

PHILLIPS, HAGER & NORTH FUNDS

# **2015 Annual Management Report of Fund Performance**



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## MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN MONEY MARKET FUND**

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*December 31, 2015***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 4, 2016.

**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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*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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$1.6 billion as of December 31, 2015, from \$1.3 billion at the end of 2014. The increase was due mainly to net inflows.

As of December 31, 2015, the current yields were 0.3% for Series C units, 0.3% for Advisor Series units, 0.4% for Series D units, 0.4% for Series F units and 0.8% for Series O units.

Over the past year, the Fund's Series O units gained 0.95%. The Fund's return is after the deduction of expenses. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

During the period, the portfolio manager allocated all of the Fund's assets to money-market instruments paying higher yields than Government of Canada treasury bills. Such instruments included corporate notes, bank-sponsored asset-backed commercial paper, and bankers' acceptances. The portfolio also had a small allocation in short-term floating-rate notes, whose payments change with interest rates.

The Bank of Canada (the "BOC") cut its overnight target interest rate twice in 2015, in January and July, dropping the rate to 0.50%. The longer average maturity of the Fund at the time of each rate cut aided relative performance, as it enabled the Fund to collect for a longer period the higher interest rates available immediately before each rate reduction. The Fund's positioning in longer-term corporate and asset-backed securities allowed for higher yields.

**Recent Developments**

The strategies employed by the Fund have remained largely consistent since the start of the ultra-low interest-rate cycle in 2009, with no meaningful shifts in the investment strategy during this period. Following the BOC's two rate cuts in 2015, the outlook for money markets in Canada remains stable for the foreseeable future, although this could change with the direction of the Canadian economy, including the impact of fluctuations in prices for energy and other commodities.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	10.00	0.10	(0.05)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
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
Advisor Series												
Dec. 31, 2015	10.00	0.10	(0.05)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
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
Series D												
Dec. 31, 2015	10.00	0.09	(0.05)	—	—	0.04	(0.04)	—	—	—	(0.04)	10.00
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
Series F												
Dec. 31, 2015	10.00	0.10	(0.05)	—	—	0.05	(0.05)	—	—	—	(0.05)	10.00
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
Series O												
Dec. 31, 2015	10.00	0.10	—	—	—	0.10	(0.10)	—	—	—	(0.10)	10.00
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>6 575</b>	<b>658</b>	<b>0.54</b>	<b>0.54</b>	<b>n/a</b>	<b>—</b>
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>3 576</b>	<b>358</b>	<b>0.54</b>	<b>0.54</b>	<b>n/a</b>	<b>—</b>
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	—
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>519 426</b>	<b>51 943</b>	<b>0.55</b>	<b>0.55</b>	<b>n/a</b>	<b>—</b>
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	—
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>3 806</b>	<b>381</b>	<b>0.48</b>	<b>0.48</b>	<b>n/a</b>	<b>—</b>
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	—
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>1 022 721</b>	<b>102 272</b>	<b>0.03</b>	<b>0.03</b>	<b>n/a</b>	<b>—</b>
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	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

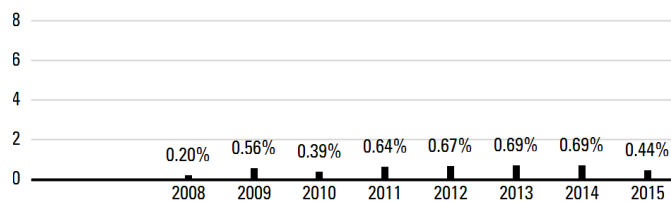
## PAST PERFORMANCE

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.

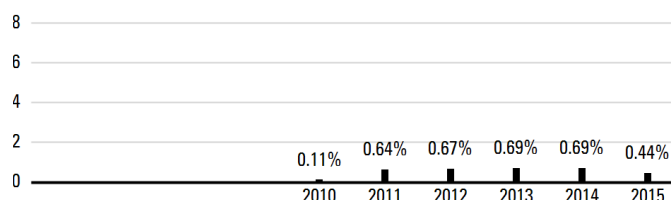
### Year-by-Year Returns (%)

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.

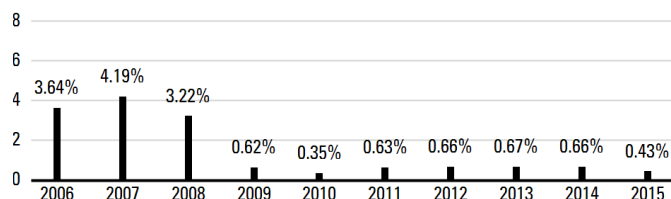
Series C (%)



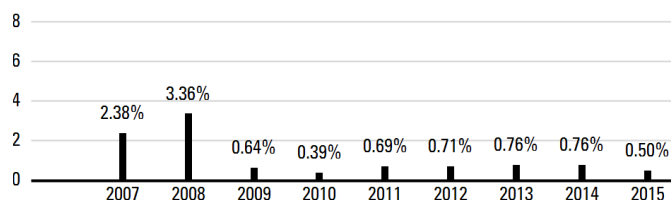
Advisor Series (%)



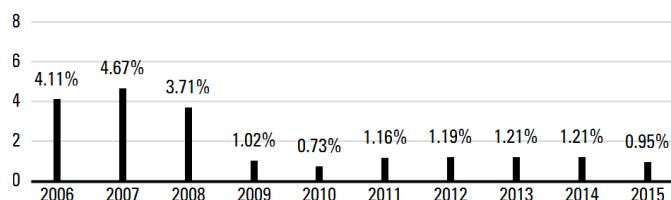
Series D (%)



Series F (%)



Series O (%)



Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2015

### Investment Mix

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

### Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank 0.900% Jun 3 16	3.5
SURE Trust 0.779% Feb 10 16	3.5
Central 1 Credit Union 0.825% Jan 19 16	2.8
National Bank of Canada 0.816% Jan 28 16	2.2
HSBC Bank Canada 0.799% Jan 4 16	2.2
AltaLink LP 0.813% Jan 29 16	2.1
Toronto-Dominion Bank 0.816% Jan 28 16	1.9
Canadian Imperial Bank of Commerce 0.911% Jan 7 16	1.9
Bank of Montreal 1.034% Aug 2 16	1.7
Merit Trust – Senior Notes 0.751% Mar 1 16	1.6
Toronto-Dominion Bank 0.900% Jun 7 16	1.6
SAFE Trust – Series 1996-1 0.751% Feb 23 16	1.5
Canadian Imperial Bank of Commerce 0.934% Jun 1 16	1.5
Banner Trust 0.751% Jan 6 16	1.4
Nova Scotia Power Inc. 0.849% Jan 29 16	1.4
King Street Funding Trust 0.760% Jan 13 16	1.3
Toronto-Dominion Bank 0.900% Jun 30 16	1.3
Ridge Trust 0.949% Jun 28 16	1.3
Inter Pipeline Corridor Inc. 0.852% Jan 21 16	1.3
Clarity Trust 0.760% Jan 14 16	1.3
Clarity Trust 0.751% Jan 6 16	1.3
Merit Trust – Senior Notes 0.751% Jan 5 16	1.3
Zeus Receivables Trust – Senior Notes 0.872% Mar 21 16	1.3
SOUND Trust 0.780% Apr 4 16	1.3
Canadian Imperial Bank of Commerce 0.900% Feb 1 16	1.3
Top 25 Holdings	43.8

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH**  
**\$U.S. MONEY MARKET FUND**
*December 31, 2015*
**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 4, 2016.

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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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 (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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value fell to \$52 million as of December 31, 2015, from \$55 million at the end of 2014. The decrease was due to net redemptions.

As of December 31, 2015, the current yields were 0.4% for Series F units, 0.4% for Advisor Series units, 0.5% for Series O units, 0.4% for Series D units and 0.4% for Series C units.

