.48	0.46	(0.42)	0.47	(2.73)	(2.22)	—	—	—	—	—	17.11
Dec. 31, 2010	17.76	0.35	(0.40)	1.75	(0.13)	1.57	—	—	—	—	—	19.48
Advisor Series												
Dec. 31, 2014	24.53	0.56	(0.63)	3.31	(0.72)	2.52	—	—	—	—	—	27.25
Dec. 31, 2013	18.37	0.39	(0.51)	1.45	4.38	5.71	—	—	—	—	—	24.50
Dec. 31, 2012	17.11	0.40	(0.40)	0.01	1.20	1.21	—	—	—	—	—	18.37
Dec. 31, 2011	19.48	0.46	(0.42)	0.47	(2.73)	(2.22)	—	—	—	—	—	17.11
Dec. 31, 2010 ³	18.32 [†]	0.06	(0.07)	0.29	(0.02)	0.26	—	—	—	—	—	19.48
Series D												
Dec. 31, 2014	25.26	0.60	(0.40)	3.52	(0.77)	2.95	—	(0.06)	—	—	(0.06)	28.25
Dec. 31, 2013	18.79	0.43	(0.32)	1.57	4.77	6.45	—	—	—	—	—	25.23
Dec. 31, 2012	17.36	0.41	(0.27)	0.01	1.23	1.38	—	—	—	—	—	18.79
Dec. 31, 2011	19.62	0.47	(0.27)	0.48	(2.76)	(2.08)	—	—	—	—	—	17.36
Dec. 31, 2010	17.73	0.35	(0.26)	1.75	(0.13)	1.71	—	—	—	—	—	19.62
Series F												
Dec. 31, 2014	26.25	0.61	(0.35)	3.57	(0.78)	3.05	—	(0.12)	—	—	(0.12)	29.37
Dec. 31, 2013	19.52	0.44	(0.27)	1.63	4.95	6.75	—	(0.06)	—	—	(0.06)	26.22
Dec. 31, 2012	17.98	0.43	(0.22)	0.01	1.28	1.50	—	—	—	—	—	19.52
Dec. 31, 2011	20.25	0.48	(0.23)	0.49	(2.81)	(2.07)	—	—	—	—	—	17.98
Dec. 31, 2010	18.24	0.37	(0.22)	1.81	(0.13)	1.83	—	—	—	—	—	20.25
Series O												
Dec. 31, 2014	27.42	0.65	(0.02)	3.82	(0.84)	3.61	—	(0.46)	—	—	(0.46)	30.70
Dec. 31, 2013	20.38	0.47	(0.02)	1.72	5.22	7.39	—	(0.35)	—	—	(0.35)	27.40
Dec. 31, 2012	18.57	0.44	(0.01)	0.01	1.30	1.74	—	—	—	—	—	20.38
Dec. 31, 2011	20.68	0.50	(0.01)	0.51	(2.93)	(1.93)	—	—	—	—	—	18.57
Dec. 31, 2010	18.43	0.37	(0.01)	1.84	(0.14)	2.06	—	—	—	—	—	20.68

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	27.22	2 160	79	2.29	2.30	59.45	0.11
Dec. 31, 2013	24.50	529	22	2.30	2.30	60.77	0.13
Dec. 31, 2012	18.43	186	10	2.27	2.27	66.68	0.23
Dec. 31, 2011	17.14	415	24	2.27	2.27	138.78	0.45
Dec. 31, 2010	19.51	758	39	2.24	2.24	124.85	0.40
Advisor Series							
Dec. 31, 2014	27.25	500	18	2.29	2.30	59.45	0.11
Dec. 31, 2013	24.53	40	2	2.30	2.30	60.77	0.13
Dec. 31, 2012	18.43	46	2	2.27	2.27	66.68	0.23
Dec. 31, 2011	17.14	35	2	2.27	2.27	138.78	0.45
Dec. 31, 2010 ⁴	19.51	–	–	2.24	2.24	124.85	0.40
Series D							
Dec. 31, 2014	28.25	37 446	1 326	1.45	1.46	59.45	0.11
Dec. 31, 2013	25.26	34 678	1 373	1.47	1.47	60.77	0.13
Dec. 31, 2012	18.85	28 550	1 515	1.50	1.50	66.68	0.23
Dec. 31, 2011	17.40	31 231	1 795	1.51	1.51	138.78	0.45
Dec. 31, 2010	19.65	44 867	2 283	1.46	1.46	124.85	0.40
Series F							
Dec. 31, 2014	29.37	1 685	57	1.19	1.20	59.45	0.11
Dec. 31, 2013	26.25	130	5	1.20	1.20	60.77	0.13
Dec. 31, 2012	19.58	100	5	1.18	1.18	66.68	0.23
Dec. 31, 2011	18.01	118	7	1.17	1.17	138.78	0.45
Dec. 31, 2010	20.28	240	12	1.17	1.17	124.85	0.40
Series O							
Dec. 31, 2014	30.70	8 741	285	0.06	0.07	59.45	0.11
Dec. 31, 2013	27.42	4 677	171	0.07	0.07	60.77	0.13
Dec. 31, 2012	20.45	2 254	110	0.08	0.08	66.68	0.23
Dec. 31, 2011	18.61	5 012	269	0.08	0.08	138.78	0.45
Dec. 31, 2010	20.72	7 250	350	0.07	0.07	124.85	0.40

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	2.00%	50%	50%
Advisor Series	2.00%	50%	50%
Series D	1.25%	20%	80%
Series F	1.00%	–	100%

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

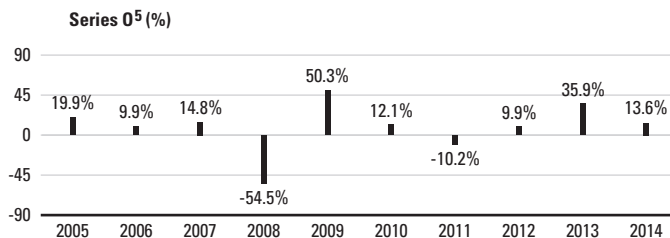
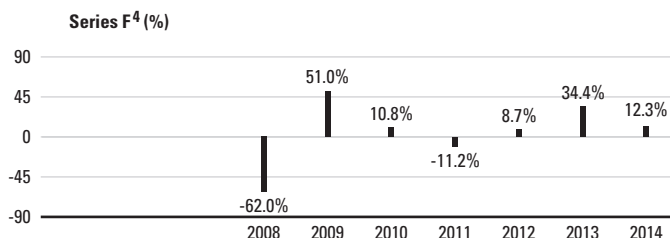
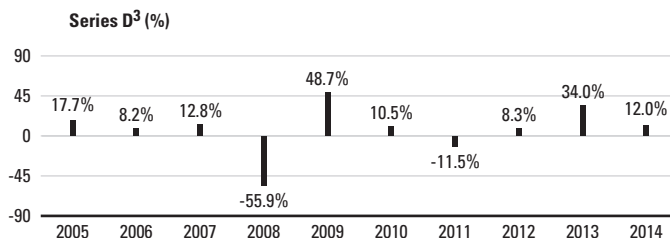
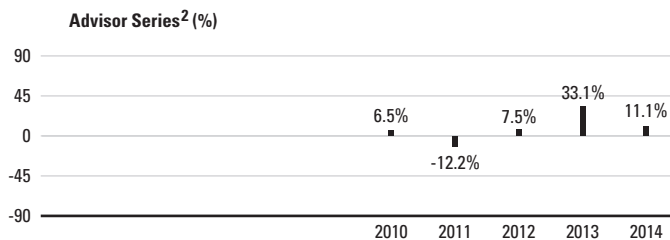
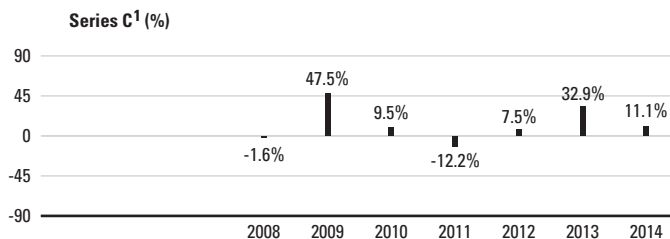
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	11.1	16.7	8.8	—	14.0
Benchmark	10.6	10.2	7.5	—	11.0
Advisor Series ²	11.1	16.7	—	—	10.0
Benchmark	10.6	10.2	—	—	6.5
Series D ³	12.0	17.6	9.7	4.1	—
Benchmark	10.6	10.2	7.5	7.6	—
Series F ⁴	12.3	17.9	10.1	—	-1.2
Benchmark	10.6	10.2	7.5	—	3.2
Series O ⁵	13.6	19.3	11.3	5.9	—
Benchmark	10.6	10.2	7.5	7.6	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date April 1986.

⁴ Inception date June 2008.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	33.4
Energy	21.6
Consumer Discretionary	11.9
Industrials	10.0
Materials	6.1
Information Technology	4.9
Health Care	4.7
Consumer Staples	2.8
Telecommunication Services	2.2
Cash/Other	2.4

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	6.9
Bank of Nova Scotia	6.4
Royal Bank of Canada	6.4
Valeant Pharmaceuticals International Inc.	3.2
RONA Inc.	2.7
Trinidad Drilling Ltd.	2.7
Element Financial Corp.	2.7
Enbridge Inc.	2.6
Cenovus Energy Inc.	2.6
Cash & Cash Equivalents	2.3
TransCanada Corp.	1.9
Industrial Alliance Insurance & Financial Services Inc.	1.9
Manulife Financial Corporation	1.9
Brookfield Asset Management Inc., Class A	1.7
Badger Daylighting Ltd.	1.6
Catamaran Corp.	1.5
Canadian Natural Resources Ltd.	1.5
CI Financial Corp.	1.4
Alimentation Couche-Tard Inc.	1.4
Leon's Furniture Ltd.	1.4
Crescent Point Energy Corp.	1.4
TELUS Corp.	1.4
SNC-Lavalin Group Inc.	1.4
Agrium Inc.	1.3
Quebecor Inc., Class B	1.3
Top 25 Holdings	61.5

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH
U.S. DIVIDEND INCOME FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth and income by investing primarily in a well-diversified portfolio of dividend income-producing U.S. securities that have a relatively high yield. To achieve the Fund's investment objective, we invest primarily in large-capitalization dividend-paying U.S. common shares and, to a lesser extent, preferred shares and bonds.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$190.1 million as of December 31, 2014, from \$167.4 million at the end of 2013. Of the change, \$33.5 million was due to investment returns, offset by \$10.8 million of net redemptions.

Over the past year, the Fund's Series D units gained 19.4%, which underperformed the benchmark return of 24.3%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

During the reporting period, U.S. equity markets generated solid returns, with each quarter turning in positive returns. The market closed the year at all-time record levels, shrugging off global economic and political worries, as well as the uncertainty of a crashing global oil price.

The leading sectors of the market were Utilities, Health Care and Information Technology. The continuing decline of interest rates continued to fuel the returns from the Utilities group. Health Care benefited from the strength in the biotechnology sector, owing in large part to a robust new product cycle, as well as ongoing mergers and acquisitions. The rebound in Apple and other "old tech" companies contributed to the gains in Information Technology. The lagging groups were Energy and Telecommunication Services. The Energy group's fortunes reversed with the decline in oil prices that began mid-year; over the first six months of the year, Energy was a leading group but fell dramatically over the fourth quarter with the sharp decline in global energy prices.

For the full year, the most positive contributions to Fund performance were from the portfolio manager's strong stock selection in Information Technology and Consumer Staples. The best relative stock contributions were from the Fund's holdings of Cal-Maine Foods, AllianceBernstein, Walgreens Boots Alliance, Leggett & Platt and AbbVie. Detractors from Fund performance came from disappointing stock selection in Financials and Health Care. The worst relative stock contributions came from Emerson and Oaktree Capital.

Overall, the portfolio manager decreased the number of holdings in the Fund over the course of the year. The sectors of greatest activity were Materials and Consumer Staples, responding to the relative yield levels among those stocks. The largest initiations for the Fund were Cal-Maine Foods, RPM Inc., Exelon, General Motors and Alliance Resource Partners. The portfolio manager also added significantly to existing holdings of Cisco Systems and Lockheed Martin. The largest eliminations were Cal-Maine Foods (sold relatively soon after purchase due to strong price appreciation), Chevron, Johnson Controls, Walgreens Boots Alliance and Norfolk Southern. Significant reductions were made to ConocoPhillips and Oaktree Capital on account of challenging near-term business fundamentals.

Recent Developments

The portfolio manager expects the U.S. equity markets to generate reasonable returns over the year, but with markets at all-time highs and valuation in "neutral" territory it may be difficult. However, these factors may be offset by the combination of low interest rates and energy prices which are definitive tailwinds for the U.S. economy at large.

The companies in the Fund's portfolio have the opportunity to build value through a combination of capital expenditures, share repurchases and dividend increases. The portfolio manager's focus is on companies that are able to generate superior dividend growth without compromising their ability to grow on a sustainable basis and trade at favourable valuations compared to the market.

Related-Party Transactions***Manager and Portfolio Advisor***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

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RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$0 (2013 – \$40,000), or 0% (2013 – 49%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.26	0.30	(0.23)	1.56	0.24	1.87	—	(0.07)	—	—	(0.07)	12.08
Dec. 31, 2013	7.54	0.23	(0.19)	0.44	2.20	2.68	—	(0.03)	—	—	(0.03)	10.26
Dec. 31, 2012	6.93	0.21	(0.15)	0.05	0.51	0.62	—	(0.04)	—	—	(0.04)	7.54
Dec. 31, 2011	6.87	0.19	(0.13)	(0.30)	0.36	0.12	—	(0.05)	—	—	(0.05)	6.93
Dec. 31, 2010	6.60	0.17	(0.13)	(0.13)	0.37	0.28	—	(0.03)	—	—	(0.03)	6.87
Advisor Series												
Dec. 31, 2014	10.26	0.30	(0.23)	1.56	0.24	1.87	—	(0.07)	—	—	(0.07)	12.08
Dec. 31, 2013	7.54	0.22	(0.19)	0.43	2.17	2.63	—	(0.03)	—	—	(0.03)	10.26
Dec. 31, 2012	6.93	0.21	(0.15)	0.05	0.51	0.62	—	(0.04)	—	—	(0.04)	7.54
Dec. 31, 2011	6.87	0.19	(0.13)	(0.30)	0.36	0.12	—	(0.05)	—	—	(0.05)	6.93
Dec. 31, 2010 ³	6.64 [†]	0.03	(0.02)	(0.02)	0.06	0.05	—	(0.03)	—	—	(0.03)	6.87
Series D												
Dec. 31, 2014	10.20	0.30	(0.13)	1.56	0.24	1.97	—	(0.17)	—	—	(0.17)	12.01
Dec. 31, 2013	7.49	0.23	(0.11)	0.44	2.22	2.78	—	(0.12)	—	—	(0.12)	10.20
Dec. 31, 2012	6.89	0.21	(0.09)	0.05	0.52	0.69	—	(0.10)	—	—	(0.10)	7.49
Dec. 31, 2011	6.83	0.19	(0.08)	(0.30)	0.36	0.17	—	(0.10)	—	—	(0.10)	6.89
Dec. 31, 2010	6.57	0.17	(0.08)	(0.13)	0.37	0.33	—	(0.09)	—	—	(0.09)	6.83
Series F												
Dec. 31, 2014	10.17	0.30	(0.10)	1.56	0.24	2.00	—	(0.20)	—	—	(0.20)	11.98
Dec. 31, 2013	7.47	0.23	(0.09)	0.44	2.20	2.78	—	(0.14)	—	—	(0.14)	10.17
Dec. 31, 2012	6.87	0.21	(0.07)	0.05	0.51	0.70	—	(0.12)	—	—	(0.12)	7.47
Dec. 31, 2011	6.81	0.19	(0.06)	(0.30)	0.36	0.19	—	(0.12)	—	—	(0.12)	6.87
Dec. 31, 2010	6.55	0.17	(0.06)	(0.13)	0.37	0.35	—	(0.11)	—	—	(0.11)	6.81
Series O												
Dec. 31, 2014	10.21	0.30	(0.01)	1.57	0.24	2.10	—	(0.30)	—	—	(0.30)	12.02
Dec. 31, 2013	7.49	0.23	(0.01)	0.44	2.22	2.88	—	(0.23)	—	—	(0.23)	10.20
Dec. 31, 2012	6.89	0.21	(0.01)	0.05	0.52	0.77	—	(0.19)	—	—	(0.19)	7.49
Dec. 31, 2011	6.83	0.19	(0.01)	(0.31)	0.36	0.23	—	(0.18)	—	—	(0.18)	6.89
Dec. 31, 2010	6.58	0.18	(0.01)	(0.13)	0.37	0.41	—	(0.17)	—	—	(0.17)	6.83

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	12.08	11 575	958	2.05	2.05	47.76	0.07
Dec. 31, 2013	10.26	9 137	890	2.07	2.07	27.71	0.06
Dec. 31, 2012	7.54	3 366	447	2.00	2.00	17.96	0.05
Dec. 31, 2011	6.93	1 280	185	2.06	2.06	16.34	0.04
Dec. 31, 2010	6.87	499	73	2.00	2.00	31.21	0.07
Advisor Series							
Dec. 31, 2014	12.08	11 345	939	2.05	2.05	47.76	0.07
Dec. 31, 2013	10.26	7 286	710	2.07	2.07	27.71	0.06
Dec. 31, 2012	7.54	1 781	236	2.00	2.00	17.96	0.05
Dec. 31, 2011	6.93	161	23	2.06	2.06	16.34	0.04
Dec. 31, 2010 ⁴	6.87	–	–	2.00	2.00	31.21	0.07
Series D							
Dec. 31, 2014	12.01	68 368	5 694	1.19	1.19	47.76	0.07
Dec. 31, 2013	10.20	59 344	5 818	1.19	1.19	27.71	0.06
Dec. 31, 2012	7.49	48 677	6 496	1.22	1.22	17.96	0.05
Dec. 31, 2011	6.89	40 757	5 915	1.22	1.22	16.34	0.04
Dec. 31, 2010	6.83	41 119	6 021	1.19	1.19	31.21	0.07
Series F							
Dec. 31, 2014	11.98	4 597	384	0.94	0.94	47.76	0.07
Dec. 31, 2013	10.17	3 336	328	0.94	0.94	27.71	0.06
Dec. 31, 2012	7.47	1 479	198	0.96	0.96	17.96	0.05
Dec. 31, 2011	6.87	613	89	0.96	0.96	16.34	0.04
Dec. 31, 2010	6.81	397	58	0.94	0.94	31.21	0.07
Series O							
Dec. 31, 2014	12.02	94 196	7 837	0.08	0.08	47.76	0.07
Dec. 31, 2013	10.21	88 273	8 649	0.08	0.08	27.71	0.06
Dec. 31, 2012	7.50	46 065	6 145	0.08	0.08	17.96	0.05
Dec. 31, 2011	6.89	37 502	5 440	0.08	0.08	16.34	0.04
Dec. 31, 2010	6.83	34 382	5 032	0.08	0.08	31.21	0.07

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

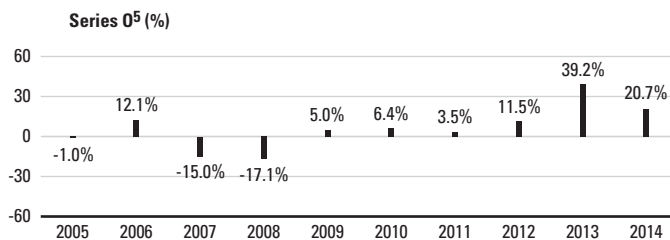
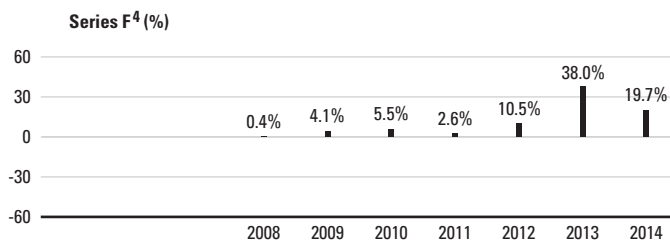
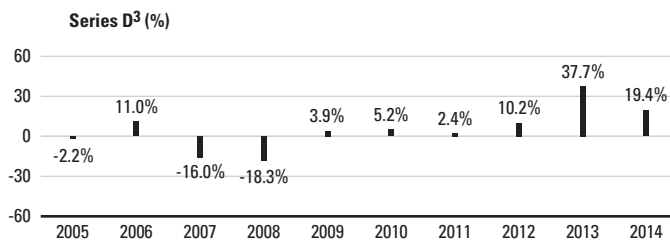
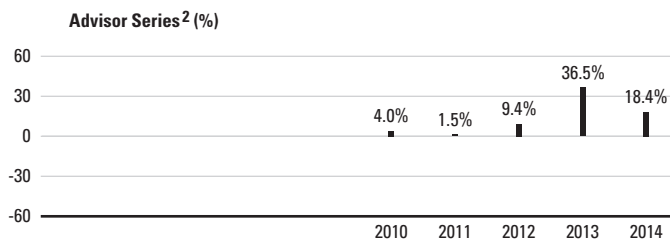
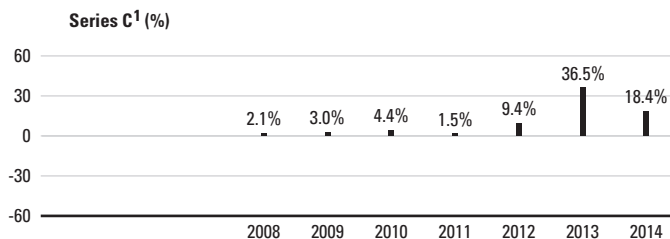
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P 500 Total Return Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	18.4	20.9	13.4	—	11.8
Benchmark	24.3	25.8	17.8	—	15.9
Advisor Series ²	18.4	20.9	—	—	16.2
Benchmark	24.3	25.8	—	—	20.4
Series D ³	19.4	21.9	14.3	4.2	—
Benchmark	24.3	25.8	17.8	7.3	—
Series F ⁴	19.7	22.2	14.6	—	12.5
Benchmark	24.3	25.8	17.8	—	14.8
Series O ⁵	20.7	23.3	15.6	5.4	—
Benchmark	24.3	25.8	17.8	7.3	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date July 2002.

⁴ Inception date October 2008.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008. Although Series A units of the Fund were created in May 2002, units were not offered for sale under a Simplified Prospectus until July 2002. We are therefore not permitted to disclose performance data for this Fund for any period prior to July 2002.

INDEX DESCRIPTION

S&P 500 Total Return Index (CAD) This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	19.4
Information Technology	14.0
Industrials	13.5
Health Care	11.3
Materials	7.4
Energy	7.2
Consumer Staples	6.9
Utilities	6.2
Consumer Discretionary	5.8
Telecommunication Services	5.1
Cash/Other	3.2

Top 25 Holdings

	% of Net Asset Value
Johnson & Johnson	3.7
General Electric Company	3.3
AbbVie Inc.	3.2
United Technologies Corp.	3.1
Merck & Co. Inc.	3.1
Cash & Cash Equivalents	3.1
Cisco Systems Inc.	3.1
Exxon Mobil Corp.	3.0
Emerson Electric Co.	2.9
Microsoft Corp.	2.8
Wal-Mart Stores, Inc.	2.7
Wells Fargo & Company	2.7
PepsiCo Inc.	2.7
Exelon Corp.	2.6
AT&T Inc.	2.6
Seagate Technology	2.6
JPMorgan Chase & Co.	2.6
General Motors Co.	2.6
Intel Corp.	2.5
DuPont Fabros Technology Inc. Real Estate Investment Trust	2.5
Verizon Communications Inc.	2.5
Public Service Enterprise Group	2.5
Blackstone Group LP	2.5
AllianceBernstein Holding LP	2.4
Leggett & Platt Inc.	2.3
Top 25 Holdings	69.6

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH
U.S. MULTI-STYLE ALL-CAP
EQUITY FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

Sub-Advisor: RBC Global Asset Management (U.S.) Inc.

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing in shares of high-quality U.S. companies. To achieve the Fund's investment objective, we invest in quality businesses that have a sustainable competitive advantage, a history of profitability, a solid financial position, opportunities for growth, and a capable management team. Emphasis is placed on a stock's valuation, with effort to select those with relatively low valuations, given the breadth of the U.S. market.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$2.2 billion as of December 31, 2014, from \$1.5 billion at the end of 2013. Of the change, \$358.5 million was due to net inflows and \$377.3 million to investment returns.

Over the past year, the Fund's Series D units gained 20.4%, which underperformed the benchmark return of 23.1%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC's late-year decision to not cut production, touched off the instability. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the "Fed") to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015.

The Large Cap Growth component underperformed the benchmark, the Russell Top 200 Growth Index, due to security selection. Lagging performance in the Financials, Industrials and Health Care sectors was a major detractor from returns. An overweight position in the Information Technology sector aided returns.

The Large Cap Value strategy underperformed its benchmark, the Russell Top 200 Value Index, as security selection hindered returns. Adverse security selection in the Energy, Financials and Health Care sectors was partially offset by positive sector allocations in Energy, Information Technology and Utilities.

The Mid Cap Growth component underperformed the benchmark, the Russell Mid Cap Growth Index, as security selection weighed on performance. The strategy benefited from an underweight allocation in Energy and an overweight position in Health Care, but this was offset by security selection in Industrials and Health Care.

The Mid Cap Value strategy outperformed its benchmark, the Russell Mid Cap Value Index. The outperformance was attributable to security selection as sector allocation detracted from returns. Favourable security selection in the Health Care, Information Technology and Industrials sectors was the biggest contributors to returns, which more than offset adverse security selection in Materials, Energy and Financials.

The Small Cap Core strategy underperformed its benchmark, the Russell 2000 Index, due to sector allocation. Positive security selection in the Consumer Staples, Industrials and Information Technology sectors was more than offset by adverse security selection and an underweight position in the Health Care sector.

Recent Developments

The portfolio manager remains somewhat optimistic about U.S. equity markets in 2015 in an environment of rising corporate earnings, low inflation and falling commodity prices for the foreseeable future. However, valuations for U.S. companies are near fair value, suggesting more moderate equity returns and greater volatility than in recent years. In the view of the portfolio manager, the Fed will have to strike a balance between providing sufficient stimulus to keep the market's momentum in place, while at the same time remaining mindful that the U.S. economy will eventually have to expand with less help from monetary policy. The portfolio manager believes that, with stocks near fair value, stock selection will take on more importance for investors.

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
Related-Party Transactions
Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Sub-Advisor

RBC Global Asset Management (U.S.) Inc. is a sub-advisor of the Fund.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$95,000 (2013 – \$62,000), or 3% (2013 – 3%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**

Investment Management®

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	14.16	0.23	(0.31)	2.25	0.73	2.90	—	—	(1.96)	—	(1.96)	14.95
Dec. 31, 2013	11.35	0.21	(0.28)	1.99	2.38	4.30	—	—	(1.44)	—	(1.44)	14.16
Dec. 31, 2012	11.15	0.22	(0.24)	0.86	0.16	1.00	—	—	(0.83)	—	(0.83)	11.35
Dec. 31, 2011	11.28	0.16	(0.21)	(0.07)	0.01	(0.11)	—	—	—	—	—	11.15
Dec. 31, 2010 ³	10.00 [†]	0.07	(0.10)	0.03	1.11	1.11	—	—	—	—	—	11.28
Advisor Series												
Dec. 31, 2014	14.16	0.23	(0.31)	2.25	0.73	2.90	—	—	(1.96)	—	(1.96)	14.96
Dec. 31, 2013	11.35	0.21	(0.28)	1.99	2.38	4.30	—	—	(1.44)	—	(1.44)	14.16
Dec. 31, 2012	11.15	0.22	(0.24)	0.86	0.16	1.00	—	—	(0.83)	—	(0.83)	11.35
Dec. 31, 2011	11.28	0.16	(0.21)	(0.07)	0.01	(0.11)	—	—	—	—	—	11.15
Dec. 31, 2010 ⁴	10.64 [†]	0.01	(0.02)	0.19	0.20	0.38	—	—	—	—	—	11.28
Series D												
Dec. 31, 2014	14.49	0.24	(0.18)	2.31	0.75	3.12	—	(0.01)	(1.96)	—	(1.97)	15.48
Dec. 31, 2013	11.55	0.21	(0.16)	2.04	2.44	4.53	—	(0.04)	(1.47)	—	(1.51)	14.49
Dec. 31, 2012	11.27	0.23	(0.15)	0.88	0.16	1.12	—	(0.06)	(0.80)	—	(0.86)	11.55
Dec. 31, 2011	11.33	0.16	(0.13)	(0.07)	0.01	(0.03)	—	(0.02)	—	—	(0.02)	11.27
Dec. 31, 2010 ³	10.00 [†]	0.07	(0.06)	0.19	1.11	1.31	—	—	—	—	—	11.33
Series F												
Dec. 31, 2014	14.47	0.24	(0.15)	2.36	0.76	3.21	—	(0.05)	(1.96)	—	(2.01)	15.45
Dec. 31, 2013	11.55	0.21	(0.13)	2.04	2.44	4.56	—	(0.08)	(1.50)	—	(1.58)	14.46
Dec. 31, 2012	11.27	0.22	(0.11)	0.87	0.16	1.14	—	(0.09)	(0.80)	—	(0.89)	11.55
Dec. 31, 2011	11.33	0.16	(0.10)	(0.07)	0.01	—	—	(0.05)	—	—	(0.05)	11.27
Dec. 31, 2010 ³	10.00 [†]	0.07	(0.05)	0.19	1.11	1.32	—	—	—	—	—	11.33
Series O												
Dec. 31, 2014	14.22	0.23	(0.01)	2.27	0.73	3.22	—	(0.20)	(1.96)	—	(2.16)	15.16
Dec. 31, 2013	11.34	0.21	(0.01)	2.01	2.41	4.62	—	(0.21)	(1.45)	—	(1.66)	14.22
Dec. 31, 2012	11.07	0.22	(0.01)	0.86	0.16	1.23	—	(0.20)	(0.79)	—	(0.99)	11.34
Dec. 31, 2011	11.13	0.16	(0.01)	(0.07)	0.01	0.09	—	(0.15)	—	—	(0.15)	11.07
Dec. 31, 2010 ³	10.00 [†]	0.07	—	0.19	1.11	1.37	—	(0.05)	(0.21)	—	(0.26)	11.13

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2010.

⁴ From October 2010.

[†] Initial offering net asset value per unit.

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	14.95	2 271	152	2.02	2.02	165.12	0.17
Dec. 31, 2013	14.16	1 878	133	2.06	2.06	131.57	0.18
Dec. 31, 2012	11.36	638	56	2.00	2.00	152.97	0.25
Dec. 31, 2011	11.16	448	40	1.95	1.95	218.83	0.41
Dec. 31, 2010 ⁴	11.29	156	14	1.94	1.94	125.85	0.31
Advisor Series							
Dec. 31, 2014	14.96	961	64	2.02	2.02	165.12	0.17
Dec. 31, 2013	14.16	782	55	2.06	2.06	131.57	0.18
Dec. 31, 2012	11.36	464	41	2.00	2.00	152.97	0.25
Dec. 31, 2011	11.16	20	2	1.95	1.95	218.83	0.41
Dec. 31, 2010 ⁵	11.29	–	–	1.94	1.94	125.85	0.31
Series D							
Dec. 31, 2014	15.48	20 754	1 341	1.18	1.18	165.12	0.17
Dec. 31, 2013	14.49	14 892	1 027	1.18	1.18	131.57	0.18
Dec. 31, 2012	11.56	7 812	676	1.23	1.23	152.97	0.25
Dec. 31, 2011	11.28	4 131	366	1.20	1.20	218.83	0.41
Dec. 31, 2010 ⁴	11.34	1 371	121	1.16	1.16	125.85	0.31
Series F							
Dec. 31, 2014	15.45	421	27	0.96	0.96	165.12	0.17
Dec. 31, 2013	14.47	940	65	0.93	0.93	131.57	0.18
Dec. 31, 2012	11.56	121	10	0.93	0.93	152.97	0.25
Dec. 31, 2011	11.28	51	5	0.89	0.89	218.83	0.41
Dec. 31, 2010 ⁴	11.34	5	–	0.89	0.89	125.85	0.31
Series O							
Dec. 31, 2014	15.16	2 211 641	145 900	0.06	0.06	165.12	0.17
Dec. 31, 2013	14.22	1 481 832	104 192	0.06	0.06	131.57	0.18
Dec. 31, 2012	11.35	1 053 848	92 832	0.06	0.06	152.97	0.25
Dec. 31, 2011	11.08	871 508	78 660	0.06	0.06	218.83	0.41
Dec. 31, 2010 ⁴	11.14	762 182	68 429	0.05	0.05	125.85	0.31

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2010.

⁵ From October 2010.

PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE ALL-CAP EQUITY FUND

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

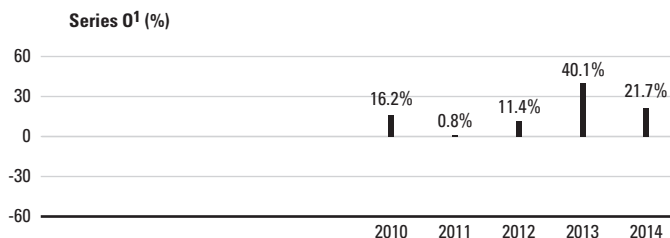
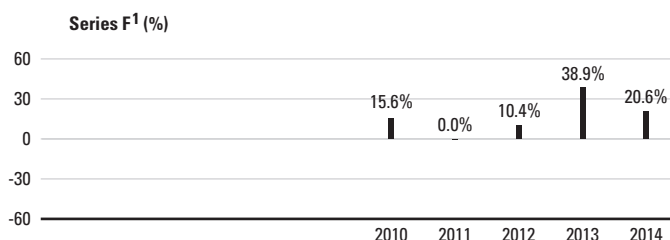
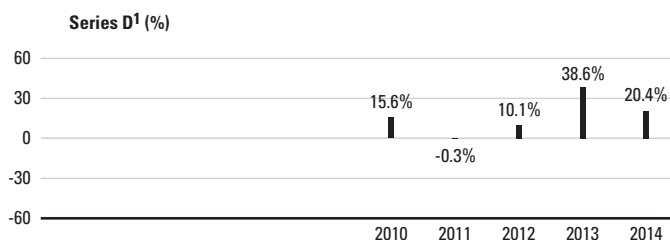
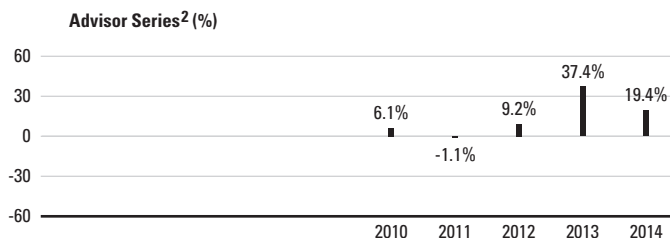
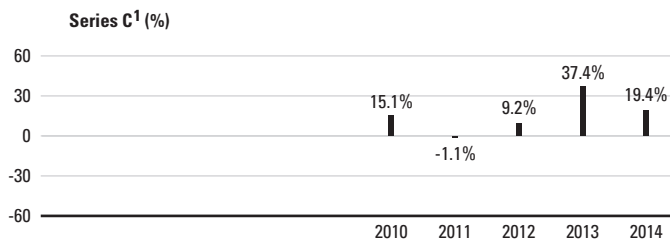
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE
ALL-CAP EQUITY FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

Russell 3000 Total Return Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	19.4	21.5	—	—	17.2
Benchmark	22.7	25.8	—	—	21.5
Advisor Series ²	19.4	21.5	—	—	16.4
Benchmark	22.7	25.8	—	—	20.3
Series D ¹	20.4	22.5	—	—	18.1
Benchmark	22.7	25.8	—	—	21.5
Series F ¹	20.6	22.8	—	—	18.4
Benchmark	22.7	25.8	—	—	21.5
Series O ¹	21.7	23.9	—	—	19.4
Benchmark	22.7	25.8	—	—	21.5

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date June 2010.

² Inception date October 2010.

INDEX DESCRIPTION

Russell 3000 Total Return Index (CAD) This index measures the Canadian dollar performance of the largest 3,000 U.S. companies representing approximately 98% of the U.S. equity market. The index provides a broader barometer of the equity market than the S&P 500 Index.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Information Technology	18.0
Financials	16.8
Industrials	14.4
Health Care	13.9
Consumer Discretionary	13.0
Consumer Staples	7.7
Energy	6.4
Materials	3.8
Utilities	3.3
Telecommunication Services	0.6
Cash/Other	2.1

Top 25 Holdings

	% of Net Asset Value
Apple Inc.	2.5
Cash & Cash Equivalents	2.0
Microsoft Corp.	1.8
Wells Fargo & Company	1.3
The Kroger Co.	1.2
CVS Health Corp.	1.1
Pfizer Inc.	1.0
Exxon Mobil Corp.	1.0
Intel Corp.	1.0
Johnson & Johnson	1.0
Hartford Financial Services Inc.	1.0
JPMorgan Chase & Co.	0.9
Comcast Corp., Class A	0.9
Danaher Corp.	0.9
Lowe's Companies	0.9
Simon Property Group Inc.	0.9
Cigna Corp.	0.8
Honeywell International Inc.	0.8
Citigroup Inc.	0.8
The Walt Disney Company	0.8
Hewlett-Packard Co.	0.8
Medtronic Inc.	0.8
Target Corporation	0.8
BlackRock Inc.	0.8
DTE Energy Company	0.7
Top 25 Holdings	26.5

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH
U.S. EQUITY FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in shares of large-capitalization, high-quality U.S. companies. To achieve the Fund's investment objective, we invest in quality businesses that have a sustainable competitive advantage, a history of profitability, a solid financial position, opportunities for growth, and a capable management team. We place particular emphasis on a company's long-term return on equity, as this measure is a key indicator of a company's ability to consistently generate profits for shareholders. Additional emphasis is placed on a stock's valuation, given the breadth of the U.S. market.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value declined to \$586.9 million as of December 31, 2014, from \$834.9 million at the end of 2013. Of the change, \$139.7 million was due to investment returns, offset by \$387.7 million of net redemptions.

Over the past year, the Fund's Series D units gained 19.5%, which underperformed the benchmark return of 24.3%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

During the reporting period, U.S. equity markets generated solid returns, with each quarter turning in positive returns. The market closed the year at all-time record levels, shrugging off global economic and political worries, as well as the uncertainty of a crashing global oil price.

The leading sectors of the market were Utilities, Health Care and Information Technology. The continuing decline of interest rates continued to fuel the returns from the Utilities group. Health Care benefited from the strength in the biotechnology sector, owing in large part to a robust new product cycle, as well as ongoing mergers and acquisitions. The rebound in Apple and other "old tech" companies contributed to the gains in Information Technology. The lagging groups were Energy and Telecommunication Services. The

Energy group's fortunes reversed with the decline in oil prices that began mid-year; over the first six months of the year, Energy was a leading group but fell dramatically over the fourth quarter with the sharp decline in global energy prices.

For the full year, the most positive contributions to Fund performance were from the portfolio manager's strong stock selection in Industrials and Information Technology. The best relative stock contributions were from the Fund's holdings of Delta Air Lines, American Airlines, Anthem (formerly known as WellPoint), Spirit Airlines and Hewlett-Packard. Detractors from Fund performance came from disappointing stock selection in Energy and Financials. The worst relative stock contributions came from two Energy investments, Apache and Continental Resources.

Overall, the portfolio manager increased the number of holdings in the Fund over the course of the year. The sectors of greatest activity were Energy and Health Care, responding to the significant price changes that occurred among those stocks. The largest initiations for the Fund were DIRECTV, Continental Resources, Gilead Sciences, Public Service Enterprise Group and ConocoPhillips. The portfolio manager also added significantly to existing holdings of Verizon and General Motors, two stocks that have not kept pace with the market over recent periods. The largest eliminations were Chevron, Archer Daniels Midland, Spirit Airlines, Waters and Valero Energy. Significant reductions were made to Berkshire Hathaway and Anthem. Both of these reductions were related to valuation and the availability of better opportunities in other companies.

Recent Developments

The portfolio manager expects the U.S. equity markets to generate reasonable returns over the year, but with markets at all-time highs and valuation in "neutral" territory it may be difficult. However, these factors may be offset by the combination of low interest rates and energy prices which are definitive tailwinds for the U.S. economy at large.

The companies in the Fund's portfolio have the opportunity to build value through a combination of capital expenditures, share repurchase and dividend increases. The portfolio manager's focus is on companies that maintain financial flexibility, have the ability to drive above-average long-term growth, employ a shareholder-friendly approach to capital management and trade at favourable valuations compared to the market.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$7,000 (2013 – \$173,000), or 1% (2013 – 21%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	43.64	0.86	(0.97)	10.86	(2.88)	7.87	—	(0.19)	—	—	(0.19)	51.52
Dec. 31, 2013	31.76	0.62	(0.77)	5.49	6.60	11.94	—	—	—	—	—	43.63
Dec. 31, 2012	29.40	0.60	(0.62)	0.39	2.07	2.44	—	—	—	—	—	31.76
Dec. 31, 2011	29.22	0.49	(0.56)	(2.33)	2.50	0.10	—	—	—	—	—	29.40
Dec. 31, 2010	27.71	0.51	(0.54)	(1.36)	2.83	1.44	—	—	—	—	—	29.22
Advisor Series												
Dec. 31, 2014	43.64	0.86	(0.97)	10.86	(2.88)	7.87	—	(0.19)	—	—	(0.19)	51.52
Dec. 31, 2013	31.76	0.62	(0.78)	5.45	6.55	11.84	—	—	—	—	—	43.64
Dec. 31, 2012	29.40	0.60	(0.62)	0.39	2.07	2.44	—	—	—	—	—	31.76
Dec. 31, 2011	29.22	0.49	(0.56)	(2.33)	2.50	0.10	—	—	—	—	—	29.40
Dec. 31, 2010 ³	28.02 [†]	0.09	(0.09)	(0.23)	0.47	0.24	—	—	—	—	—	29.22
Series D												
Dec. 31, 2014	43.42	0.85	(0.56)	10.76	(2.85)	8.20	—	(0.63)	—	—	(0.63)	51.27
Dec. 31, 2013	31.59	0.61	(0.44)	5.38	6.48	12.03	—	(0.36)	—	—	(0.36)	43.42
Dec. 31, 2012	29.20	0.59	(0.37)	0.38	2.05	2.65	—	(0.21)	—	—	(0.21)	31.59
Dec. 31, 2011	28.98	0.49	(0.33)	(2.32)	2.49	0.33	—	(0.21)	—	—	(0.21)	29.20
Dec. 31, 2010	27.44	0.51	(0.32)	(1.35)	2.80	1.64	—	(0.20)	—	—	(0.20)	28.98
Series F												
Dec. 31, 2014	43.62	0.85	(0.45)	10.79	(2.86)	8.33	—	(0.76)	—	—	(0.76)	51.51
Dec. 31, 2013	31.72	0.63	(0.36)	5.52	6.64	12.43	—	(0.44)	—	—	(0.44)	43.62
Dec. 31, 2012	29.32	0.59	(0.29)	0.38	2.06	2.74	—	(0.29)	—	—	(0.29)	31.72
Dec. 31, 2011	29.10	0.49	(0.26)	(2.33)	2.50	0.40	—	(0.29)	—	—	(0.29)	29.32
Dec. 31, 2010	27.56	0.51	(0.25)	(1.36)	2.81	1.71	—	(0.28)	—	—	(0.28)	29.10
Series O												
Dec. 31, 2014	44.10	0.83	(0.01)	10.48	(2.78)	8.52	—	(1.25)	—	—	(1.25)	52.07
Dec. 31, 2013	32.07	0.63	(0.01)	5.50	6.61	12.73	—	(0.86)	—	—	(0.86)	44.09
Dec. 31, 2012	29.65	0.60	(0.01)	0.39	2.09	3.07	—	(0.60)	—	—	(0.60)	32.07
Dec. 31, 2011	29.42	0.50	(0.01)	(2.37)	2.54	0.66	—	(0.57)	—	—	(0.57)	29.65
Dec. 31, 2010	27.88	0.52	(0.01)	(1.37)	2.85	1.99	—	(0.57)	—	—	(0.57)	29.42

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	51.52	4 259	83	2.06	2.06	38.62	0.07
Dec. 31, 2013	43.64	3 501	80	2.06	2.06	40.87	0.09
Dec. 31, 2012	31.77	2 915	92	2.02	2.02	34.35	0.08
Dec. 31, 2011	29.42	2 298	78	2.07	2.07	49.36	0.08
Dec. 31, 2010	29.23	947	32	2.01	2.01	40.42	0.12
Advisor Series							
Dec. 31, 2014	51.52	1 815	35	2.06	2.06	38.62	0.07
Dec. 31, 2013	43.64	1 504	34	2.06	2.06	40.87	0.09
Dec. 31, 2012	31.77	1 005	32	2.02	2.02	34.35	0.08
Dec. 31, 2011	29.42	710	24	2.07	2.07	49.36	0.08
Dec. 31, 2010 ⁴	29.23	–	–	2.01	2.01	40.42	0.12
Series D							
Dec. 31, 2014	51.27	139 838	2 727	1.18	1.18	38.62	0.07
Dec. 31, 2013	43.42	130 937	3 015	1.19	1.19	40.87	0.09
Dec. 31, 2012	31.60	162 958	5 157	1.22	1.22	34.35	0.08
Dec. 31, 2011	29.22	186 942	6 398	1.22	1.22	49.36	0.08
Dec. 31, 2010	28.99	190 716	6 579	1.19	1.19	40.42	0.12
Series F							
Dec. 31, 2014	51.51	2 293	45	0.94	0.94	38.62	0.07
Dec. 31, 2013	43.62	1 844	42	0.95	0.95	40.87	0.09
Dec. 31, 2012	31.73	1 412	44	0.95	0.95	34.35	0.08
Dec. 31, 2011	29.33	1 410	48	0.95	0.95	49.36	0.08
Dec. 31, 2010	29.10	1 321	45	0.92	0.92	40.42	0.12
Series O							
Dec. 31, 2014	52.07	438 672	8 425	0.02	0.02	38.62	0.07
Dec. 31, 2013	44.10	697 065	15 806	0.02	0.02	40.87	0.09
Dec. 31, 2012	32.08	731 423	22 798	0.02	0.02	34.35	0.08
Dec. 31, 2011	29.66	766 923	25 857	0.02	0.02	49.36	0.08
Dec. 31, 2010	29.43	764 872	25 988	0.02	0.02	40.42	0.12

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

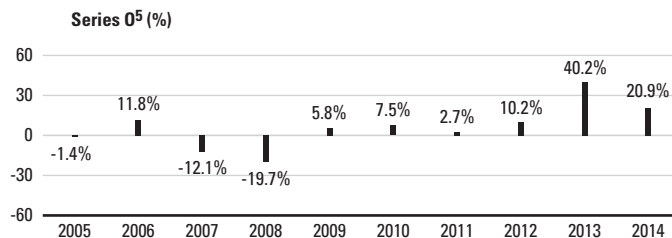
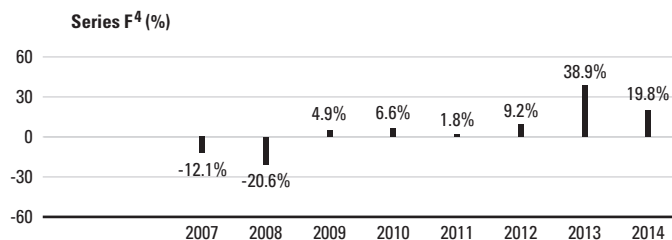
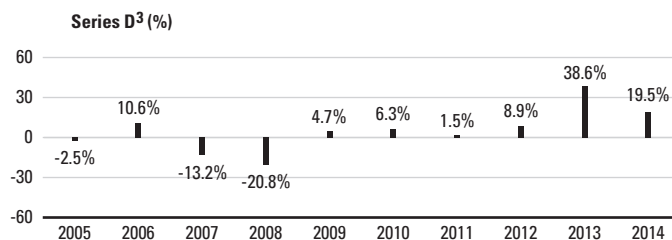
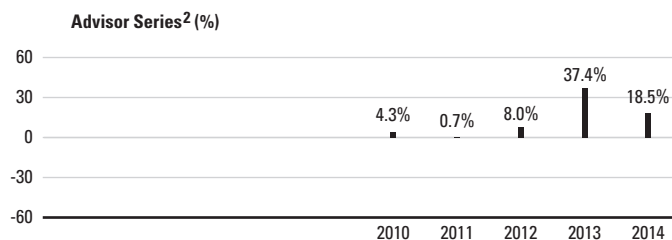
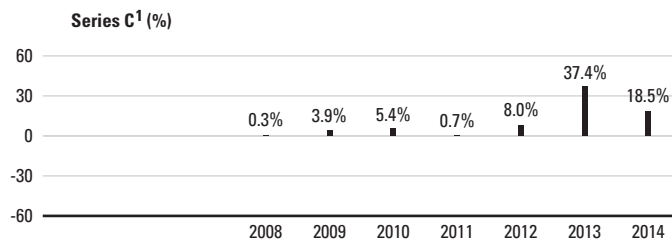
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P 500 Total Return Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	18.5	20.7	13.3	–	11.5
Benchmark	24.3	25.8	17.8	–	15.9
Advisor Series ²	18.5	20.7	–	–	15.8
Benchmark	24.3	25.8	–	–	20.4
Series D ³	19.5	21.7	14.2	4.2	–
Benchmark	24.3	25.8	17.8	7.3	–
Series F ⁴	19.8	22.0	14.5	–	5.0
Benchmark	24.3	25.8	17.8	–	7.8
Series O ⁵	20.9	23.1	15.6	5.4	–
Benchmark	24.3	25.8	17.8	7.3	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date September 1964.

⁴ Inception date June 2007.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P 500 Total Return Index (CAD) This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	21.7
Information Technology	18.2
Health Care	14.6
Industrials	12.9
Consumer Discretionary	9.6
Energy	7.8
Consumer Staples	7.0
Utilities	2.8
Telecommunication Services	1.8
Materials	1.4
Cash/Other	2.2

Top 25 Holdings

	% of Net Asset Value
Apple Inc.	4.4
Wells Fargo & Company	4.0
Johnson & Johnson	4.0
United Technologies Corp.	3.5
Oracle Corporation	3.4
JPMorgan Chase & Co.	3.2
Bank of America Corp.	2.9
Wal-Mart Stores, Inc.	2.7
Emerson Electric Co.	2.6
PepsiCo Inc.	2.5
Becton Dickinson & Co.	2.4
Apache Corp.	2.4
Raytheon Company	2.3
Microsoft Corp.	2.3
Berkshire Hathaway Inc., Class B	2.3
Cash & Cash Equivalents	2.2
Gilead Sciences Inc.	2.2
Aflac Inc.	2.0
General Motors Co.	2.0
Public Service Enterprise Group	2.0
Medtronic Inc.	1.9
Verizon Communications Inc.	1.8
Delta Air Lines Inc.	1.8
Cisco Systems Inc.	1.8
QUALCOMM Inc.	1.8
Top 25 Holdings	64.4

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH
CURRENCY-HEDGED U.S. EQUITY FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with significant long-term capital growth primarily through exposure to a well-diversified portfolio of large-capitalization, high-quality U.S. companies, while minimizing currency risk. To achieve the Fund's investment objective, we invest primarily in units of the Phillips, Hager & North U.S. Equity Fund ("the Underlying Fund"), as well as derivative instruments that are used to hedge against fluctuations in the value of the U.S. dollar relative to the Canadian dollar.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value declined to \$43.3 million as of December 31, 2014, from \$92.5 million at the end of 2013. Of the change, \$6.8 million was due to investment returns, offset by \$56.0 million of net redemptions.