Over the past year, the Fund's Series O units gained 0.24%. The Fund's return is after the deduction of expenses. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

As has been mostly the case since 2008, when yields first fell to near zero, the portfolio manager focused on securities with a term to maturity that was longer than 30 days in order to obtain higher yields. The Fund maintained a higher yield by allocating all of its assets to money-market instruments paying higher yields than U.S. Treasury bills, including U.S.-dollar-denominated corporate notes, bank-sponsored asset-backed commercial paper and bankers' acceptances. The Fund also had a small allocation to Canadian short-term, floating-rate corporate notes, whose payments change with interest rates, and U.S.-dollar-denominated fixed- and floating-rate notes issued by Canadian provinces.

There were limited opportunities to boost returns through management of the average maturity term of the Fund given that the federal funds rate, the short-term U.S. benchmark, was locked near zero for the first 11 months of 2015 before being increased in December by 0.25% to between 0.25% and 0.50%. As we approached the end of the year, the portfolio manager started to shorten the maturity of the Fund somewhat, to be able to take advantage of newer, higher yields.

**Recent Developments**

The strategies employed by the Fund have remained largely consistent since the start of the ultra-low interest-rate cycle in 2009, with no meaningful shifts in the investment strategy during this period. With the start of a U.S. Federal Reserve monetary tightening cycle now underway, the portfolio manager will be adjusting the term to maturity of the Fund in anticipation of further rate increases.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;



- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

*Inter-Fund Trading*

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

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

(IN U.S. DOLLARS)

**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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
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
Advisor Series												
Dec. 31, 2015	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
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
Series D												
Dec. 31, 2015	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
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
Series F												
Dec. 31, 2015	10.00	0.03	(0.01)	—	—	0.02	(0.02)	—	—	—	(0.02)	10.00
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
Series O												
Dec. 31, 2015	10.00	0.04	(0.01)	—	—	0.03	(0.03)	—	—	—	(0.03)	10.00
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>1 469</b>	<b>147</b>	<b>0.12</b>	<b>0.12</b>	<b>n/a</b>	<b>—</b>
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>69</b>	<b>7</b>	<b>0.11</b>	<b>0.11</b>	<b>n/a</b>	<b>—</b>
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	—
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>13 985</b>	<b>1 399</b>	<b>0.11</b>	<b>0.11</b>	<b>n/a</b>	<b>—</b>
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	—
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>2 735</b>	<b>273</b>	<b>0.12</b>	<b>0.12</b>	<b>n/a</b>	<b>—</b>
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	—
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>33 533</b>	<b>3 353</b>	<b>0.06</b>	<b>0.06</b>	<b>n/a</b>	<b>—</b>
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	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

**FINANCIAL HIGHLIGHTS (in USD) (cont.)****Management Fees**

RBC GAM is the manager and portfolio manager 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.

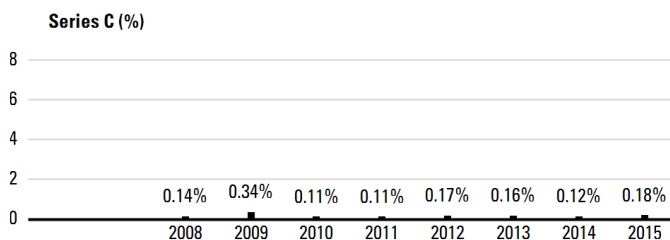
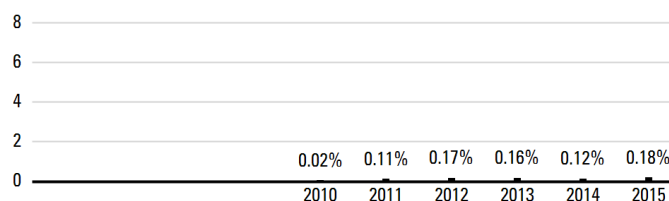
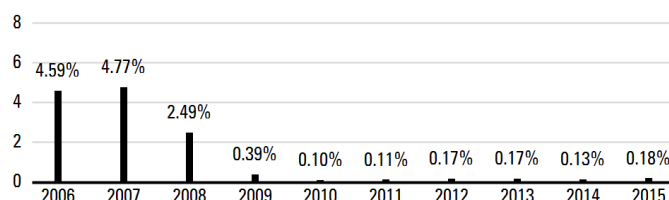
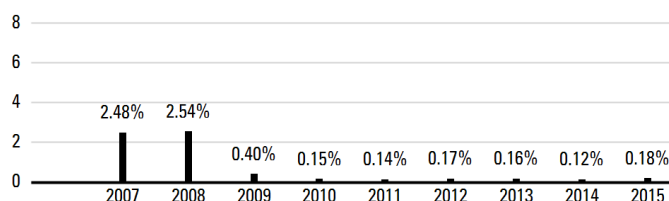
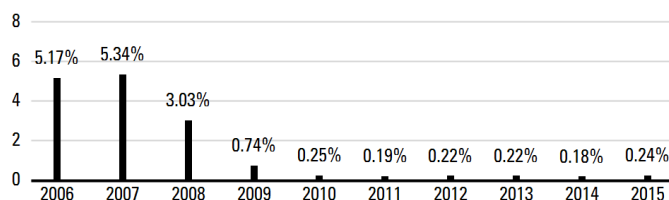
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.

**Advisor Series (%)****Series D (%)****Series F (%)****Series O (%)**

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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

**SUMMARY OF INVESTMENT PORTFOLIO (in USD)***(after consideration of derivative products, if any)**As at December 31, 2015***Investment Mix**

	% of Net Asset Value
Corporate Notes	94.0
Government Notes	6.0

**Top 25 Holdings**

	% of Net Asset Value
National Bank of Canada 0.432% Jan 13 16	7.5
Canadian Imperial Bank of Commerce 0.424% Jan 13 16	7.2
Bank of Nova Scotia 0.424% Jan 13 16	5.3
SURE Trust 0.541% Jan 19 16	4.6
Ridge Trust 0.831% Mar 22 16	4.6
Clarity Trust 0.798% Feb 16 16	4.4
Banner Trust 0.721% Mar 1 16	4.4
SAFE Trust – Series 1996-1 0.749% Mar 3 16	4.4
Canadian Master Trust – Series A 0.703% Feb 9 16	4.4
OMERS Realty Corp. 0.440% Mar 4 16	4.1
Toronto-Dominion Bank 0.427% Jan 13 16	3.9
Bank of Montreal 0.349% Jan 11 16	3.9
Fusion Trust 0.601% Mar 30 16	3.9
SOUND Trust 0.599% Feb 29 16	3.4
Merit Trust – Senior Notes 0.611% Feb 23 16	3.2
Caisse Centrale Desjardins 0.329% Feb 19 16	3.2
Province of Alberta 0.482% Feb 29 16	2.9
Province of Alberta 0.497% Feb 25 16	2.8
Prime Trust – Senior Notes 0.640% Feb 24 16	2.7
TMX Group Ltd. 0.404% Jan 4 16	2.5
Zeus Receivables Trust – Senior Notes 0.462% Jan 12 16	2.4
Bank of Montreal 0.350% Jan 13 16	2.2
Zeus Receivables Trust – Senior Notes 0.640% Feb 24 16	2.1
Canadian Imperial Bank of Commerce 0.334% Jan 6 16	1.5
Toronto-Dominion Bank 0.360% Jan 21 16	1.5
Top 25 Holdings	93.0

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
SHORT TERM BOND & MORTGAGE FUND**

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*December 31, 2015***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 4, 2016.

**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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*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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 TERM BOND & MORTGAGE FUND****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. Investments are made in accordance with National Policy Statement No. 29, a set of regulatory guidelines covering mortgage purchases by mutual funds. To achieve the Fund's investment objective, the portfolio manager invests 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). The portfolio manager 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$5.1 billion as of December 31, 2015, from \$4.7 billion at the end of 2014. The increase was due mostly to net inflows.

Over the past year, the Fund's Series O units gained 2.8%, which outperformed the 2.6% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Global bond markets were more volatile than usual during 2015, making it more difficult for the Fund to benefit from strategies aimed at taking advantage of interest-rate shifts. The Bank of Canada cut its target overnight interest rate by 0.25% in January and another 0.25% July, bringing the rate to 0.50% and contributing to a decline in Canadian short-term bond yields. The Fund's overall term to maturity was shorter than its benchmark in the first half of the year, which was negative for performance, and close to neutral in the second, which had a negligible effect.

A more meaningful impact to performance came from the Fund's investments in corporate bonds and mortgages. The portfolio manager decreased exposure to corporate bonds in the summer due to growing uncertainty in the market and an influx of new

corporate-bond issues. This exposure was added back in the fall, and then lowered once again at the end of the year in response to a rise in perceived market risks. The portfolio manager also increased the quality of the Fund's corporate holdings and switched into industries that are less exposed to a slowdown in economic growth. The Fund's corporate-bond strategies added to relative performance. Mortgages performed well and contributed to returns by offering higher rates of interest than most other high-quality areas of the market.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

**Recent Developments**

Economic and financial-market uncertainty and volatility remain elevated due to a number of global risks, including weak economic growth in Europe, decelerating growth in emerging-market countries and a slowing expansion in China. Furthermore, the U.S. Federal Reserve (the "Fed") recently began a monetary-tightening cycle – raising interest rates – for the first time in nine years. Most other central banks, including Canada's, remain keen to stimulate the economy by keeping target interest rates low. There remains widespread uncertainty about how fixed-income markets will respond to the contrasting intentions of the Fed versus other major central banks.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

**PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE 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.

***Other Related-Party Transactions***

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

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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		
											Total	
Series C												
Dec. 31, 2015	10.50	0.29	(0.12)	0.02	(0.02)	0.17	(0.16)	—	(0.02)	—	(0.18)	10.49
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
Advisor Series												
Dec. 31, 2015	10.50	0.29	(0.12)	0.02	(0.02)	0.17	(0.17)	—	(0.01)	—	(0.18)	10.49
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
Series H												
Dec. 31, 2015	10.49	0.29	(0.11)	0.02	(0.02)	0.18	(0.18)	—	(0.01)	—	(0.19)	10.49
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 <sup>3</sup>	10.54 <sup>†</sup>	0.14	(0.05)	(0.01)	(0.01)	0.07	(0.09)	—	—	—	(0.09)	10.51
Series D												
Dec. 31, 2015	10.45	0.29	(0.06)	0.02	(0.02)	0.23	(0.23)	—	(0.01)	—	(0.24)	10.45
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
Series F												
Dec. 31, 2015	10.43	0.28	(0.06)	0.02	(0.02)	0.22	(0.22)	—	(0.01)	—	(0.23)	10.43
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
Series I												
Dec. 31, 2015	10.42	0.28	(0.05)	0.02	(0.02)	0.23	(0.24)	—	(0.01)	—	(0.25)	10.42
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 <sup>3</sup>	10.48 <sup>†</sup>	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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series O												
Dec. 31, 2015	10.17	0.28	(0.01)	0.02	(0.02)	0.27	(0.27)	—	(0.02)	—	(0.29)	10.16
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From July 2012.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>10.49</b>	<b>144 831</b>	<b>13 808</b>	<b>1.16</b>	<b>1.16</b>	<b>200.13</b>	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>10.49</b>	<b>27 136</b>	<b>2 586</b>	<b>1.16</b>	<b>1.16</b>	<b>200.13</b>	—
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	—
<b>Series H</b>							
<b>Dec. 31, 2015</b>	<b>10.49</b>	<b>72 809</b>	<b>6 943</b>	<b>1.02</b>	<b>1.02</b>	<b>200.13</b>	—
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 <sup>4</sup>	10.52	42 687	4 060	1.04	1.04	236.97	—
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>10.45</b>	<b>220 901</b>	<b>21 137</b>	<b>0.60</b>	<b>0.60</b>	<b>200.13</b>	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>10.43</b>	<b>101 384</b>	<b>9 720</b>	<b>0.61</b>	<b>0.61</b>	<b>200.13</b>	—
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	—

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series I</b>							
<b>Dec. 31, 2015</b>	<b>10.42</b>	<b>47 885</b>	<b>4 596</b>	<b>0.49</b>	<b>0.49</b>	<b>200.13</b>	—
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 <sup>4</sup>	10.45	19 544	1 869	0.51	0.51	236.97	—
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.16</b>	<b>4 507 824</b>	<b>443 659</b>	<b>0.06</b>	<b>0.06</b>	<b>200.13</b>	—
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	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From July 2012.

**Management Fees**

RBC GAM is the manager and portfolio manager 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.

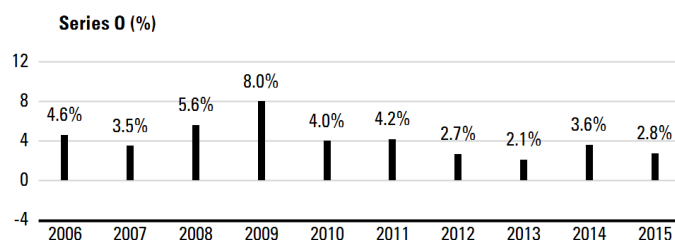
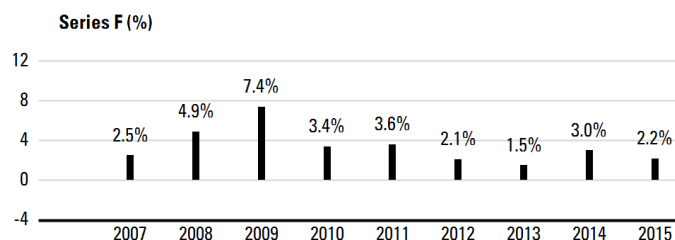
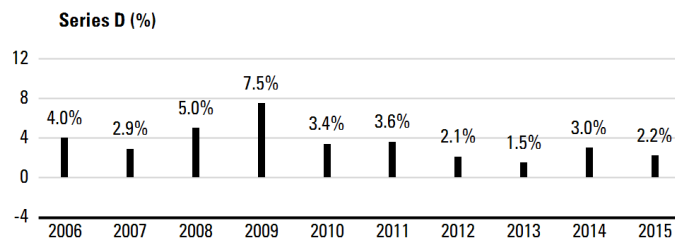
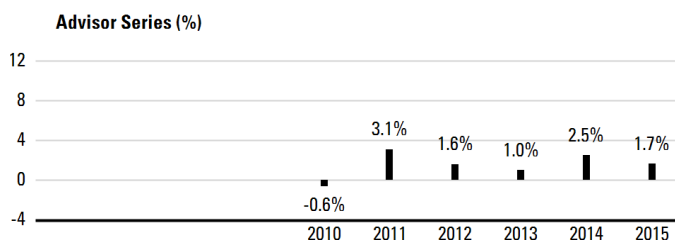
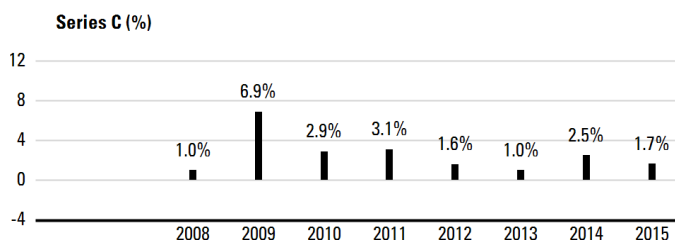
# PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

## 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, 2015, 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	1.7	1.7	1.9	—	2.9
Benchmark	2.6	2.5	2.8	—	3.4
Advisor Series	1.7	1.7	1.9	—	1.8
Benchmark	2.6	2.5	2.8	—	2.6
Series H	1.8	1.8	—	—	1.8
Benchmark	2.6	2.5	—	—	2.4
Series D	2.2	2.3	2.5	3.5	—
Benchmark	2.6	2.5	2.8	3.9	—
Series F	2.2	2.3	2.5	—	3.6
Benchmark	2.6	2.5	2.8	—	4.0
Series I	2.3	2.4	—	—	2.3
Benchmark	2.6	2.5	—	—	2.4
Series O	2.8	2.8	3.1	4.1	—
Benchmark	2.6	2.5	2.8	3.9	—

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.