Over the past year, the Fund's Series D units gained 10.0%, which underperformed the benchmark return of 14.3%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

During the reporting period, U.S. equity markets generated solid returns, with each quarter turning in positive returns. The market closed the year at all-time record levels, shrugging off global economic and political worries, as well as the uncertainty of a crashing global oil price.

The leading sectors of the market were Utilities, Health Care and Information Technology. The continuing decline of interest rates continued to fuel the returns from the Utilities group. Health Care benefited from the strength in the biotechnology sector, owing in large part to a robust new product cycle, as well as ongoing mergers and acquisitions. The rebound in Apple and other "old tech" companies contributed to the gains in Information Technology. The lagging groups were Energy and Telecommunication Services. The Energy group's fortunes reversed with the decline in oil prices that began mid-year; over the first six months of the year, Energy was a leading group but fell dramatically over the fourth quarter with the sharp decline in global energy prices.

For the full year, the most positive contributions to Fund performance were from the portfolio manager's strong stock selection in Industrials and Information Technology. The best relative stock contributions were from the Fund's holdings of Delta Air Lines, American Airlines, Anthem (formerly known as WellPoint), Spirit Airlines and Hewlett-Packard. Detractors from Fund performance came from disappointing stock selection in Energy and Financials. The worst relative stock contributions came from two Energy investments, Apache and Continental Resources.

Overall, the portfolio manager increased the number of holdings in the Fund over the course of the year. The sectors of greatest activity were Energy and Health Care, responding to the significant price changes that occurred among those stocks. The largest initiations for the Fund were DIRECTV, Continental Resources, Gilead Sciences, Public Service Enterprise Group and ConocoPhillips. The portfolio manager also added significantly to existing holdings of Verizon and General Motors, two stocks that have not kept pace with the market over recent periods. The largest eliminations were Chevron, Archer Daniels Midland, Spirit Airlines, Waters and Valero Energy. Significant reductions were made to Berkshire Hathaway and Anthem. Both of these reductions were related to valuation and the availability of better opportunities in other companies.

The Fund's currency-hedging strategy had a negative effect on performance.

Recent Developments

The portfolio manager expects the U.S. equity markets to generate reasonable returns over the year, but with markets at all-time highs and valuation in "neutral" territory it may be difficult. However, these factors may be offset by the combination of low interest rates and energy prices which are definitive tailwinds for the U.S. economy at large.

The companies in the Fund's portfolio have the opportunity to build value through a combination of capital expenditures, share repurchase and dividend increases. The portfolio manager's focus is on companies that maintain financial flexibility, have the ability to drive above-average long-term growth, employ a shareholder-friendly approach to capital management and trade at favourable valuations compared to the market.

Related-Party Transactions**Manager and Portfolio Advisor**

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	9.66	0.17	(0.20)	2.89	(1.92)	0.94	—	(0.03)	—	—	(0.03)	10.50
Dec. 31, 2013	7.47	0.11	(0.18)	1.35	1.02	2.30	—	—	—	—	—	9.66
Dec. 31, 2012	7.00	0.13	(0.15)	0.79	0.09	0.86	—	—	(0.30)	—	(0.30)	7.47
Dec. 31, 2011	7.12	0.12	(0.14)	0.17	(0.22)	(0.07)	—	—	(0.01)	—	(0.01)	7.00
Dec. 31, 2010	6.64	0.13	(0.13)	0.35	0.33	0.68	—	—	(0.17)	—	(0.17)	7.12
Advisor Series												
Dec. 31, 2014	9.66	0.17	(0.20)	2.88	(1.91)	0.94	—	(0.04)	—	—	(0.04)	10.50
Dec. 31, 2013	7.47	0.12	(0.18)	1.39	1.06	2.39	—	—	—	—	—	9.66
Dec. 31, 2012	7.00	0.13	(0.15)	0.79	0.09	0.86	—	—	(0.30)	—	(0.30)	7.47
Dec. 31, 2011	7.12	0.12	(0.14)	0.17	(0.22)	(0.07)	—	—	(0.01)	—	(0.01)	7.00
Dec. 31, 2010 ³	6.83 [†]	0.02	(0.02)	0.06	0.06	0.12	—	—	(0.17)	—	(0.17)	7.12
Series D												
Dec. 31, 2014	9.60	0.17	(0.12)	2.84	(1.88)	1.01	—	(0.12)	—	—	(0.12)	10.44
Dec. 31, 2013	7.41	0.10	(0.10)	1.21	0.92	2.13	—	(0.06)	—	—	(0.06)	9.60
Dec. 31, 2012	6.92	0.12	(0.09)	0.76	0.08	0.87	—	(0.04)	(0.30)	—	(0.34)	7.41
Dec. 31, 2011	7.02	0.12	(0.08)	0.17	(0.21)	—	—	(0.04)	(0.01)	—	(0.05)	6.92
Dec. 31, 2010	6.55	0.13	(0.08)	0.34	0.33	0.72	—	(0.05)	(0.17)	—	(0.22)	7.02
Series F												
Dec. 31, 2014	9.68	0.17	(0.10)	2.86	(1.89)	1.04	—	(0.15)	—	—	(0.15)	10.53
Dec. 31, 2013	7.47	0.11	(0.08)	1.28	0.97	2.28	—	(0.09)	—	—	(0.09)	9.68
Dec. 31, 2012	6.97	0.13	(0.07)	0.78	0.09	0.93	—	(0.06)	(0.30)	—	(0.36)	7.47
Dec. 31, 2011	7.07	0.12	(0.06)	0.17	(0.22)	0.01	—	(0.06)	(0.01)	—	(0.07)	6.97
Dec. 31, 2010	6.61	0.13	(0.06)	0.34	0.33	0.74	—	(0.07)	(0.17)	—	(0.24)	7.07
Series O												
Dec. 31, 2014	9.70	0.15	(0.01)	2.61	(1.73)	1.02	—	(0.23)	—	—	(0.23)	10.55
Dec. 31, 2013	7.48	0.10	(0.01)	1.21	0.92	2.22	—	(0.17)	—	—	(0.17)	9.70
Dec. 31, 2012	6.99	0.13	(0.01)	0.78	0.09	0.99	—	(0.12)	(0.30)	—	(0.42)	7.48
Dec. 31, 2011	7.09	0.12	(0.01)	0.17	(0.22)	0.06	—	(0.12)	(0.01)	—	(0.13)	6.99
Dec. 31, 2010	6.61	0.13	(0.01)	0.35	0.33	0.80	—	(0.13)	(0.17)	—	(0.30)	7.09

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	10.50	1 677	160	2.05	2.05	11.12	0.07
Dec. 31, 2013	9.66	1 759	182	2.07	2.07	51.30	0.09
Dec. 31, 2012	7.47	1 436	192	2.09	2.09	25.25	0.08
Dec. 31, 2011	7.00	813	116	2.10	2.10	24.49	0.08
Dec. 31, 2010	7.12	536	75	2.03	2.03	21.46	0.12
Advisor Series							
Dec. 31, 2014	10.50	639	61	2.05	2.05	11.12	0.07
Dec. 31, 2013	9.66	668	69	2.07	2.07	51.30	0.09
Dec. 31, 2012	7.47	206	28	2.09	2.09	25.25	0.08
Dec. 31, 2011	7.00	146	21	2.10	2.10	24.49	0.08
Dec. 31, 2010 ⁴	7.12	–	–	2.03	2.03	21.46	0.12
Series D							
Dec. 31, 2014	10.44	7 896	756	1.21	1.21	11.12	0.07
Dec. 31, 2013	9.60	10 308	1 074	1.22	1.22	51.30	0.09
Dec. 31, 2012	7.41	23 313	3 148	1.25	1.25	25.25	0.08
Dec. 31, 2011	6.92	42 322	6 118	1.25	1.25	24.49	0.08
Dec. 31, 2010	7.02	69 691	9 928	1.19	1.19	21.46	0.12
Series F							
Dec. 31, 2014	10.53	776	74	0.96	0.96	11.12	0.07
Dec. 31, 2013	9.68	926	96	0.97	0.97	51.30	0.09
Dec. 31, 2012	7.47	1 229	165	0.98	0.98	25.25	0.08
Dec. 31, 2011	6.97	1 191	171	0.98	0.98	24.49	0.08
Dec. 31, 2010	7.07	1 323	187	0.93	0.93	21.46	0.12
Series O							
Dec. 31, 2014	10.55	32 305	3 062	0.13	0.13	11.12	0.07
Dec. 31, 2013	9.70	78 801	8 124	0.13	0.13	51.30	0.09
Dec. 31, 2012	7.48	76 256	10 190	0.14	0.14	25.25	0.08
Dec. 31, 2011	6.99	82 513	11 812	0.14	0.14	24.49	0.08
Dec. 31, 2010	7.09	85 345	12 040	0.11	0.11	21.46	0.12

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

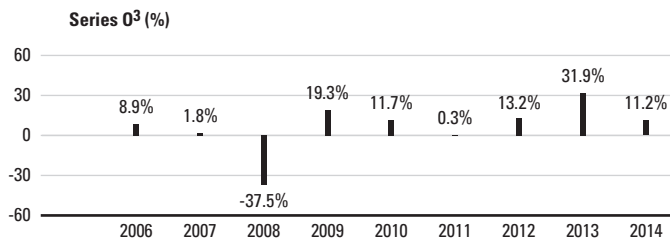
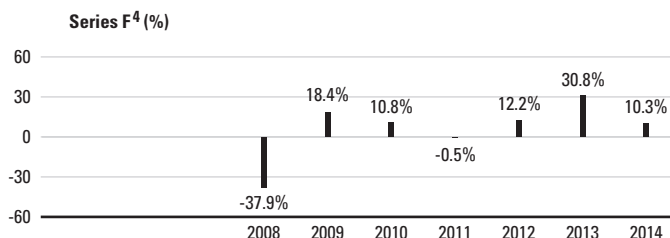
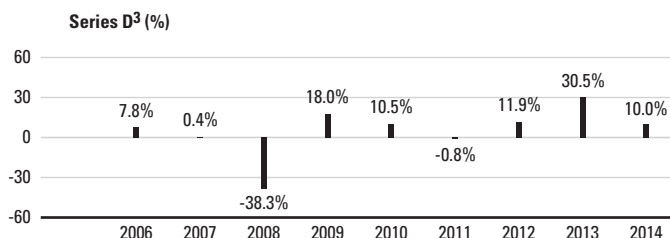
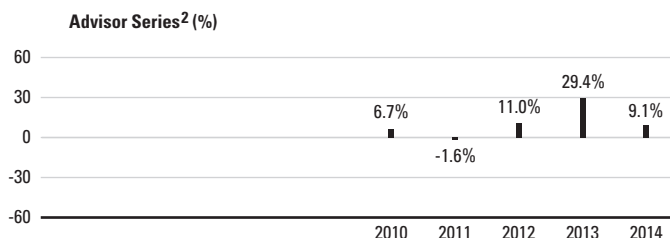
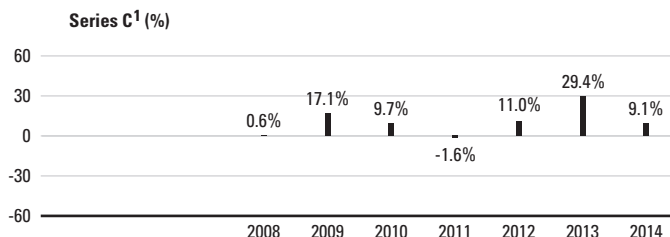
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
U.S. EQUITY FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P 500 Total Return Index (hedged to CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	9.1	16.1	11.1	—	12.0
Benchmark	14.3	21.0	15.4	—	16.8
Advisor Series ²	9.1	16.1	—	—	12.7
Benchmark	14.3	21.0	—	—	17.0
Series D ³	10.0	17.1	12.0	—	3.9
Benchmark	14.3	21.0	15.4	—	7.2
Series F ⁴	10.3	17.4	12.3	—	4.0
Benchmark	14.3	21.0	15.4	—	6.5
Series O ³	11.2	18.4	13.2	—	5.2
Benchmark	14.3	21.0	15.4	—	7.2

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date June 2006.

⁴ Inception date December 2007.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P 500 Total Return Index (hedged to CAD) This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market and is hedged to Canadian dollars.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	22.4
Information Technology	18.9
Health Care	15.2
Industrials	13.4
Consumer Discretionary	10.0
Energy	8.1
Consumer Staples	7.3
Utilities	2.9
Telecommunication Services	1.9
Materials	1.5
Cash/Other	-1.6

Top 25 Holdings*

	% of Net Asset Value
Apple Inc.	4.4
Wells Fargo & Company	4.0
Johnson & Johnson	4.0
United Technologies Corp.	3.5
Oracle Corporation	3.4
JPMorgan Chase & Co.	3.2
Bank of America Corp.	2.9
Wal-Mart Stores, Inc.	2.7
Emerson Electric Co.	2.6
PepsiCo Inc.	2.5
Becton Dickinson & Co.	2.4
Apache Corp.	2.4
Raytheon Company	2.3
Microsoft Corp.	2.3
Berkshire Hathaway Inc., Class B	2.3
Cash & Cash Equivalents	2.2
Gilead Sciences Inc.	2.2
Aflac Inc.	2.0
General Motors Co.	2.0
Public Service Enterprise Group	2.0
Medtronic Inc.	1.9
Verizon Communications Inc.	1.8
Delta Air Lines Inc.	1.8
Cisco Systems Inc.	1.8
QUALCOMM Inc.	1.8
Top 25 Holdings	64.4

* The Fund invests substantially all of its assets directly in the Phillips, Hager & North U.S. Equity Fund. The above are the Top 25 holdings of the Phillips, Hager & North U.S. Equity Fund.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH
U.S. GROWTH FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of shares of large-capitalization, high-quality North American companies, with an emphasis on U.S. stocks. Where applicable, Canadian and Mexican securities that possess particularly attractive fundamentals will be added to the portfolio. However, the Fund's assets are primarily allocated to U.S. securities. To achieve the Fund's investment objective, we invest in businesses that we believe have a sustainable competitive advantage, promising growth opportunities, a history of profitability, a solid financial position, and a capable management team.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$121.9 million as of December 31, 2014, from \$112.5 million at the end of 2013. Of the change, \$19.8 million was due to investment returns, offset by \$10.3 million of net redemptions.

Over the past year, the Fund's Series D units gained 17.7%, which underperformed the benchmark return of 24.3%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

During the reporting period, U.S. equity markets generated solid returns, with each quarter turning in positive returns. The market closed the year at all-time record levels, shrugging off global economic and political worries, as well as the uncertainty of a crashing global oil price.

The leading sectors of the market were Utilities, Health Care and Information Technology. The continuing decline of interest rates continued to fuel the returns from the Utilities group. Health Care benefited from the strength in the biotechnology sector, owing in large part to a robust new product cycle, as well as ongoing mergers and acquisitions. The rebound in Apple and other "old tech" companies contributed to the gains in Information Technology. The lagging groups were Energy and Telecommunication Services. The Energy group's fortunes reversed with the decline in oil prices that began mid-year; over the first six months of the year, Energy was a

leading group but fell dramatically over the fourth quarter with the sharp decline in global energy prices.

For the year to date, the most positive relative contributions to performance came from the Fund's strong stock selection in Consumer Discretionary. The best relative stock contributions were from the Fund's holdings of Spirit Airlines, United Insurance Holdings, Becton Dickinson, Centene and Celgene. Detractors from Fund performance came from stock selection in Energy and Information Technology. The worst relative stock contributions came from Continental Resources and Geospace Technologies, two energy investments.

Overall, the portfolio manager significantly increased the number of holdings in the Fund over the course of the year. The sectors of greatest activity were Health Care and Financials, reflecting attractive valuations in both biotechnology and smaller, higher-growth banks. The largest initiations were Continental Resources, Gilead Sciences, DIRECTV, Panera Bread and Advance Auto Parts. The portfolio manager also added significantly to existing holdings of Schlumberger and Seagate Technology. The largest eliminations were Waters, DIRECTV (sold on its acquisition by AT&T), Nucor, Multimedia Games and Skyworks Solutions. Significant reductions were made to Varian Medical and General Electric, the former because of valuation and the latter due to declining growth prospects.

Recent Developments

The portfolio manager expects the U.S. equity markets to generate reasonable returns over the year, but with markets at all-time highs and valuation in "neutral" territory it may be difficult. However, these factors may be offset by the combination of low interest rates and energy prices which are definitive tailwinds for the U.S. economy at large.

The companies in the Fund's portfolio have the opportunity to build value through a combination of capital expenditures, share repurchases and dividend increases. The portfolio manager's focus is on companies that have an above-average ability to grow both organically and through acquisition, and trade at favourable valuations compared to the market.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$1,000 (2013 – \$26,000), or 2% (2013 – 48%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	16.08	0.19	(0.34)	2.34	0.49	2.68	—	—	—	—	—	18.79
Dec. 31, 2013	11.62	0.18	(0.27)	1.21	3.35	4.47	—	—	—	—	—	16.07
Dec. 31, 2012	10.81	0.19	(0.23)	(0.17)	1.03	0.82	—	—	—	—	—	11.62
Dec. 31, 2011	10.92	0.15	(0.21)	(0.51)	0.44	(0.13)	—	—	—	—	—	10.81
Dec. 31, 2010	10.24	0.17	(0.20)	(0.19)	0.90	0.68	—	—	—	—	—	10.92
Advisor Series												
Dec. 31, 2014	16.08	0.19	(0.34)	2.34	0.49	2.68	—	—	—	—	—	18.78
Dec. 31, 2013	11.62	0.17	(0.28)	1.17	3.26	4.32	—	—	—	—	—	16.08
Dec. 31, 2012	10.81	0.19	(0.23)	(0.17)	1.03	0.82	—	—	—	—	—	11.62
Dec. 31, 2011	10.92	0.15	(0.21)	(0.51)	0.44	(0.13)	—	—	—	—	—	10.81
Dec. 31, 2010 ³	10.56 [†]	0.03	(0.03)	(0.03)	0.15	0.12	—	—	—	—	—	10.92
Series D												
Dec. 31, 2014	16.29	0.20	(0.21)	2.38	0.50	2.87	—	—	—	—	—	19.18
Dec. 31, 2013	11.70	0.18	(0.16)	1.21	3.36	4.59	—	(0.03)	—	—	(0.03)	16.29
Dec. 31, 2012	10.82	0.19	(0.14)	(0.17)	1.02	0.90	—	(0.03)	—	—	(0.03)	11.70
Dec. 31, 2011	10.90	0.16	(0.12)	(0.52)	0.44	(0.04)	—	(0.04)	—	—	(0.04)	10.82
Dec. 31, 2010	10.15	0.17	(0.12)	(0.19)	0.90	0.76	—	(0.02)	—	—	(0.02)	10.90
Series F												
Dec. 31, 2014	16.47	0.20	(0.17)	2.41	0.50	2.94	—	(0.03)	—	—	(0.03)	19.41
Dec. 31, 2013	11.83	0.18	(0.13)	1.23	3.42	4.70	—	(0.07)	—	—	(0.07)	16.47
Dec. 31, 2012	10.94	0.19	(0.11)	(0.17)	1.04	0.95	—	(0.06)	—	—	(0.06)	11.83
Dec. 31, 2011	11.01	0.16	(0.10)	(0.52)	0.45	(0.01)	—	(0.07)	—	—	(0.07)	10.94
Dec. 31, 2010	10.26	0.17	(0.09)	(0.19)	0.90	0.79	—	(0.05)	—	—	(0.05)	11.01
Series O												
Dec. 31, 2014	16.63	0.20	(0.01)	2.45	0.51	3.15	—	(0.20)	—	—	(0.20)	19.60
Dec. 31, 2013	11.95	0.18	(0.01)	1.26	3.48	4.91	—	(0.21)	—	—	(0.21)	16.63
Dec. 31, 2012	11.05	0.19	(0.01)	(0.17)	1.06	1.07	—	(0.16)	—	—	(0.16)	11.95
Dec. 31, 2011	11.12	0.16	(0.01)	(0.53)	0.45	0.07	—	(0.17)	—	—	(0.17)	11.05
Dec. 31, 2010	10.36	0.17	(0.01)	(0.19)	0.92	0.89	—	(0.15)	—	—	(0.15)	11.12

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	18.79	2 171	116	1.97	1.97	42.63	0.06
Dec. 31, 2013	16.08	2 007	125	2.00	2.00	18.69	0.05
Dec. 31, 2012	11.62	1 460	126	2.03	2.03	28.53	0.07
Dec. 31, 2011	10.81	495	46	2.00	2.00	29.47	0.06
Dec. 31, 2010	10.93	332	30	1.98	1.98	38.82	0.09
Advisor Series							
Dec. 31, 2014	18.78	281	15	1.97	1.97	42.63	0.06
Dec. 31, 2013	16.08	274	17	2.00	2.00	18.69	0.05
Dec. 31, 2012	11.62	185	16	2.03	2.03	28.53	0.07
Dec. 31, 2011	10.81	93	9	2.00	2.00	29.47	0.06
Dec. 31, 2010 ⁴	10.93	–	–	1.98	1.98	38.82	0.09
Series D							
Dec. 31, 2014	19.18	37 146	1 936	1.18	1.18	42.63	0.06
Dec. 31, 2013	16.29	34 628	2 125	1.18	1.18	18.69	0.05
Dec. 31, 2012	11.71	45 053	3 848	1.22	1.22	28.53	0.07
Dec. 31, 2011	10.83	56 550	5 222	1.22	1.22	29.47	0.06
Dec. 31, 2010	10.90	49 817	4 571	1.19	1.19	38.82	0.09
Series F							
Dec. 31, 2014	19.41	536	28	0.95	0.95	42.63	0.06
Dec. 31, 2013	16.47	430	26	0.94	0.94	18.69	0.05
Dec. 31, 2012	11.83	389	33	0.94	0.94	28.53	0.07
Dec. 31, 2011	10.94	366	33	0.96	0.96	29.47	0.06
Dec. 31, 2010	11.01	330	30	0.93	0.93	38.82	0.09
Series O							
Dec. 31, 2014	19.60	81 811	4 174	0.08	0.08	42.63	0.06
Dec. 31, 2013	16.63	75 114	4 516	0.08	0.08	18.69	0.05
Dec. 31, 2012	11.95	51 567	4 314	0.08	0.08	28.53	0.07
Dec. 31, 2011	11.05	47 454	4 293	0.08	0.08	29.47	0.06
Dec. 31, 2010	11.12	39 796	3 578	0.08	0.08	38.82	0.09

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

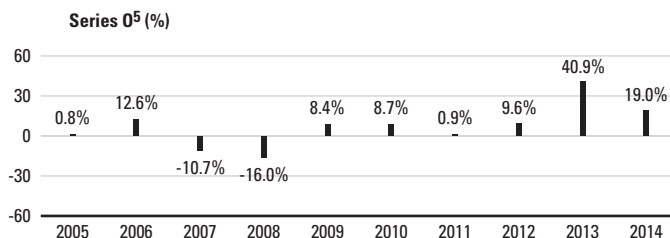
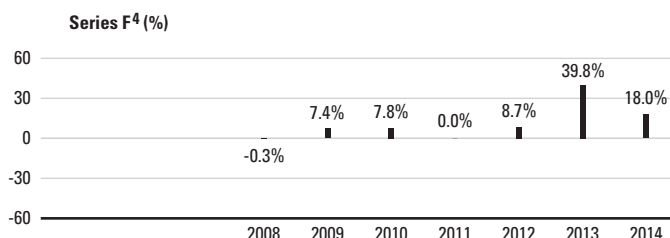
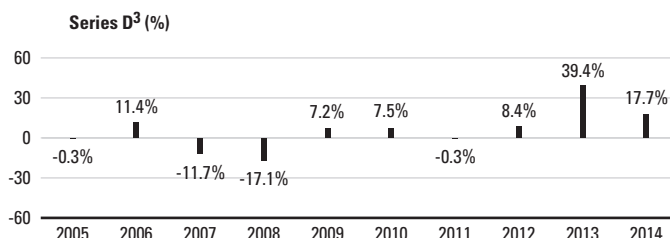
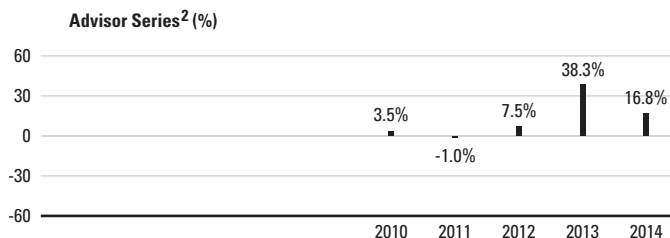
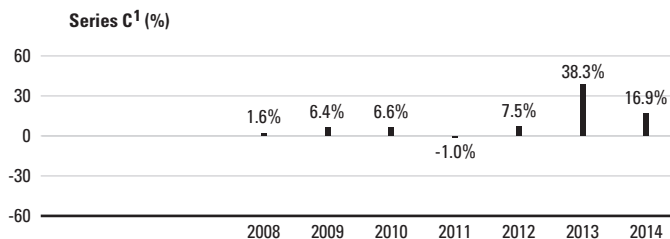
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P 500 Total Return Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	16.9	20.2	12.9	—	11.9
Benchmark	24.3	25.8	17.8	—	15.9
Advisor Series ²	16.8	20.2	—	—	14.8
Benchmark	24.3	25.8	—	—	20.4
Series D ³	17.7	21.2	13.8	5.2	—
Benchmark	24.3	25.8	17.8	7.3	—
Series F ⁴	18.0	21.5	14.1	—	12.5
Benchmark	24.3	25.8	17.8	—	14.8
Series O ⁵	19.0	22.5	15.1	6.4	—
Benchmark	24.3	25.8	17.8	7.3	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date September 1992.