Series H and Series I units have been available for sale to unitholders since July 2012, Advisor Series units since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	43.4
Federal Bonds	22.1
Provincial Bonds	14.8
Mortgages	12.9
Mortgage-Backed Bonds	5.1
Cash/Other	1.7

**Top 25 Holdings**

	% of Net Asset Value
Government of Canada 0.750% Sep 1 20	7.6
Province of Ontario 2.100% Sep 8 18	7.0
Province of Ontario 4.200% Jun 2 20	4.1
Canada Housing Trust No. 1 1.700% Dec 15 17	3.2
Canada Housing Trust No. 1 2.050% Jun 15 17	2.6
Province of Ontario 4.400% Jun 2 19	2.5
Canada Housing Trust No. 1 1.450% Jun 15 20	2.1
Genesis Trust II 2.295% Feb 15 17	1.9
Bank of Montreal 2.960% Aug 2 16	1.8
Government of Canada 1.250% Aug 1 17	1.6
Cards II Trust 1.984% Jan 15 16	1.3
Cash & Cash Equivalents	1.3
Canada Housing Trust No. 1 2.000% Dec 15 19	1.2
Canadian Imperial Bank of Commerce 2.650% Nov 8 16	1.1
Province of Alberta 1.250% Jun 1 20	1.1
Bank of Nova Scotia 1.330% May 1 18	1.1
Canada Housing Trust No. 1 2.050% Jun 15 18	0.9
Royal Bank of Canada 2.260% Mar 12 18	0.9
Toronto-Dominion Bank 2.433% Aug 15 17	0.9
Canadian Imperial Bank of Commerce 1.700% Oct 9 18	0.9
Canada Housing Trust No. 1 2.350% Dec 15 18	0.8
HSBC Bank Canada 2.901% Jan 13 17	0.7
National Grid Electricity Transmission Plc. CAD 2.730% Sep 20 17	0.7
Mortgage, 2.420% Mar 01, 2018	0.7
Canadian Imperial Bank of Commerce 1.750% Jun 1 16	0.7
Top 25 Holdings	48.7

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH BOND FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests primarily in high-quality Canadian corporate and government bonds issued in either Canadian or U.S. dollars. The portfolio manager 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$8.9 billion as of December 31, 2015, from \$8.6 billion at the end of 2014. The increase was due to investment gains.

Over the past year, the Fund's Series O units gained 3.8%, which outperformed the 3.5% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Global bond markets were more volatile than usual during 2015, making it more difficult for the Fund to benefit from strategies aimed at taking advantage of interest-rate shifts. The portfolio manager kept the Fund's term to maturity slightly shorter than or close to its benchmark for the majority of the year, having a negligible impact on relative performance.

A more meaningful impact to performance came from the Fund's strategies for investing in corporate and provincial bonds. The portfolio manager decreased exposure to corporate bonds in the summer due to growing uncertainty in the market and an influx of new corporate-bond issues. This exposure was added back in the fall, and then lowered once again at the end of the year in response to decreasing risk sentiment in the market. The portfolio manager also increased the quality of the Fund's corporate holdings and switched into industries that are less exposed to a slowdown in economic growth. The Fund's corporate-bond strategies added to relative performance.

The Fund's significant exposure to provincial bonds also contributed to relative performance in 2015, with security selection in this area helping to offset the generally poor performance of provincial bonds. Provincial bonds remained the Fund's largest relative holding as of December 31, 2015.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

### Recent Developments

Economic and financial-market uncertainty and volatility remain elevated due to a number of global risks, including weak economic growth in Europe, decelerating growth in emerging-market countries and a slowing expansion in China. Furthermore, the U.S. Federal Reserve (the "Fed") recently began a monetary-tightening cycle – raising interest rates – for the first time in nine years. Most other central banks, including Canada's, remain keen to stimulate the economy by keeping target interest rates low. There remains widespread uncertainty about how fixed-income markets will respond to the contrasting intentions of the Fed versus other major central banks.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	10.74	0.37	(0.13)	0.23	(0.18)	0.29	(0.24)	—	(0.27)	—	(0.51)	10.51
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
Advisor Series												
Dec. 31, 2015	10.74	0.37	(0.13)	0.23	(0.18)	0.29	(0.24)	—	(0.27)	—	(0.51)	10.52
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
Series D												
Dec. 31, 2015	10.65	0.37	(0.07)	0.23	(0.18)	0.35	(0.31)	—	(0.26)	—	(0.57)	10.43
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
Series F												
Dec. 31, 2015	10.70	0.37	(0.07)	0.23	(0.18)	0.35	(0.30)	—	(0.27)	—	(0.57)	10.48
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
Series O												
Dec. 31, 2015	10.67	0.37	—	0.23	(0.18)	0.42	(0.36)	—	(0.27)	—	(0.63)	10.44
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>10.51</b>	<b>112 560</b>	<b>10 707</b>	<b>1.16</b>	<b>1.16</b>	<b>243.23</b>	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>10.52</b>	<b>44 408</b>	<b>4 222</b>	<b>1.16</b>	<b>1.16</b>	<b>243.23</b>	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>10.43</b>	<b>616 099</b>	<b>59 095</b>	<b>0.60</b>	<b>0.60</b>	<b>243.23</b>	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>10.48</b>	<b>94 082</b>	<b>8 981</b>	<b>0.60</b>	<b>0.60</b>	<b>243.23</b>	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.44</b>	<b>8 009 643</b>	<b>767 022</b>	<b>0.02</b>	<b>0.02</b>	<b>243.23</b>	—
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	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

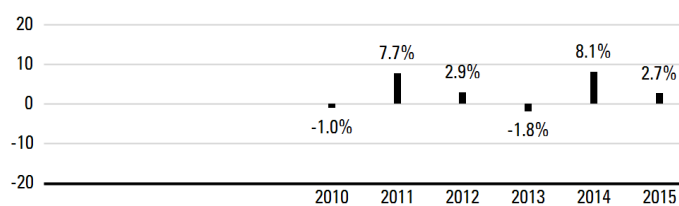
## PAST PERFORMANCE

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.

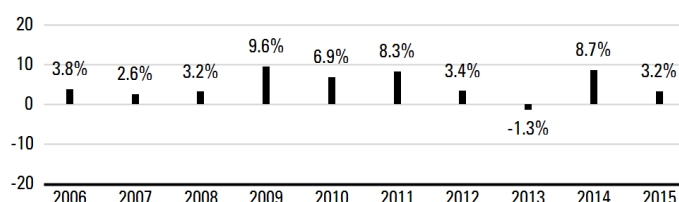
### Year-by-Year Returns (%)

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.

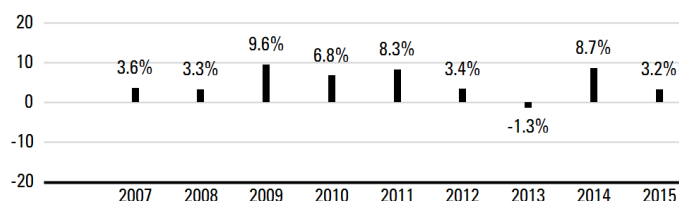
Advisor Series (%)



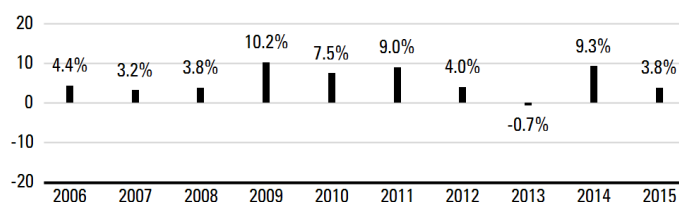
Series D (%)



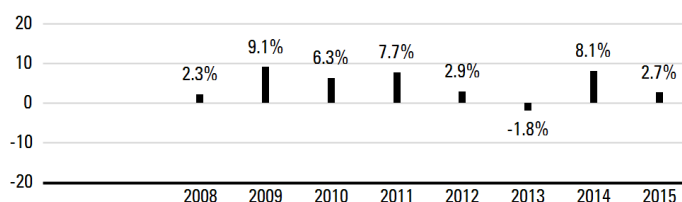
Series F (%)



Series O (%)



Series C (%)



## 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, 2015, 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	2.7	2.9	3.8	—	5.2
Benchmark	3.5	3.6	4.8	—	5.5
Advisor Series	2.7	2.9	3.8	—	3.5
Benchmark	3.5	3.6	4.8	—	4.5
Series D	3.2	3.5	4.4	4.8	—
Benchmark	3.5	3.6	4.8	5.0	—
Series F	3.2	3.5	4.4	—	5.3
Benchmark	3.5	3.6	4.8	—	5.5
Series O	3.8	4.1	5.0	5.4	—
Benchmark	3.5	3.6	4.8	5.0	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Corporate Bonds	37.0
Provincial Bonds	36.7
Federal Bonds	19.4
Mortgages	0.6
Municipal Bonds	0.3
Mortgage-Backed Bonds	0.3
Cash/Other	5.7

### Top 25 Holdings

	% of Net Asset Value
Government of Canada 0.750% Sep 1 20	9.1
Cash & Cash Equivalents	5.2
Province of Ontario 7.600% Jun 2 27	5.1
Province of Ontario 6.500% Mar 8 29	3.7
Province of Ontario 2.900% Dec 2 46	3.3
Province of Ontario 3.150% Jun 2 22	2.5
Government of Canada 2.250% Jun 1 25	2.3
Province of Ontario 6.200% Jun 2 31	2.2
Province of Ontario 8.100% Sep 8 23	2.1
Government of Canada 3.500% Dec 1 45	2.1
Province of Quebec 8.500% Apr 1 26	1.8
Canada Housing Trust No. 1 3.350% Dec 15 20	1.7
Province of Ontario 3.500% Jun 2 43	1.7
Province of Ontario 8.500% Dec 2 25	1.6
Government of Canada 5.000% Jun 1 37	1.3
Province of Ontario 3.500% Jun 2 24	1.2
Canada Housing Trust No. 1 1.250% Dec 15 20	1.1
Province of Alberta 2.350% Jun 1 25	1.1
Province of Quebec 6.000% Oct 1 29	1.1
Ontario Electricity Financial Corp. 8.250% Jun 22 26	1.0
Province of Ontario 5.600% Jun 2 35	0.9
Royal Bank of Canada 2.350% Dec 9 19	0.9
Province of Ontario 5.850% Mar 8 33	0.9
Province of Quebec 9.375% Jan 16 23	0.8
National Grid Electricity Transmission Plc. CAD 2.730% Sep 20 17	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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
COMMUNITY VALUES BOND FUND**
*December 31, 2015*
**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 4, 2016.

**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 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, the portfolio manager invests primarily in high-quality Canadian corporate and government bonds issued in Canadian or U.S. dollars. The portfolio manager 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$162 million as of December 31, 2015, from \$154 million at the end of 2014. The increase was due mainly to investment gains.

Over the past year, the Fund's Series O units gained 3.9%, which outperformed the 3.5% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Global bond markets were more volatile than usual during 2015, making it more difficult for the Fund to benefit from strategies aimed at taking advantage of interest-rate shifts. The portfolio manager kept the Fund's term to maturity slightly shorter than or close to its benchmark for the majority of the year, having a negligible impact on relative performance.

A more meaningful impact to performance came from the Fund's strategies for investing in corporate and provincial bonds. The portfolio manager decreased exposure to corporate bonds in the summer due to growing uncertainty in the market and an influx of new corporate-bond issues. This exposure was added back in the fall, and then lowered once again at the end of the year in response to decreasing risk sentiment in the market. The portfolio manager also increased the quality of the Fund's corporate holdings and switched into industries that are less exposed to a slowdown in economic growth. The Fund's corporate-bond strategies added to relative performance.

The Fund's significant exposure to provincial bonds also contributed to relative performance in 2015, with security selection in this area helping to offset the generally poor performance of provincial bonds. Provincial bonds remained the Fund's largest relative holding as of December 31, 2015.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

**Recent Developments**

Economic and financial-market uncertainty and volatility remain elevated due to a number of global risks, including weak economic growth in Europe, decelerating growth in emerging-market countries and a slowing expansion in China. Furthermore, the U.S. Federal Reserve (the "Fed") recently began a monetary-tightening cycle – raising interest rates – for the first time in nine years. Most other central banks, including Canada's, remain keen to stimulate the economy by keeping target interest rates low. There remains widespread uncertainty about how fixed-income markets will respond to the contrasting intentions of the Fed versus other major central banks.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	11.24	0.37	(0.13)	0.23	(0.17)	0.30	(0.24)	—	(0.25)	—	(0.49)	11.06
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
Advisor Series												
Dec. 31, 2015	11.24	0.37	(0.13)	0.23	(0.17)	0.30	(0.24)	—	(0.25)	—	(0.49)	11.06
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
Series D												
Dec. 31, 2015	11.16	0.37	(0.07)	0.22	(0.17)	0.35	(0.30)	—	(0.26)	—	(0.56)	10.97
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
Series F												
Dec. 31, 2015	11.21	0.37	(0.07)	0.23	(0.17)	0.36	(0.31)	—	(0.25)	—	(0.56)	11.02
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
Series O												
Dec. 31, 2015	11.03	0.37	(0.01)	0.22	(0.16)	0.42	(0.36)	—	(0.25)	—	(0.61)	10.84
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.



**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>11.06</b>	<b>7 551</b>	<b>683</b>	<b>1.15</b>	<b>1.15</b>	<b>217.41</b>	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>11.06</b>	<b>5 392</b>	<b>488</b>	<b>1.15</b>	<b>1.15</b>	<b>217.41</b>	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>10.97</b>	<b>20 695</b>	<b>1 886</b>	<b>0.60</b>	<b>0.60</b>	<b>217.41</b>	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>11.02</b>	<b>7 246</b>	<b>658</b>	<b>0.60</b>	<b>0.60</b>	<b>217.41</b>	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.84</b>	<b>121 361</b>	<b>11 192</b>	<b>0.06</b>	<b>0.06</b>	<b>217.41</b>	—
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	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

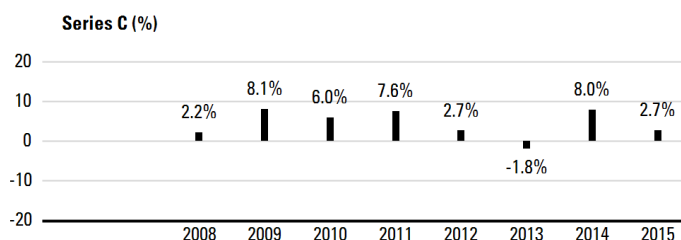
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