⁴ Inception date October 2008.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P 500 Total Return Index (CAD) This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Information Technology	26.2
Health Care	18.1
Financials	17.8
Industrials	11.9
Consumer Discretionary	9.2
Energy	8.8
Consumer Staples	5.3
Utilities	1.1
Cash/Other	1.6

Top 25 Holdings

	% of Net Asset Value
Apple Inc.	4.8
Wells Fargo & Company	4.6
Becton Dickinson & Co.	4.2
Johnson & Johnson	4.0
United Technologies Corp.	3.9
Gilead Sciences Inc.	3.6
Oracle Corporation	3.5
PepsiCo Inc.	3.4
McGraw Hill Financial Inc.	3.0
QUALCOMM Inc.	2.9
Cognizant Technology Solutions Corp., Class A	2.7
Microsoft Corp.	2.4
Advance Auto Parts Inc.	2.3
Seagate Technology	2.2
Panera Bread Company	2.2
First Republic Bank	2.1
Schlumberger Ltd.	2.1
Google Inc., Class A	2.0
Google Inc., Class C	2.0
Generac Holdings Inc.	2.0
FMC Technologies Inc.	1.8
Ross Stores Inc.	1.8
United Insurance Holdings Corp.	1.8
Continental Resources Inc.	1.7
Bank of the Ozarks Inc.	1.7
Top 25 Holdings	68.7

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH
OVERSEAS EQUITY FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

Sub-Advisor: RBC Global Asset Management (UK) Limited

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing in common stocks in companies located in countries outside North America, including countries in Europe, the Far East (including Japan), and Australia. To achieve the Fund's investment objective, we invest in companies that are attractively valued, possess sound fundamentals and have a strong market position.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value fell to \$810.9 million as of December 31, 2014, from \$1.0 billion at the end of 2013. The change was due mostly to net redemptions.

Over the past year, the Fund's Series D units rose 4.8%, which outperformed the 3.7% rise in the benchmark. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Global markets made steady progress over the first six months of 2014 as the economic recovery became more robust. Economic reforms in Europe and moves by the Japanese government to raise productivity all contributed to a strengthening backdrop. In reaction, stocks generally rose during the first half of the year. However, a number of issues emerged in the second half of 2014 to challenge this consensus, including the spread of the Ebola virus in West Africa and an armed conflict in Ukraine. More recently, buoyant harvests and lower fuel prices, which in theory are good news for consumers, led to fears that deflation could imperil the recovery by prompting consumers to defer spending. In this environment, stocks proved less able to cope, and the second half was characterized by increased volatility.

On August 11, 2014, the portfolio-management responsibilities for the Fund were transitioned to RBC Global Asset Management (UK) Limited and its London-based global equity team.

The Fund's top-performing sectors in 2014 were Consumer Discretionary, Energy and Telecommunication Services. The worst-performing sectors were Health Care, Materials and Utilities.

Portfolio stocks that performed best in 2014 were ASML, Nippon Telegraph & Telephone and Liberty Global. The portfolio stocks that performed worst were GlaxoSmithKline, Oil Search and Rio Tinto.

Recent Developments

Investors have enjoyed a strong stock-market rebound in recent years, characterized by unusually low volatility. The conditions that have led to this situation – loose monetary policies, low interest rates and improving consumer sentiment – remain largely in place. However, other considerations may soon challenge the prevailing economic consensus. For example, the recent fall in the price of oil will benefit some countries and penalize others, while rising U.S. interest rates will likely lead to a stronger U.S. dollar, posing problems for emerging markets whose currencies are pegged to the U.S. dollar.

At the corporate level, the sub-advisor continues to see attractive investment opportunities, and is focused on finding companies with strong competitive advantages and prospects that are under-appreciated by the market.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Sub-Advisor

RBC Global Asset Management (UK) Limited is the sub-advisor and provides investment advice for the Fund.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$68,000 (2013 – \$0), or 2% (2013 – 0%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	11.21	0.40	(0.26)	2.22	(1.90)	0.46	—	(0.21)	—	—	(0.21)	11.44
Dec. 31, 2013	9.15	0.30	(0.22)	0.47	1.55	2.10	—	(0.09)	—	—	(0.09)	11.21
Dec. 31, 2012	7.97	0.28	(0.19)	(0.86)	2.06	1.29	—	(0.10)	—	—	(0.10)	9.15
Dec. 31, 2011	10.36	0.37	(0.20)	(0.42)	(1.94)	(2.19)	—	(0.21)	—	—	(0.21)	7.97
Dec. 31, 2010	10.12	0.29	(0.20)	0.63	(0.39)	0.33	—	(0.04)	—	—	(0.04)	10.36
Advisor Series												
Dec. 31, 2014	11.21	0.40	(0.26)	2.22	(1.90)	0.46	—	(0.21)	—	—	(0.21)	11.44
Dec. 31, 2013	9.15	0.29	(0.22)	0.46	1.54	2.07	—	(0.09)	—	—	(0.09)	11.21
Dec. 31, 2012	7.97	0.28	(0.19)	(0.86)	2.06	1.29	—	(0.10)	—	—	(0.10)	9.15
Dec. 31, 2011	10.36	0.37	(0.20)	(0.42)	(1.94)	(2.19)	—	(0.21)	—	—	(0.21)	7.97
Dec. 31, 2010 ³	10.48 [†]	0.05	(0.03)	0.10	(0.06)	0.06	—	(0.04)	—	—	(0.04)	10.36
Series D												
Dec. 31, 2014	11.13	0.40	(0.15)	2.21	(1.90)	0.56	—	(0.31)	—	—	(0.31)	11.35
Dec. 31, 2013	9.08	0.29	(0.13)	0.46	1.54	2.16	—	(0.18)	—	—	(0.18)	11.13
Dec. 31, 2012	7.91	0.28	(0.12)	(0.86)	2.05	1.35	—	(0.17)	—	—	(0.17)	9.08
Dec. 31, 2011	10.29	0.37	(0.13)	(0.42)	(1.94)	(2.12)	—	(0.28)	—	—	(0.28)	7.91
Dec. 31, 2010	10.06	0.29	(0.13)	0.63	(0.39)	0.40	—	(0.13)	—	—	(0.13)	10.29
Series F												
Dec. 31, 2014	10.61	0.38	(0.12)	2.10	(1.80)	0.56	—	(0.32)	—	—	(0.32)	10.83
Dec. 31, 2013	8.66	0.28	(0.11)	0.45	1.48	2.10	—	(0.20)	—	—	(0.20)	10.61
Dec. 31, 2012	7.55	0.27	(0.09)	(0.82)	2.06	1.42	—	(0.19)	—	—	(0.19)	8.66
Dec. 31, 2011	9.81	0.36	(0.09)	(0.40)	(1.85)	(1.98)	—	(0.29)	—	—	(0.29)	7.55
Dec. 31, 2010	9.59	0.28	(0.10)	0.60	(0.37)	0.41	—	(0.15)	—	—	(0.15)	9.81
Series O												
Dec. 31, 2014	11.35	0.40	(0.01)	2.24	(1.93)	0.70	—	(0.47)	—	—	(0.47)	11.58
Dec. 31, 2013	9.27	0.30	(0.01)	0.48	1.59	2.36	—	(0.32)	—	—	(0.32)	11.35
Dec. 31, 2012	8.08	0.29	(0.01)	(0.88)	2.10	1.50	—	(0.30)	—	—	(0.30)	9.27
Dec. 31, 2011	10.50	0.38	(0.01)	(0.43)	(1.99)	(2.05)	—	(0.40)	—	—	(0.40)	8.08
Dec. 31, 2010	10.27	0.30	(0.01)	0.64	(0.40)	0.53	—	(0.27)	—	—	(0.27)	10.50

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	11.44	3 100	271	2.22	2.22	146.70	0.42
Dec. 31, 2013	11.21	3 406	304	2.22	2.22	87.75	0.39
Dec. 31, 2012	9.15	2 862	313	2.21	2.21	87.82	0.38
Dec. 31, 2011	7.97	2 433	305	2.21	2.21	65.57	0.34
Dec. 31, 2010	10.36	1 765	170	2.16	2.16	76.17	0.34
Advisor Series							
Dec. 31, 2014	11.44	1 017	89	2.22	2.22	146.70	0.42
Dec. 31, 2013	11.21	1 143	102	2.22	2.22	87.75	0.39
Dec. 31, 2012	9.15	578	63	2.21	2.21	87.82	0.38
Dec. 31, 2011	7.97	522	65	2.21	2.21	65.57	0.34
Dec. 31, 2010 ⁴	10.36	42	4	2.16	2.16	76.17	0.34
Series D							
Dec. 31, 2014	11.35	149 793	13 194	1.34	1.34	146.70	0.42
Dec. 31, 2013	11.13	159 035	14 294	1.35	1.35	87.75	0.39
Dec. 31, 2012	9.08	186 156	20 501	1.39	1.39	87.82	0.38
Dec. 31, 2011	7.92	213 563	26 982	1.39	1.39	65.57	0.34
Dec. 31, 2010	10.29	316 624	30 758	1.35	1.35	76.17	0.34
Series F							
Dec. 31, 2014	10.83	3 371	311	1.13	1.13	146.70	0.42
Dec. 31, 2013	10.61	4 178	394	1.13	1.13	87.75	0.39
Dec. 31, 2012	8.66	3 292	380	1.11	1.11	87.82	0.38
Dec. 31, 2011	7.55	3 931	521	1.10	1.10	65.57	0.34
Dec. 31, 2010	9.81	4 385	447	1.08	1.08	76.17	0.34
Series O							
Dec. 31, 2014	11.58	653 668	56 427	0.09	0.09	146.70	0.42
Dec. 31, 2013	11.35	868 969	76 537	0.09	0.09	87.75	0.39
Dec. 31, 2012	9.27	754 074	81 370	0.09	0.09	87.82	0.38
Dec. 31, 2011	8.08	615 435	76 209	0.09	0.09	65.57	0.34
Dec. 31, 2010	10.51	730 600	69 548	0.09	0.09	76.17	0.34

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.85%	54%	46%
Advisor Series	1.85%	54%	46%
Series D	1.10%	23%	77%
Series F	0.85%	—	100%

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

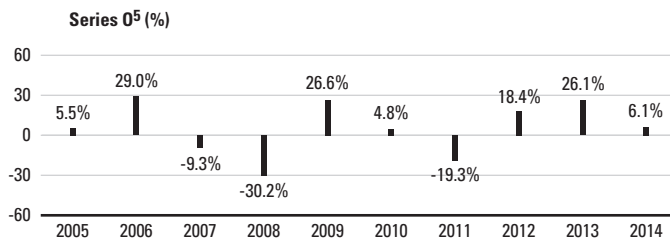
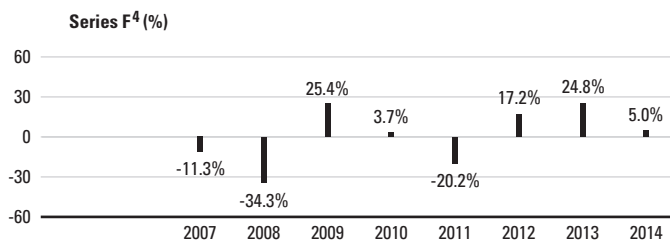
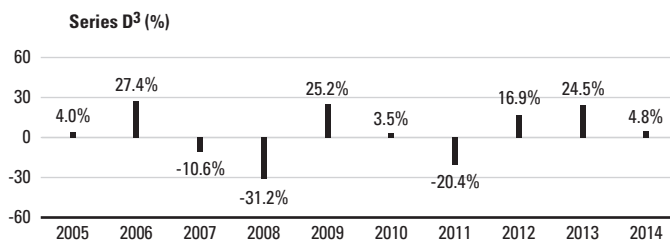
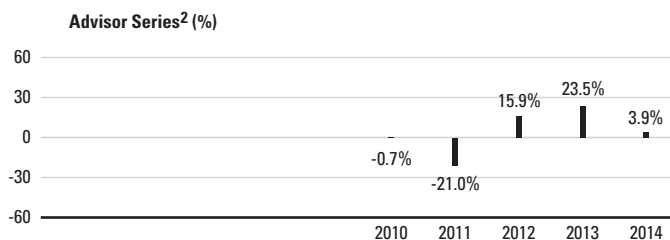
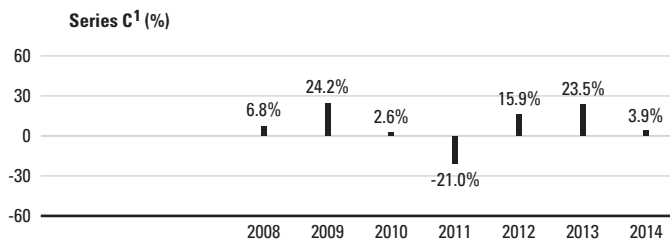
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

MSCI EAFE Total Return Net Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	3.9	14.2	3.8	—	8.0
Benchmark	3.7	15.9	7.5	—	9.0
Advisor Series ²	3.9	14.1	—	—	3.8
Benchmark	3.7	15.9	—	—	8.6
Series D ³	4.8	15.1	4.7	2.5	—
Benchmark	3.7	15.9	7.5	4.1	—
Series F ⁴	5.0	15.4	4.9	—	-0.9
Benchmark	3.7	15.9	7.5	—	0.7
Series O ⁵	6.1	16.6	6.0	3.9	—
Benchmark	3.7	15.9	7.5	4.1	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date December 2000.

⁴ Inception date June 2007.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

MSCI EAFE Total Return Net Index (CAD) This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix – Sectors

	% of Net Asset Value
Financials	27.0
Consumer Discretionary	17.0
Industrials	13.5
Health Care	11.5
Consumer Staples	10.4
Information Technology	7.0
Materials	6.9
Energy	4.3
Telecommunication Services	1.2
Cash/Other	1.2

Investment Mix – Countries/Regions

	% of Net Asset Value
Europe ex-U.K. Equities	44.4
U.K. Equities	19.7
Japan Equities	16.5
Pacific Rim ex-Japan Equities	14.6
Middle East & Africa Equities	3.6
Cash/Other	1.2

Top 25 Holdings

	% of Net Asset Value
Deutsche Post AG	4.4
InBev N.V.	4.3
Toyota Motor Corp.	4.3
Roche Holdings AG Genussscheine	4.1
Safran S.A.	3.9
AIA Group Ltd.	3.8
Naspers Ltd.	3.6
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3.6
Continental AG	3.2
SMC Corp.	3.2
ASML Holding N.V.	3.1
Lloyds TSB Group Plc.	3.0
Santen Pharmaceutical Co. Ltd.	3.0
BNP Paribas S.A.	2.9
UBS Group AG	2.8
Royal Dutch Shell Plc., B Shares	2.7
Liberty Global Plc.	2.7
HDFC Bank Ltd. ADR	2.6
Aryzta AG	2.5
Svenska Cellulosa AB	2.4
Rio Tinto Plc.	2.4
St James's Place Plc.	2.4
Kasikornbank PCL	2.4
Astellas Pharma Inc.	2.3
Syngenta AG	2.2
Top 25 Holdings	77.8

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH
CURRENCY-HEDGED OVERSEAS
EQUITY FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth primarily through exposure to a diversified portfolio of companies located in countries outside North America, including countries in Europe, the Far East (including Japan), and Australia, while minimizing fluctuations in the value of foreign currencies relative to the Canadian dollar. To achieve the Fund's investment objective, we invest primarily in units of the Phillips, Hager & North Overseas Equity Fund (the "Underlying Fund"), as well as derivative instruments that are used to hedge against fluctuations in the value of foreign currencies relative to the Canadian dollar.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value fell to \$134.5 million as of December 31, 2014, from \$195.7 million at the end of 2013. Of the change, \$9.8 million was due to investment returns, offset by \$71.0 million of net redemptions.

Over the past year, the Fund's Series D units rose 6.0%, which underperformed the benchmark return of 6.5%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Global markets made steady progress over the first six months of 2014 as the economic recovery became more robust. Economic reforms in Europe and moves by the Japanese government to raise productivity all contributed to a strengthening backdrop. In reaction, stocks generally rose during the first half of the year. However, a number of issues emerged in the second half of 2014 to challenge this consensus, including the spread of the Ebola virus in West Africa and an armed conflict in Ukraine. More recently, buoyant harvests and lower fuel prices, which in theory are good news for consumers, led to fears that deflation could imperil the recovery by prompting consumers to defer spending. In this environment, stocks proved less able to cope, and the second half was characterized by increased volatility.

On August 11, 2014, the portfolio-management responsibilities for the Underlying Fund were transitioned to RBC Global Asset Management (UK) Limited and its London-based global equity team.

The Underlying Fund's top-performing sectors in 2014 were Consumer Discretionary, Energy and Telecommunication Services. The worst-performing sectors were Health Care, Materials and Utilities.

Portfolio stocks that performed best in 2014 were ASML, Nippon Telegraph & Telephone and Liberty Global. The portfolio stocks that performed worst were GlaxoSmithKline, Oil Search and Rio Tinto.

The Fund's currency-hedging strategy had a positive effect on performance during the reporting period.

Recent Developments

Investors have enjoyed a strong stock-market rebound in recent years, characterized by unusually low volatility. The conditions that have led to this situation – loose monetary policies, low interest rates and improving consumer sentiment – remain largely in place. However, other considerations may soon challenge the prevailing economic consensus. For example, the recent fall in the price of oil will benefit some countries and penalize others, while rising U.S. interest rates will likely lead to a stronger U.S. dollar, posing problems for emerging markets whose currencies are pegged to the U.S. dollar.

At the corporate level, the Fund continues to see attractive investment opportunities, and is focused on finding companies with strong competitive advantages and prospects that are under-appreciated by the market.

Related-Party Transactions
Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND*****Registrars***

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors (“BoG”) in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	8.89	0.30	(0.20)	0.84	(0.55)	0.39	—	(0.15)	(0.09)	—	(0.24)	9.10
Dec. 31, 2013	7.59	0.20	(0.18)	0.09	1.22	1.33	—	(0.06)	—	—	(0.06)	8.89
Dec. 31, 2012	6.59	0.26	(0.16)	0.19	1.00	1.29	—	(0.07)	(0.16)	—	(0.23)	7.59
Dec. 31, 2011	8.72	0.35	(0.16)	(0.32)	(1.86)	(1.99)	—	(0.16)	—	—	(0.16)	6.59
Dec. 31, 2010	8.22	0.24	(0.17)	0.56	0.05	0.68	—	(0.03)	(0.04)	—	(0.07)	8.72
Advisor Series												
Dec. 31, 2014	8.89	0.30	(0.20)	0.84	(0.55)	0.39	—	(0.15)	(0.09)	—	(0.24)	9.10
Dec. 31, 2013	7.59	0.20	(0.18)	0.09	1.21	1.32	—	(0.06)	—	—	(0.06)	8.89
Dec. 31, 2012	6.59	0.26	(0.16)	0.19	1.00	1.29	—	(0.07)	(0.16)	—	(0.23)	7.59
Dec. 31, 2011	8.72	0.35	(0.16)	(0.32)	(1.86)	(1.99)	—	(0.16)	—	—	(0.16)	6.59
Dec. 31, 2010 ³	8.53 [†]	0.04	(0.03)	0.09	0.01	0.11	—	(0.03)	(0.04)	—	(0.07)	8.72
Series D												
Dec. 31, 2014	8.64	0.29	(0.12)	0.82	(0.54)	0.45	—	(0.22)	(0.09)	—	(0.31)	8.84
Dec. 31, 2013	7.37	0.19	(0.11)	0.09	1.16	1.33	—	(0.13)	—	—	(0.13)	8.64
Dec. 31, 2012	6.41	0.25	(0.10)	0.18	0.98	1.31	—	(0.13)	(0.16)	—	(0.29)	7.37
Dec. 31, 2011	8.49	0.34	(0.10)	(0.31)	(1.84)	(1.91)	—	(0.21)	—	—	(0.21)	6.41
Dec. 31, 2010	8.01	0.24	(0.11)	0.56	0.05	0.74	—	(0.10)	(0.04)	—	(0.14)	8.49
Series F												
Dec. 31, 2014	8.72	0.29	(0.10)	0.82	(0.54)	0.47	—	(0.25)	(0.09)	—	(0.34)	8.93
Dec. 31, 2013	7.44	0.20	(0.09)	0.09	1.22	1.42	—	(0.15)	—	—	(0.15)	8.72
Dec. 31, 2012	6.46	0.25	(0.08)	0.19	0.99	1.35	—	(0.16)	(0.16)	—	(0.32)	7.44
Dec. 31, 2011	8.56	0.34	(0.08)	(0.31)	(1.84)	(1.89)	—	(0.23)	—	—	(0.23)	6.46
Dec. 31, 2010	8.08	0.24	(0.08)	0.56	0.05	0.77	—	(0.13)	(0.04)	—	(0.17)	8.56
Series O												
Dec. 31, 2014	8.76	0.30	(0.01)	0.82	(0.54)	0.57	—	(0.34)	(0.09)	—	(0.43)	8.96
Dec. 31, 2013	7.47	0.20	(0.01)	0.09	1.21	1.49	—	(0.23)	—	—	(0.23)	8.76
Dec. 31, 2012	6.49	0.26	(0.01)	0.19	0.99	1.43	—	(0.23)	(0.16)	—	(0.39)	7.47
Dec. 31, 2011	8.60	0.34	(0.01)	(0.32)	(1.86)	(1.85)	—	(0.30)	—	—	(0.30)	6.49
Dec. 31, 2010	8.12	0.24	(0.01)	0.56	0.05	0.84	—	(0.21)	(0.04)	—	(0.25)	8.60

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	9.10	606	67	2.31	2.31	11.71	0.42
Dec. 31, 2013	8.89	690	78	2.31	2.31	15.31	0.40
Dec. 31, 2012	7.59	774	102	2.32	2.32	26.95	0.38
Dec. 31, 2011	6.59	474	72	2.30	2.30	22.35	0.34
Dec. 31, 2010	8.72	369	42	2.24	2.24	20.15	0.34
Advisor Series							
Dec. 31, 2014	9.10	111	12	2.30	2.30	11.71	0.42
Dec. 31, 2013	8.89	176	20	2.31	2.31	15.31	0.40
Dec. 31, 2012	7.59	62	8	2.32	2.32	26.95	0.38
Dec. 31, 2011	6.59	11	2	2.30	2.30	22.35	0.34
Dec. 31, 2010 ⁴	8.72	–	–	2.24	2.24	20.15	0.34
Series D							
Dec. 31, 2014	8.84	11 692	1 322	1.44	1.44	11.71	0.42
Dec. 31, 2013	8.64	14 496	1 678	1.45	1.45	15.31	0.40
Dec. 31, 2012	7.37	35 554	4 822	1.48	1.48	26.95	0.38
Dec. 31, 2011	6.41	42 109	6 573	1.48	1.48	22.35	0.34
Dec. 31, 2010	8.49	59 969	7 067	1.44	1.44	20.15	0.34
Series F							
Dec. 31, 2014	8.93	700	78	1.20	1.20	11.71	0.42
Dec. 31, 2013	8.72	1 042	119	1.18	1.18	15.31	0.40
Dec. 31, 2012	7.44	827	111	1.18	1.18	26.95	0.38
Dec. 31, 2011	6.46	794	123	1.21	1.21	22.35	0.34
Dec. 31, 2010	8.56	626	73	1.17	1.17	20.15	0.34
Series O							
Dec. 31, 2014	8.96	121 375	13 542	0.25	0.25	11.71	0.42
Dec. 31, 2013	8.76	179 288	20 476	0.24	0.24	15.31	0.40
Dec. 31, 2012	7.47	187 165	25 054	0.25	0.25	26.95	0.38
Dec. 31, 2011	6.49	142 835	22 010	0.25	0.25	22.35	0.34
Dec. 31, 2010	8.60	143 589	16 697	0.24	0.24	20.15	0.34

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

PHILLIPS, HAGER & NORTH CURRENCY-HEDGED OVERSEAS EQUITY FUND

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.85%	54%	46%
Advisor Series	1.85%	54%	46%
Series D	1.10%	23%	77%
Series F	0.85%	—	100%

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

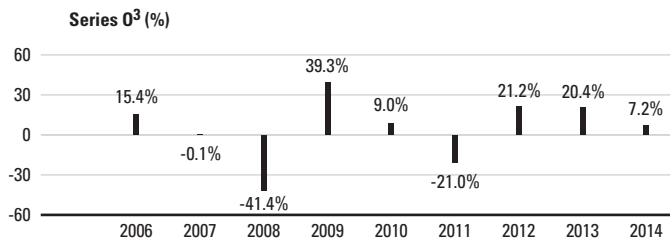
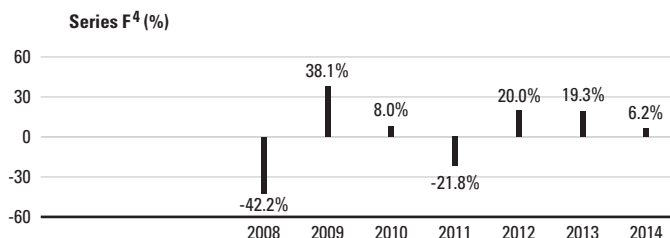
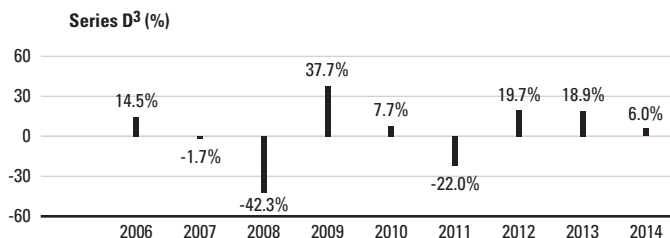
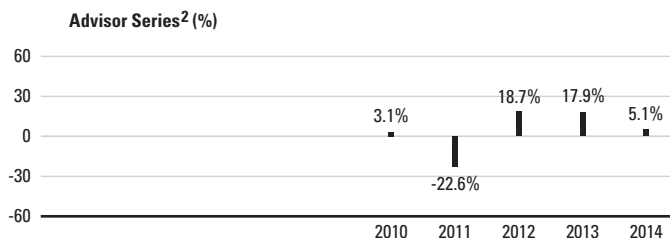
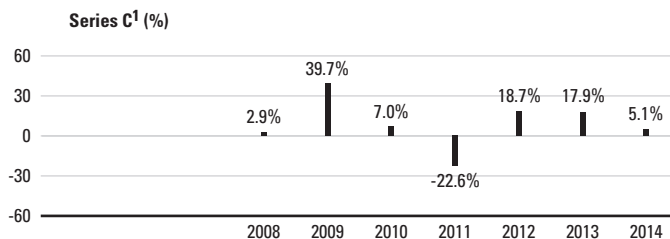
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

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Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

MSCI EAFE Total Return Net Index (hedged to CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	5.1	13.7	4.0	—	9.6
Benchmark	6.5	16.8	7.9	—	10.5
Advisor Series ²	5.1	13.7	—	—	3.9
Benchmark	6.5	16.8	—	—	9.4
Series D ³	6.0	14.7	4.9	—	1.5
Benchmark	6.5	16.8	7.9	—	2.5
Series F ⁴	6.2	15.0	5.1	—	0.4
Benchmark	6.5	16.8	7.9	—	0.7
Series O ³	7.2	16.1	6.1	—	2.8
Benchmark	6.5	16.8	7.9	—	2.5

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date June 2006.