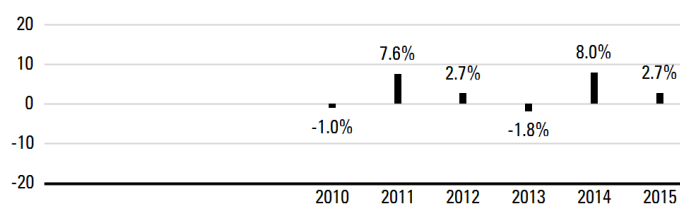
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

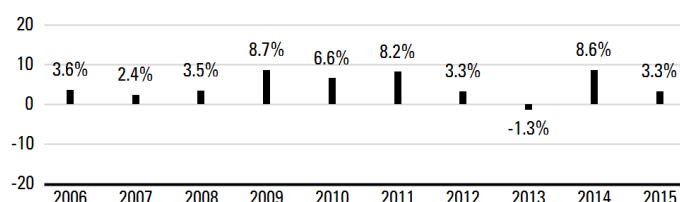
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



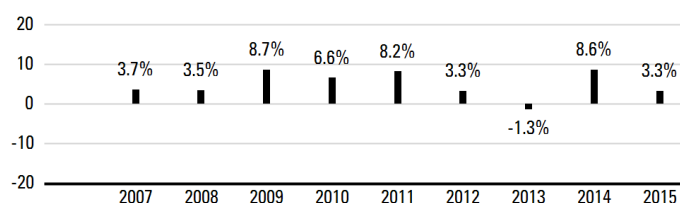
**Advisor Series (%)**



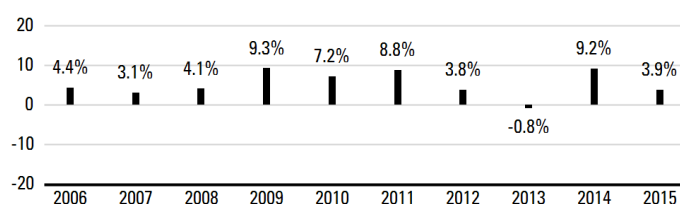
**Series D (%)**



**Series F (%)**



**Series O (%)**



**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, 2015, 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	2.7	2.9	3.8	—	5.0
Benchmark	3.5	3.6	4.8	—	5.5
Advisor Series	2.7	2.9	3.8	—	3.5
Benchmark	3.5	3.6	4.8	—	4.5
Series D	3.3	3.5	4.3	4.6	—
Benchmark	3.5	3.6	4.8	5.0	—
Series F	3.3	3.5	4.3	—	5.2
Benchmark	3.5	3.6	4.8	—	5.5
Series O	3.9	4.0	4.9	5.2	—
Benchmark	3.5	3.6	4.8	5.0	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

**Investment Mix**

	% of Net Asset Value
Provincial Bonds	36.6
Corporate Bonds	36.3
Federal Bonds	20.1
Municipal Bonds	0.4
Mortgage-Backed Bonds	0.4
Cash/Other	6.2

**Top 25 Holdings**

	% of Net Asset Value
Government of Canada 0.750% Sep 1 20	10.5
Cash & Cash Equivalents	5.6
Province of Ontario 7.600% Jun 2 27	5.2
Province of Ontario 6.500% Mar 8 29	3.8
Province of Ontario 2.900% Dec 2 46	3.2
Government of Canada 2.250% Jun 1 25	2.5
Province of Ontario 3.150% Jun 2 22	2.4
Province of Ontario 6.200% Jun 2 31	2.4
Province of Quebec 8.500% Apr 1 26	2.1
Province of Ontario 8.100% Sep 8 23	2.0
Government of Canada 3.500% Dec 1 45	1.9
Bank of Nova Scotia 1.330% May 1 18	1.9
Province of Ontario 3.500% Jun 2 43	1.8
National Grid Electricity Transmission Plc. CAD 2.730% Sep 20 17	1.8
Canadian Imperial Bank of Commerce 1.750% Jun 1 16	1.6
Province of Ontario 8.500% Dec 2 25	1.6
Canada Housing Trust No. 1 3.350% Dec 15 20	1.5
Province of Ontario 3.500% Jun 2 24	1.3
Province of Alberta 2.350% Jun 1 25	1.1
Ontario Electricity Financial Corp. 8.250% Jun 22 26	1.0
Royal Bank of Canada 2.770% Dec 11 18	0.9
Province of Ontario 5.600% Jun 2 35	0.9
Union Gas Ltd. 3.790% Jul 10 23	0.9
Canada Housing Trust No. 1 2.900% Jun 15 24	0.9
Government of Canada 5.000% Jun 1 37	0.9
Top 25 Holdings	59.7

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH**  
**TOTAL RETURN BOND FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$7.5 billion as of December 31, 2015, from \$6.0 billion at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 3.7%, which outperformed the 3.5% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Global bond markets were more volatile than usual during 2015, making it more difficult for the Fund to benefit from strategies aimed at taking advantage of interest-rate shifts. The portfolio manager kept the Fund's term to maturity slightly shorter than or close to its benchmark for the majority of the year, having a negligible impact on relative performance.

A more meaningful impact to performance came from the Fund's strategies for investing in corporate and provincial bonds. The portfolio manager decreased exposure to corporate bonds in the summer due to growing uncertainty in the market and an influx of new corporate-bond issues. This exposure was added back in the fall, and then lowered once again at the end of the year in response to decreasing risk sentiment in the market. The portfolio manager also

increased the quality of the Fund's corporate holdings and switched into industries that are less exposed to a slowdown in economic growth. The Fund's corporate-bond strategies added to relative performance, with the exception of a small allocation to high-yield bonds, which performed poorly in the second half of the year.

The Fund's significant exposure to provincial bonds also contributed to relative performance in 2015, with security selection in this area helping to offset the generally poor performance of provincial bonds. Provincial bonds remained the Fund's largest relative holding as of December 31, 2015.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

### Recent Developments

Economic and financial-market uncertainty and volatility remain elevated due to a number of global risks, including weak economic growth in Europe, decelerating growth in emerging-market countries and a slowing expansion in China. Furthermore, the U.S. Federal Reserve (the "Fed") recently began a monetary-tightening cycle – raising interest rates – for the first time in nine years. Most other central banks, including Canada's, remain keen to stimulate the economy by keeping target interest rates low. There remains widespread uncertainty about how fixed-income markets will respond to the contrasting intentions of the Fed versus other major central banks.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 &amp; NORTH TOTAL RETURN 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	11.69	0.40	(0.14)	0.16	(0.17)	0.25	(0.25)	—	(0.22)	—	(0.47)	11.52
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
Advisor Series												
Dec. 31, 2015	11.69	0.40	(0.14)	0.16	(0.17)	0.25	(0.25)	—	(0.21)	—	(0.46)	11.53
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
Series H												
Dec. 31, 2015	11.71	0.40	(0.13)	0.16	(0.17)	0.26	(0.27)	—	(0.20)	—	(0.47)	11.55
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 <sup>3</sup>	11.79 <sup>†</sup>	0.30	(0.08)	0.03	(0.37)	(0.12)	(0.24)	—	(0.09)	—	(0.33)	11.12
Series D												
Dec. 31, 2015	11.69	0.40	(0.07)	0.16	(0.17)	0.32	(0.32)	—	(0.21)	—	(0.53)	11.52
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
Series F												
Dec. 31, 2015	11.70	0.40	(0.07)	0.16	(0.17)	0.32	(0.32)	—	(0.21)	—	(0.53)	11.53
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
Series I												
Dec. 31, 2015	11.72	0.40	(0.06)	0.16	(0.17)	0.33	(0.33)	—	(0.21)	—	(0.54)	11.55
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 <sup>3</sup>	11.80 <sup>†</sup>	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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
<b>Series O</b>												
<b>Dec. 31, 2015</b>	<b>11.63</b>	<b>0.40</b>	—	<b>0.16</b>	<b>(0.17)</b>	<b>0.39</b>	<b>(0.39)</b>	—	<b>(0.20)</b>	—	<b>(0.59)</b>	<b>11.47</b>
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From April 2013.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>11.52</b>	<b>153 976</b>	<b>13 367</b>	<b>1.16</b>	<b>1.16</b>	<b>218.83</b>	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>11.53</b>	<b>94 165</b>	<b>8 167</b>	<b>1.16</b>	<b>1.16</b>	<b>218.83</b>	—
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	—
<b>Series H</b>							
<b>Dec. 31, 2015</b>	<b>11.55</b>	<b>23 200</b>	<b>2 009</b>	<b>1.06</b>	<b>1.06</b>	<b>218.83</b>	—
Dec. 31, 2014	11.71	19 429	1 660	1.08	1.08	256.07	—
Dec. 31, 2013 <sup>4</sup>	11.13	1 282	115	1.09	1.09	283.61	—
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>11.52</b>	<b>543 855</b>	<b>47 207</b>	<b>0.58</b>	<b>0.58</b>	<b>218.83</b>	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>11.53</b>	<b>462 345</b>	<b>40 085</b>	<b>0.61</b>	<b>0.61</b>	<b>218.83</b>	—
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	—



## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series I</b>							
<b>Dec. 31, 2015</b>	<b>11.55</b>	<b>82 908</b>	<b>7 176</b>	<b>0.50</b>	<b>0.50</b>	<b>218.83</b>	—
Dec. 31, 2014	11.72	48 745	4 160	0.50	0.50	256.07	—
Dec. 31, 2013 <sup>4</sup>	11.14	8 257	741	0.50	0.50	283.61	—
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>11.47</b>	<b>6 103 380</b>	<b>532 024</b>	<b>0.02</b>	<b>0.02</b>	<b>218.83</b>	—
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	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From April 2013.

### Management Fees

RBC GAM is the manager and portfolio manager 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.

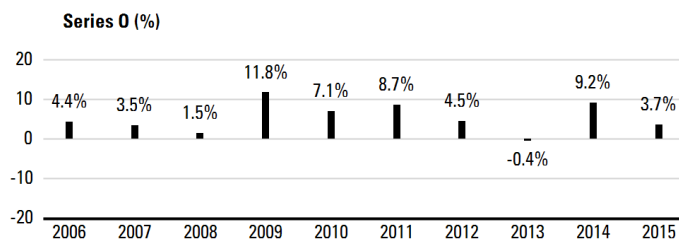
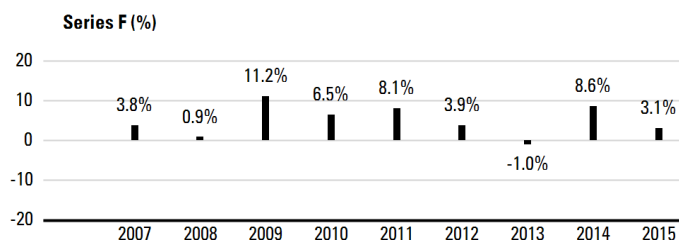
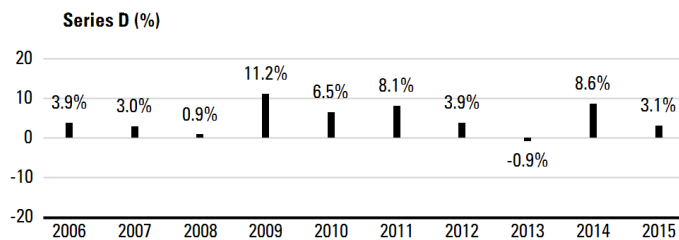
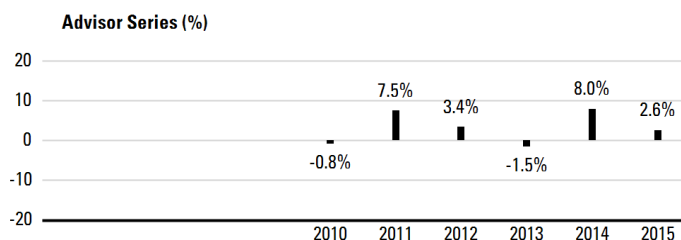
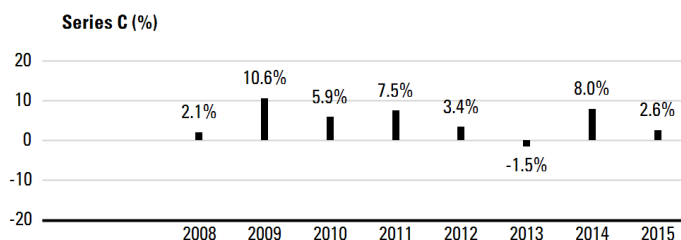
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2015, 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	2.6	2.9	3.9	—	5.4
Benchmark	3.5	3.6	4.8	—	5.5
Advisor Series	2.6	2.9	3.9	—	3.6
Benchmark	3.5	3.6	4.8	—	4.5
Series H	2.7	—	—	—	2.8
Benchmark	3.5	—	—	—	3.4
Series D	3.1	3.5	4.5	4.8	—
Benchmark	3.5	3.6	4.8	5.0	—
Series F	3.1	3.5	4.5	—	5.3
Benchmark	3.5	3.6	4.8	—	5.5
Series I	3.2	—	—	—	3.4
Benchmark	3.5	—	—	—	3.4
Series O	3.7	4.1	5.1	5.4	—
Benchmark	3.5	3.6	4.8	5.0	—

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.

Series H and Series I units have been available for sale to unitholders since April 2013, Advisor Series units since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	42.6
Provincial Bonds	36.4
Federal Bonds	15.0
Municipal Bonds	0.2
Mortgages	0.1
Mortgage-Backed Bonds	0.1
Cash/Other	5.6

**Top 25 Holdings**

	% of Net Asset Value
Province of Ontario 7.600% Jun 2 27	5.2
Cash & Cash Equivalents	5.1
Government of Canada 0.750% Sep 1 20	4.8
Province of Ontario 6.500% Mar 8 29	3.8
Province of Ontario 2.900% Dec 2 46	3.4
Government of Canada 2.250% Jun 1 25	2.6
Province of Ontario 3.150% Jun 2 22	2.6
Province of Ontario 6.200% Jun 2 31	2.2
Government of Canada 3.500% Dec 1 45	2.2
Province of Ontario 8.100% Sep 8 23	2.0
Canada Housing Trust No. 1 3.350% Dec 15 20	1.9
Province of Quebec 8.500% Apr 1 26	1.9
Province of Ontario 3.500% Jun 2 43	1.8
Province of Ontario 3.500% Jun 2 24	1.3
Province of Ontario 8.500% Dec 2 25	1.2
Canada Housing Trust No. 1 1.250% Dec 15 20	1.1
Province of Alberta 2.350% Jun 1 25	1.1
Phillips, Hager & North High Yield Bond Fund	1.1
Genesis Trust II 2.433% May 15 19	1.0
Province of Quebec 6.000% Oct 1 29	1.0
Teranet Holdings LP 4.807% Dec 16 20	0.9
Province of Ontario 5.600% Jun 2 35	0.9
Province of Quebec 9.375% Jan 16 23	0.9
Ontario Electricity Financial Corp. 8.250% Jun 22 26	0.8
Royal Bank of Canada 2.580% Apr 13 17	0.8
Top 25 Holdings	51.6

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH**  
**INFLATION-LINKED BOND FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$75 million as of December 31, 2015, from \$64 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 4.1%, which outperformed the 2.8% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Global bond markets were more volatile than usual during 2015, and the Fund's mandated exposure to longer-term assets made it especially sensitive to short-term fluctuations.