⁴ Inception date December 2007.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

MSCI EAFE Total Return Net Index (hedged to CAD) This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The index is hedged to Canadian dollars.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix – Sectors

	% of Net Asset Value
Financials	27.2
Consumer Discretionary	17.1
Industrials	13.6
Health Care	11.5
Consumer Staples	10.4
Information Technology	7.0
Materials	6.9
Energy	4.3
Telecommunication Services	1.2
Cash/Other	0.8

Investment Mix – Countries/Regions

	% of Net Asset Value
Europe ex-U.K. Equities	44.0
U.K. Equities	19.6
Japan Equities	16.4
Pacific Rim ex-Japan Equities	14.5
Middle East & Africa Equities	3.6
Cash/Other	1.9

Top 25 Holdings*

	% of Net Asset Value
Deutsche Post AG	4.4
InBev N.V.	4.3
Toyota Motor Corp.	4.3
Roche Holdings AG Genussscheine	4.1
Safran S.A.	3.9
AIA Group Ltd.	3.8
Naspers Ltd.	3.6
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3.6
Continental AG	3.2
SMC Corp.	3.2
ASML Holding N.V.	3.1
Lloyds TSB Group Plc.	3.0
Santen Pharmaceutical Co. Ltd.	3.0
BNP Paribas S.A.	2.9
UBS Group AG	2.8
Royal Dutch Shell Plc., B Shares	2.7
Liberty Global Plc.	2.7
HDFC Bank Ltd. ADR	2.6
Aryzta AG	2.5
Svenska Cellulosa AB	2.4
Rio Tinto Plc.	2.4
St James's Place Plc.	2.4
Kasikornbank PCL	2.4
Astellas Pharma Inc.	2.3
Syngenta AG	2.2
Top 25 Holdings	77.8

* The Fund invests substantially all of its assets directly in the Phillips, Hager & North Overseas Equity Fund. The above are the Top 25 holdings of the Phillips, Hager & North Overseas Equity Fund.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly, and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

GLOBAL EQUITY FUND

**PHILLIPS, HAGER & NORTH
GLOBAL EQUITY FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

Sub-Advisor: RBC Global Asset Management (UK) Limited

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in common stocks of companies in the world's largest industrialized countries outside Canada, including the United States and countries in Europe, the Far East (including Japan), and Australia. We invest primarily in companies that we believe have sound fundamentals, a strong market position, a history of profitability, a capable management team, and attractive valuations. To achieve the Fund's investment objective, we invest a significant portion or even all of the net asset value of the Fund in other funds managed by RBC GAM where the investment is consistent with the investment objectives and strategies of the Fund.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value fell to \$90.1 million as of December 31, 2014, from \$96.3 million at the end of 2013. The change was due to \$21.2 million of net redemptions, offset by \$14.9 million of investment returns.

Over the past year, the Fund's Series D units rose 16.2%, which outperformed the 14.4% rise in the benchmark. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Global markets made steady progress over the first six months of 2014 as the economic recovery became more robust. Economic reforms in Europe and moves by the Japanese government to raise productivity all contributed to a strengthening backdrop. In reaction, stocks generally rose during the first half of the year. However, a number of issues emerged in the second half of 2014 to challenge this consensus, including the spread of the Ebola virus in West Africa and an armed conflict in Ukraine. More recently, buoyant harvests and lower fuel prices, which in theory are good news for consumers, led to fears that deflation could imperil the recovery by prompting consumers to defer spending. In this environment, stocks proved less able to cope, and the second half was characterized by increased volatility.

The Fund's top-performing sectors in 2014 were Energy, Health Care and Information Technology. The worst-performing sectors were Materials, Utilities and Consumer Staples.

Portfolio stocks that performed best in 2014 were TJX, Amgen and UnitedHealth. The portfolio stocks that performed worst were LyondellBasell Industries, Occidental Petroleum and Anadarko.

On August 11, 2014, the portfolio-management responsibilities for the Fund were transitioned to RBC Global Asset Management (UK) Limited and its London-based global equity team.

Recent Developments

Investors have enjoyed a strong stock-market rebound in recent years, characterized by unusually low volatility. The conditions that have led to this situation – loose monetary policies, low interest rates and improving consumer sentiment – remain largely in place. However, other considerations may soon challenge the prevailing economic consensus. For example, the recent fall in the price of oil will benefit some countries and penalize others, while rising U.S. interest rates will likely lead to a stronger U.S. dollar, posing problems for emerging markets whose currencies are pegged to the U.S. dollar.

At the corporate level, the sub-advisor continues to see attractive investment opportunities, and is focused on finding companies with strong competitive advantages and prospects that are underappreciated by the market.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Sub-Advisor

RBC Global Asset Management (UK) Limited is the sub-advisor and provides investment advice for the Fund.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$3,000 (2013 – \$0), or 3% (2013 – 0%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	10.25	0.06	(0.22)	3.01	(1.28)	1.57	—	—	—	—	—	11.82
Dec. 31, 2013	7.90	0.24	(0.19)	0.53	1.88	2.46	—	(0.07)	—	—	(0.07)	10.25
Dec. 31, 2012	7.13	0.21	(0.16)	(0.05)	0.86	0.86	—	(0.06)	—	—	(0.06)	7.90
Dec. 31, 2011	8.21	0.30	(0.15)	(0.31)	(0.74)	(0.90)	—	(0.23)	—	—	(0.23)	7.13
Dec. 31, 2010	7.87	0.21	(0.15)	0.28	0.03	0.37	—	(0.03)	—	—	(0.03)	8.21
Advisor Series												
Dec. 31, 2014	10.25	0.06	(0.22)	3.00	(1.27)	1.57	—	—	—	—	—	11.82
Dec. 31, 2013	7.90	0.23	(0.19)	0.52	1.86	2.42	—	(0.07)	—	—	(0.07)	10.25
Dec. 31, 2012	7.13	0.21	(0.16)	(0.05)	0.86	0.86	—	(0.06)	—	—	(0.06)	7.90
Dec. 31, 2011	8.21	0.30	(0.15)	(0.31)	(0.74)	(0.90)	—	(0.23)	—	—	(0.23)	7.13
Dec. 31, 2010 ³	8.10 [†]	0.03	(0.03)	0.05	0.01	0.06	—	(0.03)	—	—	(0.03)	8.21
Series D												
Dec. 31, 2014	10.27	0.06	(0.13)	3.02	(1.28)	1.67	—	—	—	—	—	11.94
Dec. 31, 2013	7.92	0.23	(0.11)	0.52	1.86	2.50	—	(0.15)	—	—	(0.15)	10.27
Dec. 31, 2012	7.15	0.21	(0.09)	(0.05)	0.87	0.94	—	(0.13)	—	—	(0.13)	7.92
Dec. 31, 2011	8.23	0.30	(0.09)	(0.31)	(0.74)	(0.84)	—	(0.30)	—	—	(0.30)	7.15
Dec. 31, 2010	7.89	0.21	(0.09)	0.28	0.03	0.43	—	(0.11)	—	—	(0.11)	8.23
Series F												
Dec. 31, 2014	10.38	0.06	(0.11)	3.08	(1.31)	1.72	—	—	—	—	—	12.10
Dec. 31, 2013	8.00	0.24	(0.09)	0.53	1.91	2.59	—	(0.17)	—	—	(0.17)	10.38
Dec. 31, 2012	7.22	0.21	(0.07)	(0.05)	0.88	0.97	—	(0.16)	—	—	(0.16)	8.00
Dec. 31, 2011	8.31	0.31	(0.07)	(0.32)	(0.75)	(0.83)	—	(0.32)	—	—	(0.32)	7.22
Dec. 31, 2010	7.97	0.21	(0.07)	0.29	0.03	0.46	—	(0.13)	—	—	(0.13)	8.31
Series O												
Dec. 31, 2014	10.43	0.06	(0.01)	3.08	(1.31)	1.82	—	—	—	—	—	12.26
Dec. 31, 2013	8.04	0.23	(0.01)	0.52	1.87	2.61	—	(0.27)	—	—	(0.27)	10.43
Dec. 31, 2012	7.26	0.22	(0.01)	(0.05)	0.89	1.05	—	(0.23)	—	—	(0.23)	8.04
Dec. 31, 2011	8.36	0.30	(0.01)	(0.31)	(0.73)	(0.75)	—	(0.39)	—	—	(0.39)	7.26
Dec. 31, 2010	8.02	0.21	(0.01)	0.29	0.03	0.52	—	(0.21)	—	—	(0.21)	8.36

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	11.82	3 640	308	2.09	2.09	131.52	0.28
Dec. 31, 2013	10.25	2 921	285	2.12	2.12	15.07	0.24
Dec. 31, 2012	7.90	1 840	233	2.14	2.14	16.15	0.22
Dec. 31, 2011	7.13	1 582	222	2.16	2.16	218.65	0.12
Dec. 31, 2010	8.21	1 835	223	2.07	2.07	66.87	0.23
Advisor Series							
Dec. 31, 2014	11.82	879	74	2.09	2.09	131.52	0.28
Dec. 31, 2013	10.25	637	62	2.12	2.12	15.07	0.24
Dec. 31, 2012	7.90	267	34	2.14	2.14	16.15	0.22
Dec. 31, 2011	7.13	122	17	2.16	2.16	218.65	0.12
Dec. 31, 2010 ⁴	8.21	–	–	2.07	2.07	66.87	0.23
Series D							
Dec. 31, 2014	11.94	36 737	3 076	1.22	1.22	131.52	0.28
Dec. 31, 2013	10.27	34 029	3 312	1.26	1.26	15.07	0.24
Dec. 31, 2012	7.92	34 301	4 333	1.28	1.28	16.15	0.22
Dec. 31, 2011	7.15	36 198	5 065	1.30	1.30	218.65	0.12
Dec. 31, 2010	8.24	47 857	5 811	1.24	1.24	66.87	0.23
Series F							
Dec. 31, 2014	12.10	435	36	0.97	0.97	131.52	0.28
Dec. 31, 2013	10.38	207	20	1.01	1.01	15.07	0.24
Dec. 31, 2012	8.00	152	19	0.97	0.97	16.15	0.22
Dec. 31, 2011	7.22	156	22	1.00	1.00	218.65	0.12
Dec. 31, 2010	8.32	172	21	0.99	0.99	66.87	0.23
Series O							
Dec. 31, 2014	12.26	48 282	3 938	0.10	0.10	131.52	0.28
Dec. 31, 2013	10.43	58 479	5 605	0.12	0.12	15.07	0.24
Dec. 31, 2012	8.04	70 410	8 759	0.13	0.13	16.15	0.22
Dec. 31, 2011	7.26	65 409	9 013	0.15	0.15	218.65	0.12
Dec. 31, 2010	8.36	107 129	12 811	0.12	0.12	66.87	0.23

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

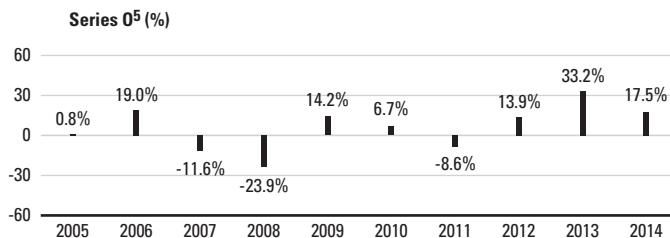
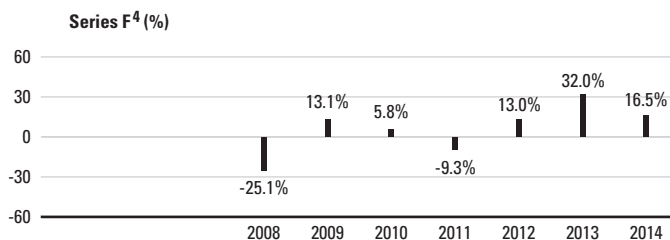
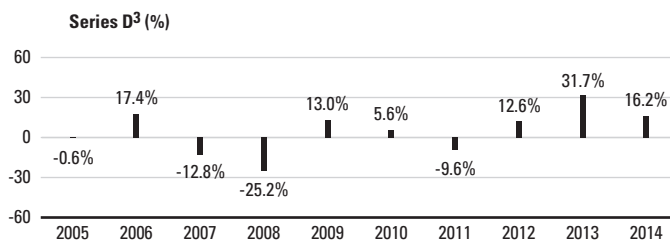
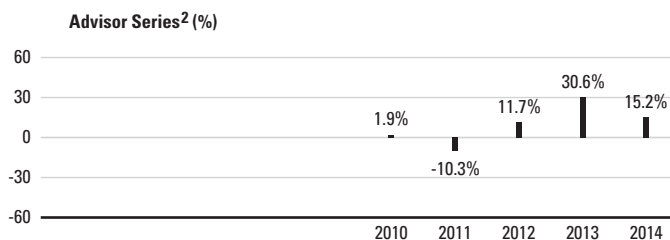
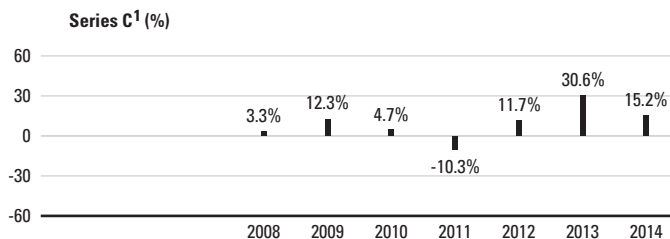
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

The new benchmark (the "New benchmark") is the MSCI World Total Return Net Index (CAD).

The old benchmark (the "Old benchmark") is the MSCI World ex Canada Total Return Net Index (CAD).

The change in benchmark better reflects the composition of the Fund.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	15.2	18.9	9.5	–	10.4
New benchmark	14.4	20.5	12.4	–	12.4
Old benchmark	14.4	20.9	12.6	–	12.4
Advisor Series ²	15.2	18.9	–	–	10.8
New benchmark	14.4	20.5	–	–	14.2
Old benchmark	14.4	20.9	–	–	14.4
Series D ³	16.2	19.9	10.5	3.5	–
New benchmark	14.4	20.5	12.4	5.7	–
Old benchmark	14.4	20.9	12.6	5.6	–
Series F ⁴	16.5	20.2	10.8	–	5.1
New benchmark	14.4	20.5	12.4	–	5.7
Old benchmark	14.4	20.9	12.6	–	5.6
Series O ⁵	17.5	21.3	11.7	4.8	–
New benchmark	14.4	20.5	12.4	5.7	–
Old benchmark	14.4	20.9	12.6	5.6	–

The returns of each series may vary because of differences in management fees and expenses. The New benchmark and Old benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the New benchmark and Old benchmark indexes.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date December 2000.

⁴ Inception date December 2007.

⁵ Inception date October 2002.

Series D was known as Series A prior to November 17, 2008. Although Series A units of the Fund were created in September 2000, units were not offered for sale under a Simplified Prospectus until December 2000. We are therefore not permitted to disclose performance data for this Fund for any period prior to December 2000.

INDEX DESCRIPTIONS

MSCI World Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI World ex Canada Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world (ex Canada). The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix – Sectors

	% of Net Asset Value
Financials	19.6
Health Care	16.1
Industrials	14.7
Information Technology	12.3
Consumer Discretionary	12.2
Energy	8.3
Consumer Staples	7.4
Materials	3.8
Utilities	3.4
Telecommunication Services	1.0
Cash/Other	1.2

Investment Mix – Countries/Regions

	% of Net Asset Value
U.S. Equities	56.5
Europe ex-U.K. Equities	19.7
Pacific Rim ex-Japan Equities	8.8
Japan Equities	3.8
Canadian Equities	3.7
U.K. Equities	3.2
Middle East & Africa Equities	3.1
Cash/Other	1.2

SUMMARY OF INVESTMENT PORTFOLIO (cont.)

(after consideration of derivative products, if any)

As at December 31, 2014

Top 25 Holdings

	% of Net Asset Value
Toyota Motor Corp.	3.8
TJX Companies Inc.	3.7
Enbridge Inc.	3.7
UnitedHealth Group Incorporated	3.6
Amgen Inc.	3.6
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3.6
Blackstone Group LP	3.5
InBev N.V.	3.5
First Republic Bank	3.5
ITC Holdings Corp.	3.4
Cognizant Technology Solutions Corp., Class A	3.4
Roche Holdings AG Genussscheine	3.3
Danaher Corp.	3.2
ASML Holding N.V.	3.2
EOG Resources Inc.	3.2
Grainger (W.W.) Inc.	3.1
Deutsche Post AG	3.1
HDFC Bank Ltd. ADR	3.1
Naspers Ltd.	3.1
Baxter International Inc.	2.7
Kansas City Southern Industries Inc.	2.7
Safran S.A.	2.6
Praxair Inc.	2.5
Estée Lauder Companies Inc., Class A	2.2
AIA Group Ltd.	2.2
Top 25 Holdings	79.5

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

GLOBAL EQUITY FUND

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

*December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

Sub-Advisor: RBC Global Asset Management (UK) Limited

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth by investing primarily in common stocks of companies in the world's largest industrialized countries outside Canada, including the United States and countries in Europe, the Far East (including Japan), and Australia. Our intention is that the securities of companies that conduct themselves in a socially responsible manner will be included in the portfolio. To achieve the Fund's investment objective, we invest primarily in companies that we believe have sound fundamentals, a strong market position, a history of profitability, a capable management team, and attractive valuations.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value rose to \$103.8 million as of December 31, 2014, from \$87.7 million at the end of 2013. The change was due mostly to investment returns.

Over the past year, the Fund's Series D units rose 15.0%, which outperformed the 14.4% rise in the benchmark. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

Global markets made steady progress over the first six months of 2014 as the economic recovery became more robust. Economic reforms in Europe and moves by the Japanese government to raise productivity all contributed to a strengthening backdrop. In reaction, stocks generally rose during the first half of the year. However, a number of issues emerged in the second half of 2014 to challenge this consensus, including the spread of the Ebola virus in West Africa and an armed conflict in Ukraine. More recently, buoyant harvests and lower fuel prices, which in theory are good news for consumers, led to fears that deflation could imperil the recovery by prompting consumers to defer spending. In this environment, stocks proved less able to cope, and the second half was characterized by increased volatility.

The Fund's top-performing sectors in 2014 were Industrials, Health Care and Telecommunication Services. The worst-performing sectors were Consumer Staples, Materials and Utilities.

Portfolio stocks that performed best in 2014 were Amgen, UnitedHealth and TJX Companies. The portfolio stocks that performed worst were LyondellBasell Industries, Occidental Petroleum and Apache.

On August 11, 2014, the portfolio-management responsibilities for the Fund were transitioned to RBC Global Asset Management (UK) Limited and its London-based global equity team.

Recent Developments

Investors have enjoyed a strong stock-market rebound in recent years, characterized by unusually low volatility. The conditions that have led to this situation – loose monetary policies, low interest rates and improving consumer sentiment – remain largely in place. However, other considerations may soon challenge the prevailing economic consensus. For example, the recent fall in the price of oil will benefit some countries and penalize others, while rising U.S. interest rates will likely lead to a stronger U.S. dollar, posing problems for emerging markets whose currencies are pegged to the U.S. dollar.

At the corporate level, the sub-advisor continues to see attractive investment opportunities, and is focused on finding companies with strong competitive advantages and prospects that are underappreciated by the market.

Related-Party Transactions***Manager and Portfolio Advisor***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Sub-Advisor

RBC Global Asset Management (UK) Limited is the sub-advisor and provides investment advice for the Fund. RBC GAM has a non-controlling interest in RBC Global Asset Management (UK) Limited.

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES
GLOBAL EQUITY FUND**
Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$10,000 (2013 – \$16,000), or 3% (2013 – 10%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES
GLOBAL EQUITY FUND**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	11.10	0.26	(0.25)	2.59	(1.03)	1.57	—	(0.02)	(1.13)	—	(1.15)	11.52
Dec. 31, 2013	8.43	0.21	(0.20)	0.98	1.70	2.69	—	(0.01)	—	—	(0.01)	11.10
Dec. 31, 2012	7.61	0.20	(0.17)	(0.19)	0.97	0.81	—	(0.03)	—	—	(0.03)	8.43
Dec. 31, 2011	8.66	0.24	(0.16)	(0.26)	(0.76)	(0.94)	—	(0.08)	—	—	(0.08)	7.61
Dec. 31, 2010	8.23	0.20	(0.17)	0.15	0.27	0.45	—	—	—	—	—	8.66
Advisor Series												
Dec. 31, 2014	11.10	0.26	(0.25)	2.58	(1.03)	1.56	—	(0.02)	(1.13)	—	(1.15)	11.53
Dec. 31, 2013	8.43	0.21	(0.21)	0.98	1.70	2.68	—	(0.01)	—	—	(0.01)	11.10
Dec. 31, 2012	7.61	0.20	(0.17)	(0.19)	0.97	0.81	—	(0.03)	—	—	(0.03)	8.43
Dec. 31, 2011	8.66	0.24	(0.16)	(0.26)	(0.76)	(0.94)	—	(0.08)	—	—	(0.08)	7.61
Dec. 31, 2010 ³	8.53 [†]	0.03	(0.03)	0.03	0.04	0.07	—	—	—	—	—	8.66
Series D												
Dec. 31, 2014	11.03	0.26	(0.15)	2.58	(1.02)	1.67	—	(0.12)	(1.13)	—	(1.25)	11.43
Dec. 31, 2013	8.38	0.20	(0.12)	0.97	1.68	2.73	—	(0.11)	—	—	(0.11)	11.03
Dec. 31, 2012	7.56	0.20	(0.10)	(0.19)	0.97	0.88	—	(0.10)	—	—	(0.10)	8.38
Dec. 31, 2011	8.60	0.24	(0.10)	(0.26)	(0.76)	(0.88)	—	(0.14)	—	—	(0.14)	7.56
Dec. 31, 2010	8.18	0.21	(0.10)	0.16	0.27	0.54	—	(0.07)	—	—	(0.07)	8.60
Series F												
Dec. 31, 2014	11.02	0.26	(0.12)	2.58	(1.02)	1.70	—	(0.15)	(1.13)	—	(1.28)	11.43
Dec. 31, 2013	8.37	0.21	(0.10)	0.99	1.71	2.81	—	(0.13)	—	—	(0.13)	11.02
Dec. 31, 2012	7.55	0.20	(0.08)	(0.19)	0.96	0.89	—	(0.12)	—	—	(0.12)	8.37
Dec. 31, 2011	8.59	0.23	(0.08)	(0.26)	(0.74)	(0.85)	—	(0.16)	—	—	(0.16)	7.55
Dec. 31, 2010	8.13	0.21	(0.07)	0.16	0.27	0.57	—	(0.10)	—	—	(0.10)	8.59
Series O												
Dec. 31, 2014	11.20	0.26	(0.02)	2.63	(1.05)	1.82	—	(0.26)	(1.13)	—	(1.39)	11.64
Dec. 31, 2013	8.51	0.21	(0.02)	0.99	1.72	2.90	—	(0.23)	—	—	(0.23)	11.20
Dec. 31, 2012	7.67	0.20	(0.01)	(0.19)	0.98	0.98	—	(0.19)	—	—	(0.19)	8.51
Dec. 31, 2011	8.74	0.24	(0.01)	(0.27)	(0.78)	(0.82)	—	(0.23)	—	—	(0.23)	7.67
Dec. 31, 2010	8.31	0.21	(0.01)	0.16	0.28	0.64	—	(0.17)	—	—	(0.17)	8.74

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES
GLOBAL EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	11.52	1 914	166	2.08	2.08	213.55	0.29
Dec. 31, 2013	11.10	1 320	119	2.12	2.12	57.54	0.20
Dec. 31, 2012	8.44	522	62	2.10	2.10	89.40	0.26
Dec. 31, 2011	7.61	378	50	2.11	2.11	95.36	0.18
Dec. 31, 2010	8.66	399	46	2.09	2.09	54.06	0.23
Advisor Series							
Dec. 31, 2014	11.53	1 259	109	2.09	2.09	213.55	0.29
Dec. 31, 2013	11.10	697	63	2.12	2.12	57.54	0.20
Dec. 31, 2012	8.44	149	18	2.10	2.10	89.40	0.26
Dec. 31, 2011	7.61	67	9	2.11	2.11	95.36	0.18
Dec. 31, 2010 ⁴	8.66	–	–	2.09	2.09	54.06	0.23
Series D							
Dec. 31, 2014	11.43	8 053	704	1.24	1.24	213.55	0.29
Dec. 31, 2013	11.03	6 801	617	1.25	1.25	57.54	0.20
Dec. 31, 2012	8.38	5 844	697	1.28	1.28	89.40	0.26
Dec. 31, 2011	7.56	5 655	748	1.28	1.28	95.36	0.18
Dec. 31, 2010	8.60	6 213	722	1.27	1.27	54.06	0.23
Series F							
Dec. 31, 2014	11.43	754	66	0.98	0.98	213.55	0.29
Dec. 31, 2013	11.02	308	28	1.03	1.03	57.54	0.20
Dec. 31, 2012	8.37	91	11	1.02	1.02	89.40	0.26
Dec. 31, 2011	7.55	40	5	1.01	1.01	95.36	0.18
Dec. 31, 2010	8.59	1	–	0.95	0.95	54.06	0.23
Series O							
Dec. 31, 2014	11.64	91 808	7 886	0.17	0.17	213.55	0.29
Dec. 31, 2013	11.20	78 624	7 018	0.16	0.16	57.54	0.20
Dec. 31, 2012	8.51	73 186	8 598	0.17	0.17	89.40	0.26
Dec. 31, 2011	7.68	57 418	7 478	0.18	0.18	95.36	0.18
Dec. 31, 2010	8.74	56 484	6 464	0.17	0.17	54.06	0.23

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

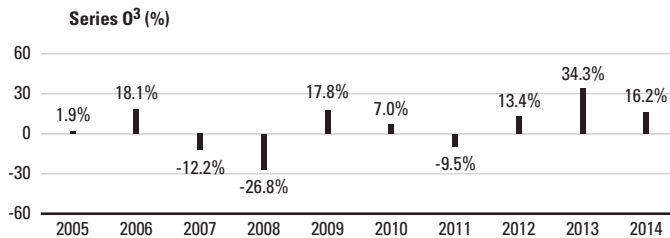
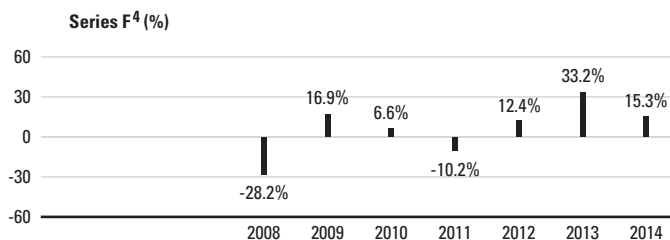
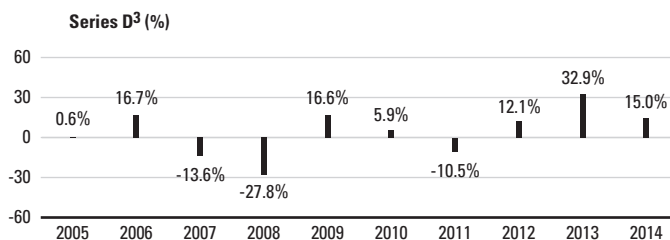
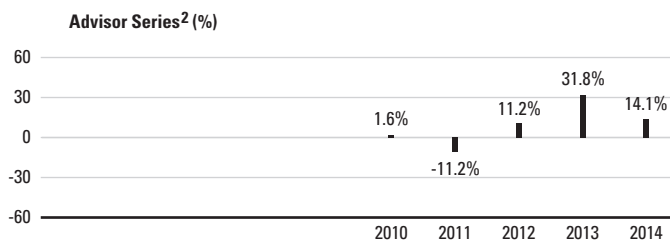
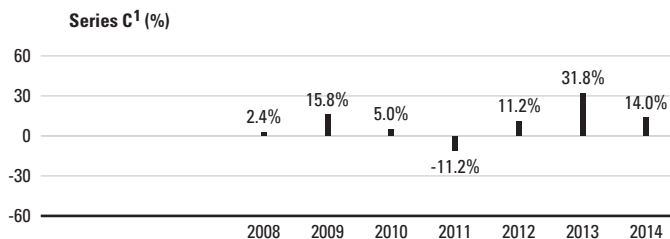
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



**PHILLIPS, HAGER & NORTH COMMUNITY VALUES
GLOBAL EQUITY FUND**
PAST PERFORMANCE (cont.)
Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

The new benchmark (the "New benchmark") is the MSCI World Total Return Net Index (CAD).

The old benchmark (the "Old benchmark") is the MSCI World ex Canada Total Return Net Index (CAD).

The change in benchmark better reflects the composition of the Fund.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	14.0	18.7	9.3	–	10.6
New benchmark	14.4	20.5	12.4	–	12.4
Old benchmark	14.4	20.9	12.6	–	12.4
Advisor Series ²	14.1	18.7	–	–	10.4
New benchmark	14.4	20.5	–	–	14.2
Old benchmark	14.4	20.9	–	–	14.4
Series D ³	15.0	19.7	10.2	3.3	–
New benchmark	14.4	20.5	12.4	5.7	–
Old benchmark	14.4	20.9	12.6	5.6	–
Series F ⁴	15.3	20.0	10.6	–	4.8
New benchmark	14.4	20.5	12.4	–	5.7
Old benchmark	14.4	20.9	12.6	–	5.6
Series O ³	16.2	21.0	11.4	4.6	–
New benchmark	14.4	20.5	12.4	5.7	–
Old benchmark	14.4	20.9	12.6	5.6	–

The returns of each series may vary because of differences in management fees and expenses. The New benchmark and Old benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the New benchmark and Old benchmark indexes.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date September 2002.

⁴ Inception date December 2007.

Series D was known as Series A prior to November 17, 2008. Although the Fund was prospectused in August 2002, Series A and Series O units were not offered for sale until September 2002. We are therefore not permitted to disclose performance data for this Fund for any period prior to September 2002.

INDEX DESCRIPTIONS

MSCI World Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI World ex Canada Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world (ex Canada). The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix – Sectors

	% of Net Asset Value
Financials	20.2
Health Care	17.4
Industrials	14.5
Consumer Discretionary	12.8
Information Technology	11.9
Consumer Staples	7.6
Materials	5.6
Energy	4.2
Utilities	3.4
Telecommunication Services	1.1
Cash/Other	1.3

Investment Mix – Countries/Regions

	% of Net Asset Value
U.S. Equities	56.7
Europe ex-U.K. Equities	19.2
U.K. Equities	9.0
Pacific Rim ex-Japan Equities	5.8
Japan Equities	5.0
Middle East & Africa Equities	3.0
Cash/Other	1.3

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES
GLOBAL EQUITY FUND**
SUMMARY OF INVESTMENT PORTFOLIO (cont.)
(after consideration of derivative products, if any)
As at December 31, 2014
Top 25 Holdings

	% of Net Asset Value
Amgen Inc.	3.8
TJX Companies Inc.	3.8
UnitedHealth Group Incorporated	3.7
First Republic Bank	3.6
Toyota Motor Corp.	3.6
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3.4
Blackstone Group LP	3.4
Cognizant Technology Solutions Corp., Class A	3.4
ITC Holdings Corp.	3.4
Danaher Corp.	3.4
Roche Holdings AG Genussscheine	3.3
Deutsche Post AG	3.2
Naspers Ltd.	3.0
Estée Lauder Companies Inc., Class A	2.8
Kansas City Southern Industries Inc.	2.8
EOG Resources Inc.	2.7
Grainger (W.W.) Inc.	2.6
Prudential Corporation Plc.	2.6
ASML Holding N.V.	2.6
Safran S.A.	2.5
Google Inc., Class A	2.5
Lloyds TSB Group Plc.	2.3
Invesco Ltd.	2.2
Praxair Inc.	2.2
International Flavors & Fragrances Inc.	2.1
Top 25 Holdings	74.9

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2015 FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2015 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund’s net asset value increased to \$7.4 million as of December 31, 2014, from \$5.4 million at the end of 2013. Of the change, \$1.3 million was due to net inflows and \$704,000 to investment returns.

Over the past year, the Fund’s Series D units gained 11.8%, which outperformed the fixed-income benchmark return of 8.8% and the equity benchmark return of 10.6%. The Fund’s return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China’s economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds, had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts. All of the Fund’s fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund and the Phillips, Hager & North Bond Fund.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC’s late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the “Fed”) to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015. The Fund’s equity holdings all had a positive impact on returns, led by the Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund and the Vanguard REIT.

Recent Developments

The world’s major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds.

Effective January 1, 2015, the management fee for Series D units has been reduced to 0.75% from 0.80%.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund.

RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series D												
Dec. 31, 2014	10.65	0.39	(0.11)	0.46	0.45	1.19	(0.17)	(0.09)	(0.46)	–	(0.72)	11.19
Dec. 31, 2013	10.62	0.31	(0.11)	0.27	0.03	0.50	(0.12)	(0.06)	(0.31)	–	(0.49)	10.65
Dec. 31, 2012	10.19	0.40	(0.10)	0.30	0.13	0.73	(0.10)	(0.07)	(0.19)	–	(0.36)	10.62
Dec. 31, 2011 ³	10.28 [†]	0.15	(0.05)	0.06	0.04	0.20	(0.12)	(0.07)	(0.21)	–	(0.40)	10.19
Series O												
Dec. 31, 2014	10.63	0.39	(0.01)	0.47	0.46	1.31	(0.23)	(0.13)	(0.46)	–	(0.82)	11.16
Dec. 31, 2013	10.58	0.31	(0.01)	0.27	0.03	0.60	(0.18)	(0.09)	(0.31)	–	(0.58)	10.63
Dec. 31, 2012	10.15	0.46	(0.01)	0.35	0.15	0.95	(0.15)	(0.11)	(0.19)	–	(0.45)	10.58
Dec. 31, 2011 ⁴	10.00 [†]	0.39	(0.01)	0.17	0.11	0.66	(0.18)	(0.10)	(0.21)	–	(0.49)	10.15

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2011.

⁴ From January 2011.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2014	11.19	4 843	433	0.96	1.01	34.41	0.08
Dec. 31, 2013	10.65	3 522	331	0.96	1.02	31.53	0.09
Dec. 31, 2012	10.61	2 073	195	0.94	1.16	17.70	0.12
Dec. 31, 2011 ⁴	10.19	212	21	0.98	1.77	11.83	0.17
Series O							
Dec. 31, 2014	11.16	2 554	229	0.08	0.13	34.41	0.08
Dec. 31, 2013	10.63	1 838	173	0.09	0.15	31.53	0.09
Dec. 31, 2012	10.57	1 024	97	0.09	0.31	17.70	0.12
Dec. 31, 2011 ⁵	10.15	386	38	0.09	0.88	11.83	0.17

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2011.

⁵ From January 2011.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	0.80%	31%	69%

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

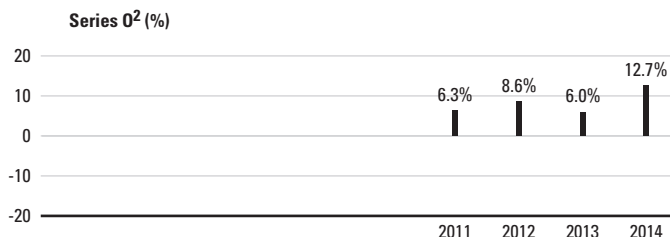
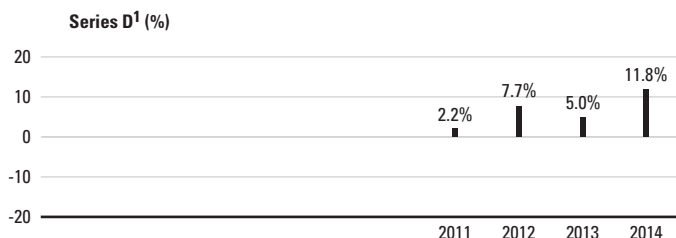
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

- Benchmark 1 – FTSE TMX Canada Universe Bond Index
- Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D ¹	11.8	8.1	–	–	7.6
Benchmark 1	8.8	3.7	–	–	5.2
Benchmark 2	10.6	10.2	–	–	5.9
Series O ²	12.7	9.1	–	–	8.5
Benchmark 1	8.8	3.7	–	–	5.4
Benchmark 2	10.6	10.2	–	–	5.0

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

¹ Inception date June 2011.
² Inception date January 2011.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Bonds	56.6
United States Equities	16.1
Overseas Equities	11.9
Canadian Equities	10.2
Mortgages	0.2
Cash/Other	5.0

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	24.3
Phillips, Hager & North Long Inflation-linked Bond Fund	15.0
Phillips, Hager & North Short Inflation-linked Bond Fund	14.4
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	12.0
Phillips, Hager & North Overseas Equity Fund	6.1
RBC International Equity Fund	6.0
Phillips, Hager & North High Yield Bond Fund	6.0
Phillips, Hager & North Canadian Equity Value Fund	5.3
Phillips, Hager & North Canadian Equity Underlying Fund	4.6
Vanguard Real Estate Investment Trust Fund	4.2
Cash & Cash Equivalents	2.1
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2020 FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

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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.

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Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series D												
Dec. 31, 2014	10.98	0.39	(0.12)	0.50	0.73	1.50	(0.11)	(0.10)	(0.45)	–	(0.66)	11.87
Dec. 31, 2013	10.93	0.28	(0.11)	0.30	0.02	0.49	(0.08)	(0.07)	(0.31)	–	(0.46)	10.98
Dec. 31, 2012	10.41	0.39	(0.11)	0.31	0.24	0.83	(0.07)	(0.07)	(0.17)	–	(0.31)	10.93
Dec. 31, 2011 ³	10.31 [†]	0.14	(0.05)	0.05	0.08	0.22	(0.10)	(0.07)	(0.15)	–	(0.32)	10.41
Series O												
Dec. 31, 2014	10.93	0.39	(0.01)	0.50	0.73	1.61	(0.17)	(0.16)	(0.45)	–	(0.78)	11.81
Dec. 31, 2013	10.87	0.28	(0.01)	0.30	0.02	0.59	(0.14)	(0.11)	(0.31)	–	(0.56)	10.93
Dec. 31, 2012	10.35	0.42	(0.01)	0.34	0.26	1.01	(0.12)	(0.13)	(0.17)	–	(0.42)	10.87
Dec. 31, 2011 ⁴	10.00 [†]	0.51	(0.01)	0.19	0.29	0.98	(0.17)	(0.11)	(0.15)	–	(0.43)	10.35

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2011.

⁴ From January 2011.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2014	11.87	9 429	794	1.01	1.04	13.80	0.10
Dec. 31, 2013	10.98	5 711	520	1.02	1.06	18.66	0.10
Dec. 31, 2012	10.93	3 104	284	1.05	1.20	8.51	0.13
Dec. 31, 2011 ⁴	10.41	504	48	1.06	1.50	32.24	0.18
Series O							
Dec. 31, 2014	11.81	5 951	504	0.08	0.11	13.80	0.10
Dec. 31, 2013	10.93	3 286	301	0.08	0.12	18.66	0.10
Dec. 31, 2012	10.87	1 848	170	0.09	0.23	8.51	0.13
Dec. 31, 2011 ⁵	10.35	721	70	0.09	0.53	32.24	0.18

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2011.

⁵ From January 2011.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	0.85%	29%	71%

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

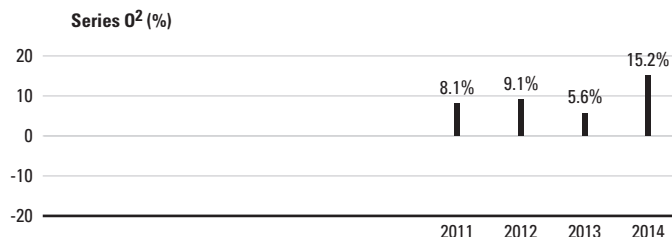
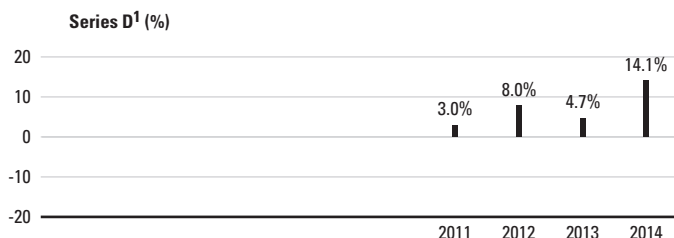
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

- Benchmark 1 – FTSE TMX Canada Universe Bond Index
- Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D ¹	14.1	8.9	–	–	8.5
Benchmark 1	8.8	3.7	–	–	5.2
Benchmark 2	10.6	10.2	–	–	5.9
Series O ²	15.2	9.9	–	–	9.6
Benchmark 1	8.8	3.7	–	–	5.4
Benchmark 2	10.6	10.2	–	–	5.0

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

¹ Inception date June 2011.
² Inception date January 2011.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Bonds	49.0
United States Equities	19.1
Overseas Equities	14.2
Canadian Equities	12.2
Mortgages	0.1
Cash/Other	5.4

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	28.0
Phillips, Hager & North Bond Fund	15.5
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	14.4
RBC International Equity Fund	7.2
Phillips, Hager & North Overseas Equity Fund	7.2
Phillips, Hager & North Canadian Equity Value Fund	6.3
Phillips, Hager & North Canadian Equity Underlying Fund	5.6
Phillips, Hager & North High Yield Bond Fund	5.2
Vanguard Real Estate Investment Trust Fund	5.0
Cash & Cash Equivalents	3.1
Phillips, Hager & North Short Inflation-linked Bond Fund	2.5
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2025 FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2025 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund’s net asset value increased to \$15.8 million as of December 31, 2014, from \$9.2 million at the end of 2013. Of the change, \$4.9 million was due to net inflows and \$1.7 million to investment returns.

Over the past year, the Fund’s Series D units gained 15.3%, which outperformed the fixed-income benchmark return of 8.8% and the equity benchmark return of 10.6%. The Fund’s return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China’s economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds, had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts. All of the Fund’s fixed-income holdings had a positive impact on returns, with the majority of the performance coming from the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC’s late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the “Fed”) to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015. The Fund’s equity holdings all had a positive impact on performance, led by the Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund and the Vanguard REIT.

Recent Developments

The world’s major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds.

Effective January 1, 2015, the management fee for Series D units has been reduced to 0.85% from 0.90%.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund.

RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series D												
Dec. 31, 2014	10.96	0.38	(0.13)	0.50	0.85	1.60	(0.11)	(0.09)	(0.45)	–	(0.65)	12.00
Dec. 31, 2013	11.02	0.28	(0.12)	0.33	(0.09)	0.40	(0.08)	(0.06)	(0.33)	–	(0.47)	10.96
Dec. 31, 2012	10.44	0.34	(0.11)	0.27	0.33	0.83	(0.06)	(0.06)	(0.18)	–	(0.30)	11.02
Dec. 31, 2011 ³	10.31 [†]	0.14	(0.05)	0.09	0.11	0.29	(0.08)	(0.06)	(0.15)	–	(0.29)	10.44
Series O												
Dec. 31, 2014	10.90	0.38	(0.01)	0.50	0.85	1.72	(0.18)	(0.15)	(0.45)	–	(0.78)	11.92
Dec. 31, 2013	10.96	0.27	(0.01)	0.33	(0.09)	0.50	(0.15)	(0.10)	(0.33)	–	(0.58)	10.90
Dec. 31, 2012	10.38	0.35	(0.01)	0.28	0.35	0.97	(0.11)	(0.12)	(0.18)	–	(0.41)	10.96
Dec. 31, 2011 ⁴	10.00 [†]	0.44	(0.01)	0.28	0.35	1.06	(0.15)	(0.10)	(0.15)	–	(0.40)	10.38

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

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[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2014	12.00	5 862	488	1.07	1.10	11.45	0.10
Dec. 31, 2013	10.96	3 339	305	1.06	1.10	19.24	0.10
Dec. 31, 2012	11.02	2 380	216	1.04	1.16	8.73	0.13
Dec. 31, 2011 ⁴	10.44	383	37	1.08	1.48	26.17	0.19
Series O							
Dec. 31, 2014	11.92	9 957	835	0.08	0.11	11.45	0.10
Dec. 31, 2013	10.90	5 821	534	0.09	0.13	19.24	0.10
Dec. 31, 2012	10.96	2 818	257	0.09	0.20	8.73	0.13
Dec. 31, 2011 ⁵	10.39	1 104	106	0.09	0.49	26.17	0.19

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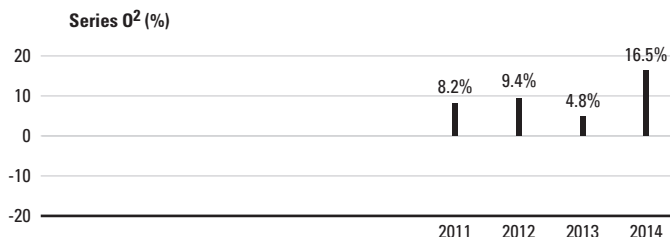
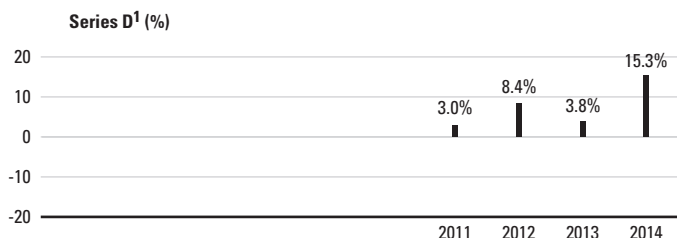
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PAST PERFORMANCE

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- Benchmark 1 – FTSE TMX Canada Universe Bond Index
- Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D ¹	15.3	9.1	–	–	8.6
Benchmark 1	8.8	3.7	–	–	5.2
Benchmark 2	10.6	10.2	–	–	5.9
Series O ²	16.5	10.1	–	–	9.9
Benchmark 1	8.8	3.7	–	–	5.4
Benchmark 2	10.6	10.2	–	–	5.0

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

¹ Inception date June 2011.
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INDEX DESCRIPTIONS

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(after consideration of derivative products, if any)

As at December 31, 2014

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Top 25 Holdings*

	% of Net Asset Value
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Phillips, Hager & North Overseas Equity Fund	7.5
RBC International Equity Fund	7.5
Phillips, Hager & North High Yield Bond Fund	7.3
Phillips, Hager & North Canadian Equity Value Fund	6.8
Phillips, Hager & North Canadian Equity Underlying Fund	6.0
Vanguard Real Estate Investment Trust Fund	5.2
Cash & Cash Equivalents	2.7
Phillips, Hager & North Bond Fund	2.4
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2030 FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2030 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund’s net asset value increased to \$14.3 million as of December 31, 2014, from \$8.5 million at the end of 2013. Of the change, \$4.2 million was due to net inflows and \$1.6 million to investment returns.

Over the past year, the Fund’s Series D units gained 15.2%, which outperformed the fixed-income benchmark return of 8.8% and the equity benchmark return of 10.6%. The Fund’s return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China’s economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds, had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts. Both of the Fund’s fixed-income holdings had a positive impact on returns, with the majority of the performance coming from the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC’s late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the “Fed”) to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015. The Fund’s equity holdings all had a positive impact on performance, led by the Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund and the Vanguard REIT.

Recent Developments

The world’s major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds.

Effective January 1, 2015, the management fee for Series D units has been reduced to 0.90% from 0.95%.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund.

RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series D												
Dec. 31, 2014	10.93	0.39	(0.13)	0.53	0.83	1.62	(0.10)	(0.09)	(0.46)	–	(0.65)	11.93
Dec. 31, 2013	10.87	0.30	(0.13)	0.35	0.02	0.54	(0.21)	(0.12)	(0.13)	–	(0.46)	10.93
Dec. 31, 2012	10.30	0.36	(0.12)	0.34	0.26	0.84	(0.05)	(0.07)	(0.22)	–	(0.34)	10.87
Dec. 31, 2011 ³	10.29 [†]	0.15	(0.06)	0.07	0.08	0.24	(0.08)	(0.06)	(0.18)	–	(0.32)	10.30
Series O												
Dec. 31, 2014	10.87	0.38	(0.01)	0.52	0.82	1.71	(0.17)	(0.15)	(0.46)	–	(0.78)	11.86
Dec. 31, 2013	10.81	0.30	(0.01)	0.34	0.02	0.65	(0.27)	(0.17)	(0.13)	–	(0.57)	10.87
Dec. 31, 2012	10.24	0.42	(0.01)	0.39	0.30	1.10	(0.11)	(0.12)	(0.22)	–	(0.45)	10.81
Dec. 31, 2011 ⁴	10.00 [†]	0.37	(0.01)	0.17	0.20	0.73	(0.14)	(0.11)	(0.18)	–	(0.43)	10.24

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2011.

⁴ From January 2011.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2014	11.93	2 958	248	1.11	1.14	9.51	0.11
Dec. 31, 2013	10.93	2 296	210	1.14	1.18	19.49	0.11
Dec. 31, 2012	10.87	1 113	102	1.14	1.32	20.73	0.14
Dec. 31, 2011 ⁴	10.30	58	6	1.16	1.72	25.67	0.19
Series O							
Dec. 31, 2014	11.86	11 316	954	0.09	0.12	9.51	0.11
Dec. 31, 2013	10.87	6 180	569	0.09	0.13	19.49	0.11
Dec. 31, 2012	10.81	2 710	250	0.09	0.27	20.73	0.14
Dec. 31, 2011 ⁵	10.24	955	93	0.09	0.65	25.67	0.19

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2011.

⁵ From January 2011.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	0.95%	26%	74%

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

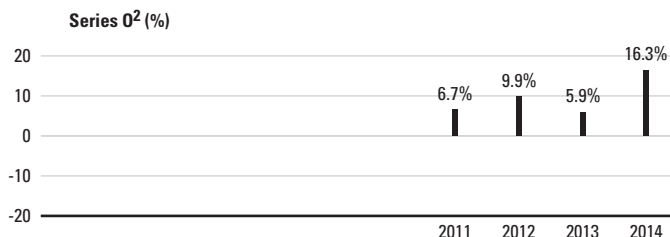
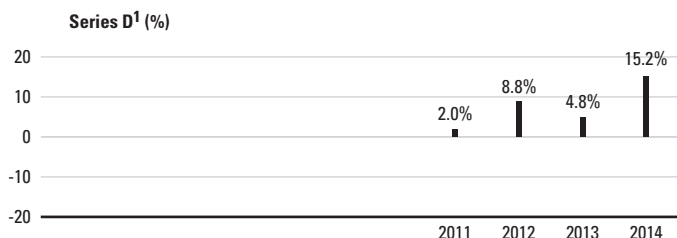
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D ¹	15.2	9.5	–	–	8.7
Benchmark 1	8.8	3.7	–	–	5.2
Benchmark 2	10.6	10.2	–	–	5.9
Series O ²	16.3	10.6	–	–	9.9
Benchmark 1	8.8	3.7	–	–	5.4
Benchmark 2	10.6	10.2	–	–	5.0

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

¹ Inception date June 2011.
² Inception date January 2011.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Bonds	45.5
United States Equities	20.9
Overseas Equities	15.4
Canadian Equities	13.6
Cash/Other	4.6

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	37.6
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	16.0
Phillips, Hager & North High Yield Bond Fund	9.3
RBC International Equity Fund	7.9
Phillips, Hager & North Overseas Equity Fund	7.8
Phillips, Hager & North Canadian Equity Value Fund	7.1
Phillips, Hager & North Canadian Equity Underlying Fund	6.2
Vanguard Real Estate Investment Trust Fund	5.2
Cash & Cash Equivalents	2.6
Phillips, Hager & North Canadian Money Market Fund	0.3
Total	100.0

* The Fund holds fewer than 25 holdings.

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TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2035 FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

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MANAGEMENT DISCUSSION OF FUND PERFORMANCE

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Risk

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Results of Operations

The Fund’s net asset value increased to \$18.4 million as of December 31, 2014, from \$10.9 million at the end of 2013. Of the change, \$5.5 million was due to net inflows and \$2.0 million to investment returns.

Over the past year, the Fund’s Series D units gained 14.8%, which outperformed the fixed-income benchmark return of 8.8% and the equity benchmark return of 10.6%. The Fund’s return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China’s economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

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Effective January 1, 2015, the management fee for Series D units has been reduced to 0.95% from 1.00%.

Related-Party Transactions

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- (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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series D												
Dec. 31, 2014	11.19	0.39	(0.14)	0.62	0.74	1.61	(0.09)	(0.09)	(0.53)	–	(0.71)	12.13
Dec. 31, 2013	10.84	0.30	(0.13)	0.39	0.30	0.86	(0.08)	(0.07)	(0.34)	–	(0.49)	11.19
Dec. 31, 2012	10.20	0.39	(0.13)	0.33	0.29	0.88	(0.05)	(0.07)	(0.18)	–	(0.30)	10.84
Dec. 31, 2011 ³	10.25 [†]	0.15	(0.06)	0.07	(0.02)	0.14	(0.08)	(0.06)	(0.13)	–	(0.27)	10.20
Series O												
Dec. 31, 2014	11.13	0.38	(0.01)	0.62	0.73	1.72	(0.15)	(0.18)	(0.53)	–	(0.86)	12.05
Dec. 31, 2013	10.77	0.29	(0.01)	0.38	0.30	0.96	(0.15)	(0.12)	(0.34)	–	(0.61)	11.13
Dec. 31, 2012	10.14	0.48	(0.01)	0.41	0.36	1.24	(0.09)	(0.15)	(0.18)	–	(0.42)	10.77
Dec. 31, 2011 ⁴	10.00 [†]	0.37	(0.01)	0.17	(0.06)	0.47	(0.14)	(0.12)	(0.13)	–	(0.39)	10.14

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2011.

⁴ From January 2011.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2014	12.13	4 286	353	1.19	1.21	10.77	0.12
Dec. 31, 2013	11.19	3 222	288	1.20	1.23	17.15	0.13
Dec. 31, 2012	10.84	2 147	198	1.23	1.38	7.97	0.16
Dec. 31, 2011 ⁴	10.20	112	11	1.24	1.88	10.15	0.23
Series O							
Dec. 31, 2014	12.05	14 155	1 174	0.09	0.11	10.77	0.12
Dec. 31, 2013	11.13	7 689	691	0.09	0.12	17.15	0.13
Dec. 31, 2012	10.78	3 196	296	0.09	0.24	7.97	0.16
Dec. 31, 2011 ⁵	10.14	775	76	0.09	0.73	10.15	0.23

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2011.

⁵ From January 2011.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	1.00%	25%	75%

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

* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D ¹	14.8	10.5	–	–	9.2
Benchmark 1	8.8	3.7	–	–	5.2
Benchmark 2	10.6	10.2	–	–	5.9
Series O ²	16.0	11.7	–	–	10.2
Benchmark 1	8.8	3.7	–	–	5.4
Benchmark 2	10.6	10.2	–	–	5.0

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

¹ Inception date June 2011.
² Inception date January 2011.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Bonds	39.7
United States Equities	23.2
Overseas Equities	17.5
Canadian Equities	15.3
Cash/Other	4.3

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	32.8
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	18.4
RBC International Equity Fund	8.9
Phillips, Hager & North Overseas Equity Fund	8.9
Phillips, Hager & North High Yield Bond Fund	8.2
Phillips, Hager & North Canadian Equity Value Fund	7.9
Phillips, Hager & North Canadian Equity Underlying Fund	7.1
Vanguard Real Estate Investment Trust Fund	5.1
Cash & Cash Equivalents	2.4
Phillips, Hager & North Canadian Money Market Fund	0.3
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2040 FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2040 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund’s net asset value increased to \$16.2 million as of December 31, 2014, from \$9.4 million at the end of 2013. Of the change, \$5.1 million was due to net inflows and \$1.8 million to investment returns.

Over the past year, the Fund’s Series D units gained 14.4%, which outperformed the fixed-income benchmark return of 8.8% and the equity benchmark return of 10.6%. The Fund’s return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China’s economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds, had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts. Both of the Fund’s fixed-income holdings had a positive impact on returns, with the majority of the performance coming from the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC’s late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the “Fed”) to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015. The Fund’s equity holdings all had a positive impact on performance, led by the Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund and the Vanguard REIT.

Recent Developments

The world’s major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds.

Effective January 1, 2015, the management fee for Series D units has been reduced to 1.00% from 1.05%.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund.

RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series D												
Dec. 31, 2014	11.29	0.38	(0.15)	0.72	0.63	1.58	(0.07)	(0.09)	(0.61)	–	(0.77)	12.14
Dec. 31, 2013	10.60	0.30	(0.14)	0.45	0.61	1.22	(0.08)	(0.06)	(0.36)	–	(0.50)	11.29
Dec. 31, 2012	9.91	0.35	(0.13)	0.34	0.47	1.03	(0.03)	(0.06)	(0.22)	–	(0.31)	10.60
Dec. 31, 2011 ³	10.18 [†]	0.13	(0.06)	0.05	(0.18)	(0.06)	(0.05)	(0.06)	(0.10)	–	(0.21)	9.91
Series O												
Dec. 31, 2014	11.22	0.38	(0.01)	0.72	0.63	1.72	(0.14)	(0.18)	(0.61)	–	(0.93)	12.06
Dec. 31, 2013	10.53	0.30	(0.01)	0.45	0.61	1.35	(0.14)	(0.13)	(0.36)	–	(0.63)	11.22
Dec. 31, 2012	9.85	0.36	(0.01)	0.34	0.47	1.16	(0.07)	(0.14)	(0.22)	–	(0.43)	10.53
Dec. 31, 2011 ⁴	10.00 [†]	0.32	(0.01)	0.12	(0.44)	(0.01)	(0.10)	(0.13)	(0.10)	–	(0.33)	9.85

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2011.

⁴ From January 2011.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2014	12.14	1 687	139	1.26	1.28	12.35	0.14
Dec. 31, 2013	11.29	1 232	109	1.25	1.29	17.69	0.14
Dec. 31, 2012	10.60	501	47	1.25	1.41	12.56	0.19
Dec. 31, 2011 ⁴	9.90	117	12	1.28	1.69	13.87	0.28
Series O							
Dec. 31, 2014	12.06	14 556	1 206	0.10	0.12	12.35	0.14
Dec. 31, 2013	11.22	8 177	729	0.09	0.13	17.69	0.14
Dec. 31, 2012	10.53	3 320	315	0.09	0.26	12.56	0.19
Dec. 31, 2011 ⁵	9.84	1 203	122	0.10	0.50	13.87	0.28

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2011.

⁵ From January 2011.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	1.05%	24%	76%

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

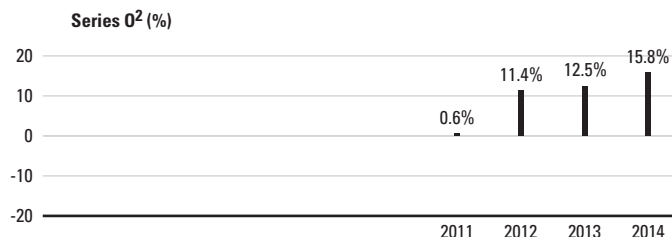
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

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Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D ¹	14.4	11.9	–	–	9.4
Benchmark 1	8.8	3.7	–	–	5.2
Benchmark 2	10.6	10.2	–	–	5.9
Series O ²	15.8	13.2	–	–	10.1
Benchmark 1	8.8	3.7	–	–	5.4
Benchmark 2	10.6	10.2	–	–	5.0

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

¹ Inception date June 2011.
² Inception date January 2011.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Bonds	33.9
United States Equities	24.9
Overseas Equities	19.6
Canadian Equities	17.0
Cash/Other	4.6

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	28.0
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	20.0
RBC International Equity Fund	10.0
Phillips, Hager & North Overseas Equity Fund	9.9
Phillips, Hager & North Canadian Equity Value Fund	8.8
Phillips, Hager & North Canadian Equity Underlying Fund	7.8
Phillips, Hager & North High Yield Bond Fund	7.1
Vanguard Real Estate Investment Trust Fund	5.2
Cash & Cash Equivalents	2.9
Phillips, Hager & North Canadian Money Market Fund	0.3
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2045 FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2045 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund’s net asset value increased to \$30.5 million as of December 31, 2014, from \$15.3 million at the end of 2013. Of the change, \$12.1 million was due to net inflows and \$3.0 million to investment returns.

Over the past year, the Fund’s Series D units gained 13.9%, which outperformed the fixed-income benchmark return of 8.8% and the equity benchmark return of 10.6%. The Fund’s return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China’s economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds, had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts. Both of the Fund’s fixed-income holdings had a positive impact on returns, with the majority of the performance coming from the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC’s late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the “Fed”) to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015. The Fund’s equity holdings all had a positive impact on performance, led by the Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund and the Vanguard REIT.

Recent Developments

The world’s major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds.

Effective January 1, 2015, the management fee for Series D units has been reduced to 1.05% from 1.10%.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund.

RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series D												
Dec. 31, 2014	11.59	0.40	(0.16)	0.88	0.48	1.60	(0.04)	(0.10)	(0.68)	–	(0.82)	12.38
Dec. 31, 2013	10.50	0.34	(0.15)	0.59	0.98	1.76	(0.07)	(0.07)	(0.40)	–	(0.54)	11.59
Dec. 31, 2012	9.74	0.59	(0.13)	0.63	0.38	1.47	(0.02)	(0.06)	(0.22)	–	(0.30)	10.50
Dec. 31, 2011 ³	10.14 [†]	0.13	(0.06)	0.03	(0.20)	(0.10)	(0.04)	(0.08)	(0.08)	–	(0.20)	9.74
Series O												
Dec. 31, 2014	11.53	0.39	(0.01)	0.86	0.47	1.71	(0.09)	(0.21)	(0.68)	–	(0.98)	12.31
Dec. 31, 2013	10.43	0.33	(0.01)	0.57	0.95	1.84	(0.13)	(0.14)	(0.40)	–	(0.67)	11.53
Dec. 31, 2012	9.69	0.47	(0.01)	0.50	0.30	1.26	(0.04)	(0.17)	(0.22)	–	(0.43)	10.43
Dec. 31, 2011 ⁴	10.00 [†]	0.32	(0.01)	0.07	(0.50)	(0.12)	(0.08)	(0.16)	(0.08)	–	(0.32)	9.69

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2011.

⁴ From January 2011.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2014	12.38	1 956	158	1.31	1.32	10.51	—
Dec. 31, 2013	11.59	1 468	127	1.32	1.35	16.98	0.17
Dec. 31, 2012	10.50	425	41	1.26	1.47	10.86	—
Dec. 31, 2011 ⁴	9.74	122	13	1.33	2.10	17.32	0.31
Series O							
Dec. 31, 2014	12.31	28 545	2 320	0.10	0.11	10.51	—
Dec. 31, 2013	11.53	13 875	1 203	0.10	0.13	16.98	0.17
Dec. 31, 2012	10.43	3 874	370	0.10	0.31	10.86	—
Dec. 31, 2011 ⁵	9.69	537	55	0.10	0.87	17.32	0.31

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2011.

⁵ From January 2011.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	1.10%	23%	77%

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

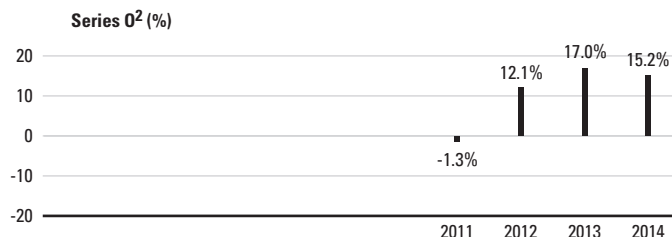
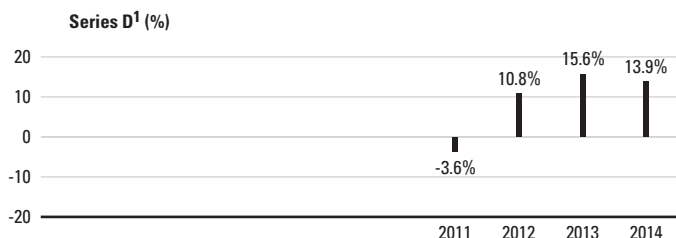
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

Benchmark 1 – FTSE TMX Canada Universe Bond Index
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D ¹	13.9	13.4	–	–	10.2
Benchmark 1	8.8	3.7	–	–	5.2
Benchmark 2	10.6	10.2	–	–	5.9
Series O ²	15.2	14.7	–	–	10.7
Benchmark 1	8.8	3.7	–	–	5.4
Benchmark 2	10.6	10.2	–	–	5.0

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

¹ Inception date June 2011.

² Inception date January 2011.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
United States Equities	28.5
Overseas Equities	23.6
Bonds	23.0
Canadian Equities	20.6
Cash/Other	4.3

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	24.1
Phillips, Hager & North Long Inflation-linked Bond Fund	19.1
Phillips, Hager & North Overseas Equity Fund	12.0
RBC International Equity Fund	12.0
Phillips, Hager & North Canadian Equity Value Fund	10.6
Phillips, Hager & North Canadian Equity Underlying Fund	9.5
Vanguard Real Estate Investment Trust Fund	4.9
Phillips, Hager & North High Yield Bond Fund	4.5
Cash & Cash Equivalents	3.0
Phillips, Hager & North Canadian Money Market Fund	0.3
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

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TARGET DATE FUND

**PHILLIPS, HAGER & NORTH
LIFETIME 2050 FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

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Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to achieve a balance of income and long-term capital growth relative to its target retirement date of 2050 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds ("ETFs"), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in three broad asset classes: equities, fixed income, and Canadian or U.S. ETFs, either directly or indirectly through underlying funds. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund was launched on June 27, 2014, and its net asset value was \$192,000 as of December 31, 2014. Investment performance is not provided for a fund that has been available for less than one year.

The economic climate in 2014 was characterized by gradually declining global growth and inflation expectations. U.S. economic growth accelerated in the second half of the year, but the strength was not mirrored worldwide. China's economic slowdown and the effect of falling commodity prices on many emerging-market economies dampened growth, while Europe faced a number of headwinds including too-low inflation and a Russian currency crisis caused by falling oil prices and economic sanctions imposed by the West.

Bond yields, both in Canada and globally, declined from the beginning of the year for a number of reasons including demand for safety amid geopolitical conflict; looser Eurozone and Japanese monetary policies; new regulatory requirements for banks; and demand from pension funds looking to match cash flows with retirement payouts. Canadian bonds performed in line with U.S. fixed income, with long-maturity bonds delivering double-digit returns and far outpacing returns on short-term securities. Provincial and corporate bonds, viewed generally as more risky than federal government bonds,

had mixed performance. Prices of riskier assets such as U.S. high-yield corporate and some emerging-market bonds dropped due to exposure to the poorly performing Energy sector, where falling oil prices raised concerns about the ability of some issuers to honour their debts.

Global stocks exhibited increased volatility during the second half of 2014. The decline in oil prices, which accelerated after OPEC's late-year decision to not cut production, touched off the instability. Regions with high exposure to energy, such as Canada, were most affected. The S&P 500 Index rose for the sixth straight year as accelerating U.S. economic growth helped boost corporate revenues and earnings. Stocks in other markets performed less well amid a more clouded economic-growth outlook. The U.S. economy benefited from improved consumer spending and employment growth, prompting the U.S. Federal Reserve (the "Fed") to conclude its program of extraordinary economic stimulus, known as quantitative easing, and pave the way for higher benchmark interest rates sometime in 2015.

Recent Developments

The world's major central banks are moving in different directions given the divergent economic conditions around the globe. The Bank of Japan and the European Central Bank are easing monetary conditions, while the Fed and the Bank of England have been reducing economic stimulus and are expected by the portfolio manager to raise benchmark interest rates sometime in 2015. Europe is plagued by too little economic growth and too-low inflation. However, the substantial drop in oil prices, if sustained, could boost growth in Europe and elsewhere in 2015.

With bond yields in all major markets now well below equilibrium, valuation risk is again evident in sovereign fixed-income markets, and bonds may be at risk of an abrupt upwards adjustment in yields. The portfolio manager has reduced return expectations for equities as markets have moved closer to fair value, but they remain positive and are especially attractive relative to potential returns for bonds.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Total	Annual Distributions ²				Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	From Income (Excluding Dividends)		From Dividends	From Capital Gains	Return of Capital		
Series D												
Dec. 31, 2014³	10.00[†]	0.22	(0.25)	0.49	(0.24)	0.22	(0.45)	(0.13)	–	–	(0.58)	9.88
Series O												
Dec. 31, 2014³	10.00[†]	0.24	(0.20)	0.52	(0.25)	0.31	(0.55)	(0.16)	–	–	(0.71)	9.79

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From June 2014.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series D							
Dec. 31, 2014⁴	9.88	35	4	1.30	3.20	1.15	–
Series O							
Dec. 31, 2014⁴	9.79	157	16	0.06	1.96	1.15	–

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From June 2014.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series D	1.10%	23%	77%

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

* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

Investment performance in respect of a fund that has been available for less than one year is not provided. Series D and Series O units of this Fund were launched on June 27, 2014.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
United States Equities	30.7
Overseas Equities	25.1
Canadian Equities	21.9
Bonds	18.5
Cash/Other	3.8

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	26.0
Phillips, Hager & North Long Inflation-linked Bond Fund	15.1
Phillips, Hager & North Overseas Equity Fund	12.8
RBC International Equity Fund	12.7
Phillips, Hager & North Canadian Equity Value Fund	11.4
Phillips, Hager & North Canadian Equity Underlying Fund	10.0
Vanguard Real Estate Investment Trust Fund	5.2
Phillips, Hager & North High Yield Bond Fund	3.9
Cash & Cash Equivalents	2.6
Phillips, Hager & North Canadian Money Market Fund	0.3
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

BALANCED FUND

BONAVISTA GLOBAL BALANCED FUND

*December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital appreciation and income by primarily investing in a balanced global portfolio of Canadian and foreign equities, fixed income securities and money market instruments. To achieve the Fund's fundamental investment objectives, we invest primarily in common stocks of high-quality companies, bonds of the Canadian government, provincial government, and high-quality Canadian corporations and money market securities including asset backed commercial paper.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$4.2 million as of December 31, 2014, from \$3.4 million at the end of 2013. Of the change, \$474,000 was due to net inflows and \$375,000 to investment returns.

Over the past year, the Fund's Series D units gained 9.7%, which underperformed the benchmark return of 10.4% and outperformed the broad-based index return of 8.8%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

During the reporting period, the Fund had solid performance. Given strong bond market results during the period, the Fund's underweight position in bonds did not provide the anticipated positive impact on performance. The Fund held an overweight position in Canadian, U.S. and international equities during the reporting period.

It was a strong year for bonds and although the U.S. Federal Reserve continued with its taper and ultimately ended its bond-buying program, global bond yields moved significantly lower during the period. The strength in the bond market was in sharp contrast to the portfolio manager's and consensus expectations for rising bond yields at the outset of 2014. The FTSE TMX Canada Universe Bond Index had a very strong return of 10% for the reporting period. Deflationary concerns in Europe have German 10-year bond yields substantially below 1%.

The Fund's returns were hurt by the underperformance of the Canadian stock market versus the U.S. stock market, as the Fund has a significantly higher allocation to Canadian equities. This underperformance was compounded by a substantial decline in the Canadian dollar versus the U.S. dollar over the period. During the year, the Fund's Canadian and international equity and fixed-income allocations outperformed, while the U.S. equity allocation underperformed.

The Canadian equity portfolio allocation benefited from overweight positions in the Consumer Discretionary and Information Technology sectors, while an underweight position in Health Care hurt performance. New Canadian equity positions added during the year included West Fraser Timber and AutoCanada.

Recent Developments

While the past year was full of notable events such as the Ebola outbreak and the Russian incursion into Ukraine, perhaps the most meaningful event for Canadian stocks was the dramatic plunge in oil prices. After OPEC left production unchanged at its November meeting, oil prices dropped precipitously, taking the Canadian Energy sector down with it. The portfolio manager is looking to opportunistically increase Energy sector exposure as this sharp correction is viewed as a buying opportunity. It is anticipated that during 2015, the S&P/TSX Composite Index should benefit from an improving global economy and an eventual recovery in oil prices.

Although the performance of bonds was a surprise during 2014, the portfolio manager continues to believe that equity markets appear attractive in relation to bonds. The Fund's asset mix continues to be positioned with overweight positions in Canadian, U.S. and international equities and an underweight position in Canadian bonds. The U.S. Federal Reserve is currently on track to raise rates in 2015 as the U.S. economy continues to recover and gain strength. Within the Canadian equity portion of the Fund, the portfolio manager believes the companies held in the Fund are able to deal with a higher interest rate environment, as well as ongoing economic expansion. Within the Canadian fixed-income portion of the Fund, the portfolio manager has maintained a defensive structure that seeks to avoid risk and provide a stabilizing influence on the Fund.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. The former principal portfolio advisor of the Fund, BonaVista Asset Management Ltd., amalgamated with its parent company, RBC GAM, effective November 1, 2013. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio

management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. There were no related-party commissions.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

BONAVISTA GLOBAL BALANCED FUND**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	12.45	0.35	(0.32)	0.27	0.70	1.00	—	(0.05)	—	—	(0.05)	13.46
Dec. 31, 2013	10.94	0.34	(0.28)	0.18	1.35	1.59	—	(0.07)	—	—	(0.07)	12.45
Dec. 31, 2012	10.12	0.28	(0.26)	0.03	0.80	0.85	(0.01)	(0.04)	—	—	(0.05)	10.94
Dec. 31, 2011	11.04	0.29	(0.25)	0.04	(1.00)	(0.92)	—	(0.08)	—	—	(0.08)	10.12
Dec. 31, 2010	10.26	0.28	(0.23)	0.14	0.62	0.81	(0.01)	(0.04)	—	—	(0.05)	11.04
Advisor Series												
Dec. 31, 2014	12.46	0.35	(0.32)	0.27	0.70	1.00	—	(0.05)	—	—	(0.05)	13.46
Dec. 31, 2013	10.94	0.34	(0.28)	0.18	1.35	1.59	—	(0.07)	—	—	(0.07)	12.45
Dec. 31, 2012	10.12	0.28	(0.26)	0.03	0.80	0.85	(0.01)	(0.04)	—	—	(0.05)	10.94
Dec. 31, 2011	11.04	0.29	(0.25)	0.04	(1.00)	(0.92)	—	(0.08)	—	—	(0.08)	10.12
Dec. 31, 2010 ³	10.75 [†]	0.05	(0.04)	0.02	0.24	0.27	(0.01)	(0.02)	—	—	(0.03)	11.04
Series D												
Dec. 31, 2014	12.37	0.35	(0.17)	0.27	0.70	1.15	(0.01)	(0.17)	—	—	(0.18)	13.39
Dec. 31, 2013	10.87	0.33	(0.15)	0.18	1.32	1.68	(0.01)	(0.18)	—	—	(0.19)	12.37
Dec. 31, 2012	10.05	0.29	(0.14)	0.03	0.82	1.00	(0.02)	(0.15)	—	—	(0.17)	10.87
Dec. 31, 2011	10.97	0.30	(0.13)	0.05	(1.04)	(0.82)	—	(0.19)	—	—	(0.19)	10.05
Dec. 31, 2010	10.17	0.28	(0.13)	0.14	0.61	0.90	(0.04)	(0.11)	—	—	(0.15)	10.97
Series F												
Dec. 31, 2014	12.60	0.36	(0.13)	0.28	0.72	1.23	(0.01)	(0.19)	—	—	(0.20)	13.66
Dec. 31, 2013	11.03	0.33	(0.12)	0.18	1.32	1.71	(0.01)	(0.21)	—	—	(0.22)	12.59
Dec. 31, 2012	10.09	0.30	(0.09)	0.03	0.83	1.07	(0.02)	(0.18)	—	—	(0.20)	11.03
Dec. 31, 2011	10.97	0.31	(0.08)	0.05	(1.06)	(0.78)	—	(0.21)	—	—	(0.21)	10.09
Dec. 31, 2010	10.16	0.27	(0.07)	0.13	0.60	0.93	(0.06)	(0.13)	—	—	(0.19)	10.97
Series O												
Dec. 31, 2014	12.12	0.34	(0.02)	0.27	0.69	1.28	(0.02)	(0.28)	—	—	(0.30)	13.13
Dec. 31, 2013	10.63	0.31	(0.02)	0.17	1.24	1.70	(0.01)	(0.29)	—	—	(0.30)	12.11
Dec. 31, 2012	9.82	0.28	(0.02)	0.03	0.80	1.09	(0.03)	(0.24)	—	—	(0.27)	10.63
Dec. 31, 2011	10.72	0.31	(0.02)	0.05	(1.08)	(0.74)	—	(0.30)	—	—	(0.30)	9.82
Dec. 31, 2010	9.96	0.27	(0.02)	0.13	0.59	0.97	(0.08)	(0.19)	—	—	(0.27)	10.72

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	13.46	196	15	2.34	2.42	112.86	0.08
Dec. 31, 2013	12.45	104	8	2.47	2.47	70.07	0.08
Dec. 31, 2012	10.95	27	2	2.46	2.46	42.34	0.08
Dec. 31, 2011	10.13	126	12	2.33	2.33	62.39	0.08
Dec. 31, 2010	11.06	363	33	2.26	2.26	61.74	0.06
Advisor Series							
Dec. 31, 2014	13.46	45	3	2.34	2.42	112.86	0.08
Dec. 31, 2013	12.46	13	1	2.47	2.47	70.07	0.08
Dec. 31, 2012	10.95	1	—	2.46	2.46	42.34	0.08
Dec. 31, 2011	10.13	1	—	2.33	2.33	62.39	0.08
Dec. 31, 2010 ⁴	11.06	—	—	2.26	2.26	61.74	0.06
Series D							
Dec. 31, 2014	13.39	3 714	277	1.21	1.29	112.86	0.08
Dec. 31, 2013	12.37	3 001	243	1.31	1.31	70.07	0.08
Dec. 31, 2012	10.88	2 617	241	1.33	1.33	42.34	0.08
Dec. 31, 2011	10.06	3 160	314	1.31	1.31	62.39	0.08
Dec. 31, 2010	10.98	4 660	424	1.35	1.35	61.74	0.06
Series F							
Dec. 31, 2014	13.66	18	1	0.90	0.98	112.86	0.08
Dec. 31, 2013	12.60	16	1	0.99	0.99	70.07	0.08
Dec. 31, 2012	11.05	1	—	0.90	0.90	42.34	0.08
Dec. 31, 2011	10.10	—	—	0.96	0.96	62.39	0.08
Dec. 31, 2010	10.99	1	—	0.98	0.98	61.74	0.06
Series O							
Dec. 31, 2014	13.13	276	21	0.12	0.20	112.86	0.08
Dec. 31, 2013	12.12	266	22	0.21	0.21	70.07	0.08
Dec. 31, 2012	10.64	550	52	0.22	0.22	42.34	0.08
Dec. 31, 2011	9.84	739	75	0.18	0.18	62.39	0.08
Dec. 31, 2010	10.73	357	33	0.17	0.17	61.74	0.06

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	2.00%	50%	50%
Advisor Series	2.00%	50%	50%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

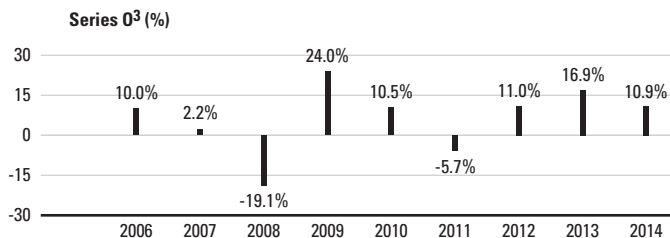
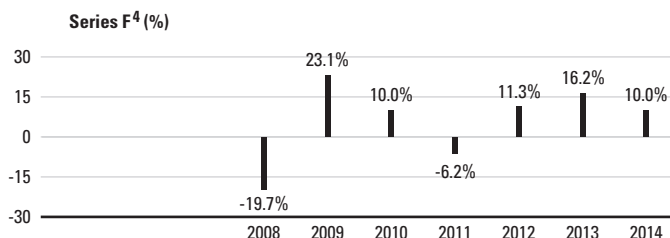
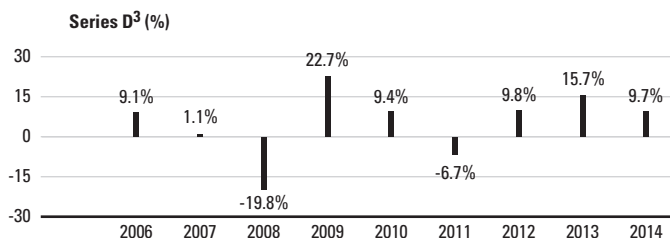
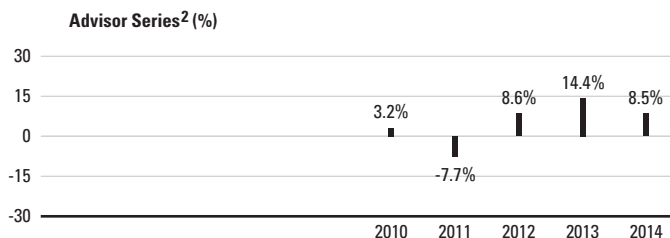
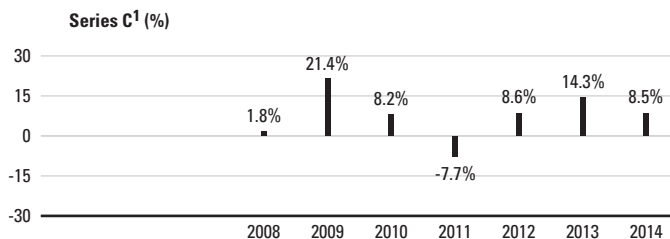
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 45% FTSE TMX Canada Universe Bond Index
- 35% S&P/TSX Capped Composite Total Return Index
- 10% S&P 500 Total Return Index (CAD)
- 10% MSCI EAFE Total Return Net Index (CAD)

The broad-based index is the FTSE TMX Canada Universe Bond Index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	8.5	10.4	6.1	—	8.7
Benchmark	10.4	9.3	7.8	—	9.2
Broad-based index	8.8	3.7	5.4	—	5.9
Advisor Series ²	8.5	10.5	—	—	6.2
Benchmark	10.4	9.3	—	—	7.4
Broad-based index	8.8	3.7	—	—	4.7
Series D ³	9.7	11.7	7.3	—	5.2
Benchmark	10.4	9.3	7.8	—	6.1
Broad-based index	8.8	3.7	5.4	—	5.7
Series F ⁴	10.0	12.5	8.0	—	5.5
Benchmark	10.4	9.3	7.8	—	5.3
Broad-based index	8.8	3.7	5.4	—	5.6
Series O ³	10.9	12.9	8.5	—	6.4
Benchmark	10.4	9.3	7.8	—	6.1
Broad-based index	8.8	3.7	5.4	—	5.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark and broad-based index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date June 2006.

⁴ Inception date December 2007.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index* This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

S&P 500 Total Return Index (CAD) This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

MSCI EAFE Total Return Net Index (CAD) This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

* FTSE TMX fixed-income benchmarks were known as the DEX benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Canadian Equities	39.4
Bonds	30.8
United States Equities	15.4
Overseas Equities	13.4
Cash/Other	1.0

Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Overseas Equity Fund	13.7
Government of Canada 2.500% Jun 1 24	4.1
Toronto-Dominion Bank	2.7
Canadian Imperial Bank of Commerce	2.1
Municipal Finance Authority of British Columbia 3.750% Sep 26 23	2.1
Bank of Nova Scotia	2.1
Suncor Energy Inc.	2.0
Bank of Montreal	1.7
Government of Canada 5.000% Jun 1 37	1.7
Canadian National Railway Co.	1.7
Government of Canada 1.000% Aug 1 16	1.6
Royal Bank of Canada	1.6
Canada Housing Trust No. 1 2.000% Dec 15 19	1.6
Government of Canada 4.000% Jun 1 41	1.4
Magna International Inc., Class A	1.3
Canadian Natural Resources Ltd.	1.2
Regional Municipality of York 4.050% May 1 34	1.2
Laurentian Bank of Canada 3.278% Oct 15 18	1.1
Manulife Financial Corporation	1.1
Alimentation Couche-Tard Inc.	1.1
Open Text Corp.	1.1
Government of Canada 1.250% Feb 1 16	1.1
Government of Canada 3.750% Jun 1 19	1.0
Canadian Pacific Railway Ltd.	1.0
Agrium Inc.	0.9
Top 25 Holdings	52.2

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

CANADIAN EQUITY FUND

**BONAVISTA CANADIAN EQUITY
VALUE FUND***December 31, 2014***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 5, 2015.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in common shares of large-capitalization, high-quality Canadian companies and income trusts. To achieve the Fund's investment objective, we invest in companies that we believe have a superior management team, a leadership position within their industry, a high level of profitability compared to their peers, and strong earnings potential.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value increased to \$19.4 million as of December 31, 2014, from \$14.8 million at the end of 2013. Of the change, \$2.9 million was due to net inflows and \$1.7 million to investment returns.

Over the past year, the Fund's Series D units gained 10.0%, which underperformed the benchmark return of 10.6%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, if any, which may vary because of differences in management fees and expenses.

The Fund's positive performance was a result of both stock selection and sector allocation. During the reporting period, the Fund held overweight positions in the Consumer Discretionary, Industrials, Information Technology and Financials sectors, with underweight positions in Materials, Energy and Health Care. The overweight positions in Information Technology and Consumer Discretionary had an especially positive impact on the Fund's performance as did the Fund's underweight position in the gold and precious metals sub-sector. Although the Fund increased its weighting to Health Care during the reporting period, the underweight position still had a negative impact on performance. Individual holdings that contributed positively to performance included Open Text, Saputo, Magna International and Alimentation Couche-Tard. Holdings that negatively impacted performance included Teck Resources, Husky Energy and IGM Financial.

The Fund initiated several new positions including West Fraser Timber and AutoCanada. West Fraser is Canada's largest wood products company producing primarily lumber and panels. Lumber producers have benefited from the reacceleration of the U.S. housing

market over the past few years, while at the same time a number of factors, such as the pine beetle, have reduced the available supply of lumber. AutoCanada has a strong track record of consolidating this fragmented industry and the portfolio manager likes the strong cash flow characteristics of the auto-dealer business. The Fund eliminated several small positions – Alliance Grain Traders, Thomson Creek Metals and the TMX Group, while adding to several positions, including Valeant Pharmaceuticals.

Aside from the transactions described above, the structure of the portfolio did not materially change over the year.

Recent Developments

While the past year was full of notable events such as the Ebola outbreak and the Russian incursion into Ukraine, perhaps the most meaningful event for Canadian stocks was the dramatic plunge in oil prices. After OPEC left production unchanged at its November meeting, oil prices dropped precipitously, taking the Canadian Energy sector down with it. The portfolio manager is looking to opportunistically increase Energy sector exposure as this sharp correction is viewed as a buying opportunity. It is anticipated that during 2015, the S&P/TSX Composite Index should benefit from an improving global economy and an eventual recovery in oil prices.

It was a strong year for bonds, with global bond yields generally moving lower and in many cases dramatically so; this was in sharp contrast to the portfolio manager's and consensus expectations for rising bond yields at the outset of 2014.

The portfolio manager does not foresee a significant change in strategy in the coming period. Although equity valuation levels have increased from a year ago, the portfolio manager continues to find companies in strong financial positions with growing earnings and dividends, at reasonable valuations. The portfolio manager believes the Fund is well positioned to benefit from (eventual) higher interest rates given the low exposure to some major interest-rate-sensitive sectors including real estate investment trusts, pipelines and utilities.

Related-Party Transactions

Manager and Portfolio Advisor

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio advisor of the Fund. The former principal portfolio advisor of the Fund, BonaVista Asset Management Ltd., amalgamated with its parent company, RBC GAM, effective November 1, 2013. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund.

Brokerage

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$1,000 (2013 – \$0), or 17% (2013 – 0%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series C												
Dec. 31, 2014	13.21	0.34	(0.29)	(0.04)	1.13	1.14	–	(0.02)	–	–	(0.02)	14.41
Dec. 31, 2013	10.91	0.38	(0.24)	0.36	1.87	2.37	–	(0.10)	–	–	(0.10)	13.21
Dec. 31, 2012	9.71	0.29	(0.21)	0.22	1.00	1.30	–	(0.10)	–	–	(0.10)	10.91
Dec. 31, 2011	11.34	0.27	(0.21)	0.08	(1.76)	(1.62)	–	(0.02)	–	–	(0.02)	9.71
Dec. 31, 2010	9.94	0.22	(0.20)	0.03	1.35	1.40	–	–	–	–	–	11.34
Advisor Series												
Dec. 31, 2014	13.23	0.34	(0.27)	(0.04)	1.14	1.17	–	(0.02)	–	–	(0.02)	14.44
Dec. 31, 2013	10.91	0.27	(0.25)	0.25	1.33	1.60	–	(0.09)	–	–	(0.09)	13.22
Dec. 31, 2012	9.71	0.29	(0.21)	0.22	1.00	1.30	–	(0.10)	–	–	(0.10)	10.91
Dec. 31, 2011	11.34	0.27	(0.21)	0.08	(1.76)	(1.62)	–	(0.02)	–	–	(0.02)	9.71
Dec. 31, 2010 ³	10.57 [†]	0.04	(0.03)	0.01	0.23	0.25	–	–	–	–	–	11.34
Series D												
Dec. 31, 2014	13.29	0.34	(0.17)	(0.04)	1.15	1.28	–	(0.13)	–	–	(0.13)	14.49
Dec. 31, 2013	10.98	0.38	(0.14)	0.36	1.89	2.49	–	(0.20)	–	–	(0.20)	13.29
Dec. 31, 2012	9.77	0.29	(0.13)	0.22	1.00	1.38	–	(0.18)	–	–	(0.18)	10.98
Dec. 31, 2011	11.41	0.27	(0.13)	0.08	(1.76)	(1.54)	–	(0.11)	–	–	(0.11)	9.77
Dec. 31, 2010	9.94	0.22	(0.12)	0.03	1.36	1.49	–	(0.02)	–	–	(0.02)	11.41
Series F												
Dec. 31, 2014	13.32	0.35	(0.13)	(0.04)	1.15	1.33	–	(0.17)	–	–	(0.17)	14.52
Dec. 31, 2013	11.00	0.39	(0.11)	0.37	1.91	2.56	–	(0.24)	–	–	(0.24)	13.31
Dec. 31, 2012	9.79	0.29	(0.10)	0.22	1.02	1.43	–	(0.22)	–	–	(0.22)	11.00
Dec. 31, 2011	11.42	0.27	(0.10)	0.08	(1.79)	(1.54)	–	(0.14)	–	–	(0.14)	9.79
Dec. 31, 2010	9.91	0.22	(0.06)	0.03	1.36	1.55	–	(0.06)	–	–	(0.06)	11.42
Series O												
Dec. 31, 2014	13.46	0.35	(0.02)	(0.04)	1.16	1.45	–	(0.29)	–	–	(0.29)	14.68
Dec. 31, 2013	11.12	0.39	(0.02)	0.37	1.92	2.66	–	(0.36)	–	–	(0.36)	13.45
Dec. 31, 2012	9.90	0.29	(0.01)	0.22	1.01	1.51	–	(0.32)	–	–	(0.32)	11.12
Dec. 31, 2011	11.56	0.27	(0.01)	0.08	(1.81)	(1.47)	–	(0.21)	–	–	(0.21)	9.90
Dec. 31, 2010	10.07	0.22	(0.01)	0.04	1.38	1.63	–	(0.15)	–	–	(0.15)	11.56

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From October 2010.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2014	14.41	174	12	2.00	2.02	5.75	0.03
Dec. 31, 2013	13.21	133	10	2.02	2.02	12.56	0.02
Dec. 31, 2012	10.93	118	11	2.04	2.04	4.02	0.06
Dec. 31, 2011	9.73	113	12	2.11	2.11	9.72	0.04
Dec. 31, 2010	11.36	140	12	2.01	2.01	7.46	0.02
Advisor Series							
Dec. 31, 2014	14.44	1	–	2.01	2.03	5.75	0.03
Dec. 31, 2013	13.23	1	–	2.02	2.02	12.56	0.02
Dec. 31, 2012	10.93	1	–	2.04	2.04	4.02	0.06
Dec. 31, 2011	9.73	1	–	2.11	2.11	9.72	0.04
Dec. 31, 2010 ⁴	11.36	–	–	2.01	2.01	7.46	0.02
Series D							
Dec. 31, 2014	14.49	7 894	545	1.19	1.21	5.75	0.03
Dec. 31, 2013	13.29	6 279	472	1.22	1.22	12.56	0.02
Dec. 31, 2012	11.00	5 750	523	1.25	1.25	4.02	0.06
Dec. 31, 2011	9.79	6 801	695	1.24	1.24	9.72	0.04
Dec. 31, 2010	11.43	10 600	927	1.21	1.21	7.46	0.02
Series F							
Dec. 31, 2014	14.52	11	1	0.92	0.94	5.75	0.03
Dec. 31, 2013	13.32	10	1	0.91	0.91	12.56	0.02
Dec. 31, 2012	11.02	3	–	0.94	0.94	4.02	0.06
Dec. 31, 2011	9.80	3	–	0.95	0.95	9.72	0.04
Dec. 31, 2010	11.45	1	–	0.89	0.89	7.46	0.02
Series O							
Dec. 31, 2014	14.68	11 301	770	0.11	0.13	5.75	0.03
Dec. 31, 2013	13.46	8 327	619	0.13	0.13	12.56	0.02
Dec. 31, 2012	11.14	6 233	560	0.14	0.14	4.02	0.06
Dec. 31, 2011	9.92	8 707	878	0.13	0.13	9.72	0.04
Dec. 31, 2010	11.58	10 801	933	0.12	0.12	7.46	0.02

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From October 2010.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager and portfolio advisor of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

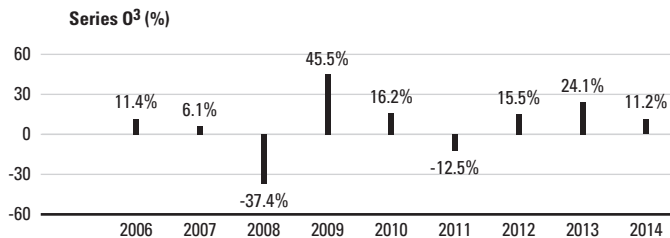
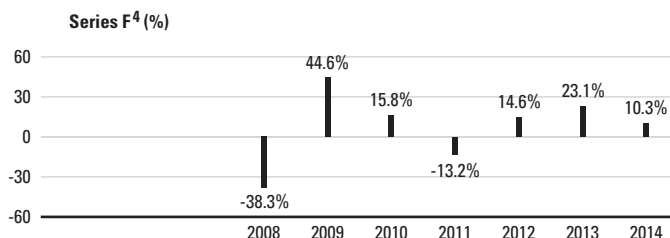
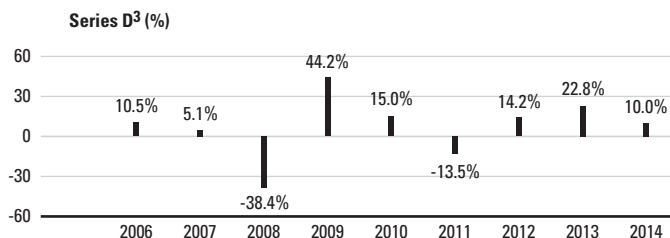
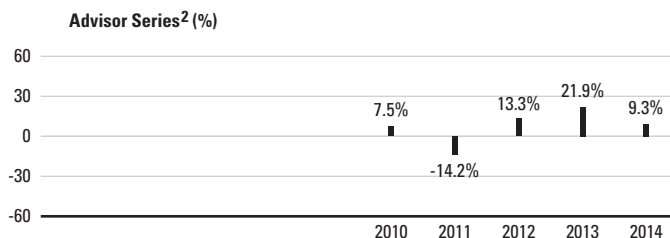
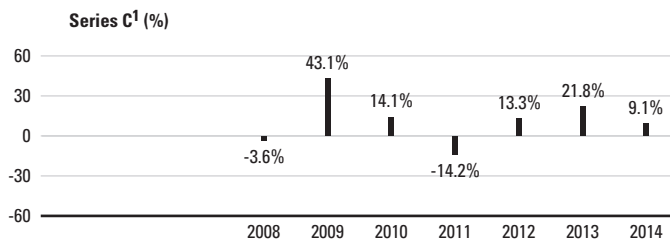
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



PAST PERFORMANCE (cont.)

Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2014, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	9.1	14.6	8.1	—	12.4
Benchmark	10.6	10.2	7.5	—	11.0
Advisor Series ²	9.3	14.7	—	—	8.3
Benchmark	10.6	10.2	—	—	6.5
Series D ³	10.0	15.6	9.0	—	5.6
Benchmark	10.6	10.2	7.5	—	5.7
Series F ⁴	10.3	15.9	9.4	—	4.9
Benchmark	10.6	10.2	7.5	—	3.8
Series O ³	11.2	16.8	10.1	—	6.8
Benchmark	10.6	10.2	7.5	—	5.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date June 2006.

⁴ Inception date December 2007.

Series D was known as Series A prior to November 17, 2008.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2014

Investment Mix

	% of Net Asset Value
Financials	36.9
Industrials	12.7
Energy	12.7
Consumer Discretionary	10.2
Materials	7.8
Information Technology	6.2
Consumer Staples	5.6
Telecommunication Services	2.2
Health Care	2.1
Cash/Other	3.6

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	6.6
Canadian Imperial Bank of Commerce	5.3
Bank of Nova Scotia	5.1
Suncor Energy Inc.	4.8
Bank of Montreal	4.3
Canadian National Railway Co.	4.2
Royal Bank of Canada	4.2
Cash & Cash Equivalents	3.5
Magna International Inc., Class A	3.0
Alimentation Couche-Tard Inc.	2.9
Canadian Natural Resources Ltd.	2.9
Manulife Financial Corporation	2.5
Open Text Corp.	2.5
Canadian Pacific Railway Ltd.	2.1
Mitel Networks Corp.	2.1
Valeant Pharmaceuticals International Inc.	2.1
Agrium Inc.	2.0
Gildan Activewear Inc., Class A	2.0
Home Capital Group Inc.	2.0
Canadian Tire Corp. Ltd., Class A	1.9
Sun Life Financial Inc.	1.9
National Bank of Canada	1.8
Saputo Group Inc.	1.6
Quebecor Inc., Class B	1.6
MacDonald Dettwiler & Associates Ltd.	1.5
Top 25 Holdings	74.4

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.

December 31, 2014

On January 1, 2011, the Board of Governors became the independent review committee of the Phillips, Hager & North investment funds. The Board of Governors was first established in 1994 to provide advice to RBC Global Asset Management Inc. regarding conflicts of interest in fund management. All of the members of the Board of Governors are independent of RBC Global Asset Management Inc. and RBC Financial Group.

In its capacity as the independent review committee, the Board of Governors provides input on conflict of interest matters in respect of RBC Global Asset Management Inc. and the Phillips, Hager & North investment funds. At least once per year, the Board of Governors reviews and assesses the adequacy and effectiveness of the fund manager's policies and procedures relating to conflict of interest matters.

The Board of Governors is responsible for reviewing and assessing the independence of its members, the compensation of its members, and the effectiveness of the Board of Governors, its subcommittees and its members. Effective July 1, 2015, the Board of Governors will be referred to as the Independent Review Committee ("IRC") and will no longer be using a subcommittee structure. The IRC will continue to review advisory matters relating to conflicts of interest. This change in structure will have no impact on its ability to effectively fulfill all IRC responsibilities.

The annual report of the Board of Governors describing its activities as the independent review committee of the Phillips, Hager & North Funds is available under Mutual Fund Governance at www.rbcgam.com/investorinfo and on SEDAR at www.sedar.com.

If you have any questions or comments about the Board of Governors or its subcommittees, please let us know by contacting Melanie Adams, Secretary to the Board of Governors, at the address below.



Lloyd R. McGinnis, OC, PEng
Chair of the Board of Governors

Board of Governors

Attention: Melanie Adams
RBC Global Asset Management Inc.
P.O. Box 7500, Station A
Toronto, Ontario M5W 1P9

Board of Governors

Lloyd R. McGinnis

Chair of the Board of Governors
Director
Airport Site Development
Winnipeg Airports Authority

Charles F. Macfarlane^{1,3}

Board Director and
Former Investment Industry
Executive and Regulator
Toronto, Ontario

Mary C. Ritchie^{2,3}

President
Richford Holdings Ltd.
Edmonton, Alberta

Michael G. Thorley^{1,4}

Vice Chair of the Board of Governors
Retired Lawyer
Toronto, Ontario

Linda S. Petch^{1,3}

Principal
Linda S. Petch Governance Services
Victoria, British Columbia

Joseph P. Shannon⁶

President
Atlantic Corporation
Port Hawkesbury, Nova Scotia

Paul K. Bates⁶

Academic and Former Investment
Industry Executive
Millgrove, Ontario

Élaine Cousineau Phénix⁵

President
Phénix Capital Inc.
Montreal, Quebec

James W. Yuel⁶

Chair
PIC Investment Group Inc.
Saskatoon, Saskatchewan

- ¹ Member of the Financial Advisory Committee
- ² Chair of the Financial Advisory Committee
- ³ Member of the Investment Conflicts Committee
- ⁴ Chair of the Investment Conflicts Committee
- ⁵ Chair of the Governance Committee
- ⁶ Member of the Governance Committee

Selwyn B. Kossuth^{1,3}

Financial Consultant
Mississauga, Ontario

If you have questions regarding Phillips, Hager & North Funds, you can contact us using the following options:

By Phone

Investors: **1-800-661-6141**
Dealers: **1-800-662-0652**

On the Internet

Visit our website at: **www.rbcgam.com/funds**
Email us at: **info@phn.com**

By Mail

Head office:

RBC Global Asset Management Inc.
155 Wellington Street West
Suite 2200
Toronto, Ontario
M5V 3K7

For general mutual fund enquiries, write to:

RBC Global Asset Management Inc.
P.O. Box 7500, Station A
Toronto, Ontario
M5W 1P9



**RBC Global
Asset Management**