The portfolio manager enhanced returns by taking advantage of short-term trading opportunities in real-return bonds when bonds became "mispriced" compared to other real-return bonds. From time to time, the portfolio manager also allocated a small portion of the portfolio to longer-term nominal bonds (bonds whose returns are not adjusted for inflation), which appeared to offer attractive yields relative to real-return bonds.

The Fund was very active in capitalizing on increased market volatility.

### Recent Developments

Economic and financial-market uncertainty and volatility remain elevated due to a number of global risks, including weak economic growth in Europe, decelerating growth in emerging-market countries and a slowing expansion in China. Furthermore, the U.S. Federal Reserve (the "Fed") recently began a monetary-tightening cycle – raising interest rates – for the first time in nine years.

Most other central banks, including Canada's, remain keen to stimulate the economy by keeping target interest rates low. There remains widespread uncertainty about how fixed-income markets will respond to the contrasting intentions of the Fed versus other major central banks.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

#### *Related-Party Trading Activities*

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

*Inter-Fund Trading*

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	10.99	0.31	(0.11)	(0.36)	0.46	0.30	(0.21)	—	—	—	(0.21)	11.13
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
Advisor Series												
Dec. 31, 2015	10.99	0.31	(0.11)	(0.36)	0.46	0.30	(0.20)	—	—	—	(0.20)	11.13
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
Series D												
Dec. 31, 2015	11.03	0.31	(0.06)	(0.36)	0.47	0.36	(0.25)	—	—	—	(0.25)	11.17
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
Series F												
Dec. 31, 2015	11.01	0.31	(0.04)	(0.36)	0.47	0.38	(0.27)	—	—	—	(0.27)	11.15
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
Series O												
Dec. 31, 2015	11.10	0.31	—	(0.36)	0.47	0.42	(0.31)	—	—	—	(0.31)	11.25
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>11.13</b>	<b>14 992</b>	<b>1 347</b>	<b>0.93</b>	<b>0.93</b>	<b>1 690.92</b>	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>11.13</b>	<b>1 927</b>	<b>173</b>	<b>0.93</b>	<b>0.93</b>	<b>1 690.92</b>	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>11.17</b>	<b>14 665</b>	<b>1 312</b>	<b>0.55</b>	<b>0.55</b>	<b>1 690.92</b>	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>11.15</b>	<b>8 174</b>	<b>733</b>	<b>0.38</b>	<b>0.38</b>	<b>1 690.92</b>	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>11.25</b>	<b>35 289</b>	<b>3 139</b>	<b>0.03</b>	<b>0.03</b>	<b>1 690.92</b>	—
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	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.



## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

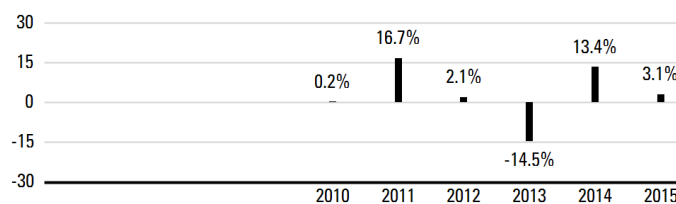
## PAST PERFORMANCE

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.

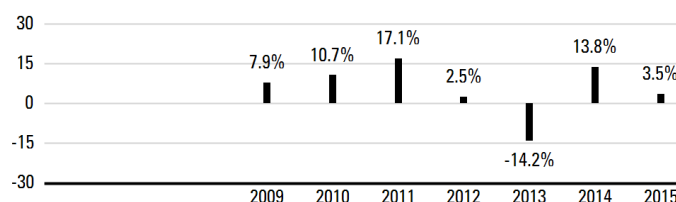
### Year-by-Year Returns (%)

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.

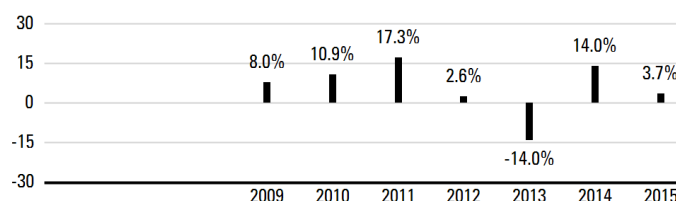
Advisor Series (%)



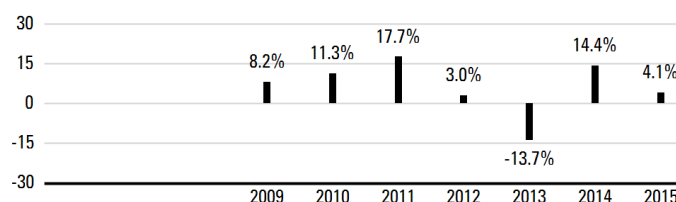
Series D (%)



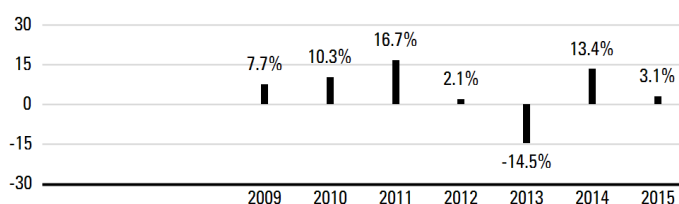
Series F (%)



Series O (%)



Series C (%)



**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, 2015, 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	3.1	0.0	3.6	—	5.5
Benchmark	2.8	0.4	4.2	—	6.2
Advisor Series	3.1	0.0	3.6	—	3.5
Benchmark	2.8	0.4	4.2	—	4.2
Series D	3.5	0.4	3.9	—	5.9
Benchmark	2.8	0.4	4.2	—	6.2
Series F	3.7	0.5	4.1	—	6.0
Benchmark	2.8	0.4	4.2	—	6.2
Series O	4.1	0.9	4.5	—	6.4
Benchmark	2.8	0.4	4.2	—	6.2

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.

Advisor Series units have been available for sale to unitholders since October 2010, and Series C, Series D, Series F and Series O units since June 2009.

Inception dates are not provided for series that have been in existence for more than 10 years.

**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, 2015

**Investment Mix**

	% of Net Asset Value
Federal Bonds	80.5
Provincial Bonds	12.1
Corporate Bonds	0.8
Cash/Other	6.6

**Top 25 Holdings\***

	% of Net Asset Value
Government of Canada 1.500% Dec 1 44	20.5
Government of Canada 4.250% Dec 1 26	18.0
Government of Canada 3.000% Dec 1 36	14.7
Government of Canada 4.000% Dec 1 31	14.0
Government of Canada 2.000% Dec 1 41	12.7
Cash & Cash Equivalents	6.6
Province of Ontario 2.000% Dec 1 36	4.9
Province of Quebec 4.250% Dec 1 31	3.3
Province of Quebec 4.500% Dec 1 26	2.8
Province of Quebec 4.500% Dec 1 21	1.0
Teranet Holdings LP 3.270% Dec 1 31	0.8
Government of Canada 1.250% Dec 1 47	0.7
<b>Total</b>	<b>100.0</b>

\* 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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH**  
**HIGH YIELD BOND FUND**
*December 31, 2015*
**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 4, 2016.

**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**

### **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, the portfolio manager 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 investors remain as discussed in the Simplified Prospectus.

### **Results of Operations**

The Fund's net asset value fell to \$3.2 billion as of December 31, 2015, from \$3.5 billion at the end of 2014. The decrease was due mainly to net redemptions.

Over the past year, the Fund's Series O units lost 2.2%, which underperformed the 3.5% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The high-yield bond market remained steady in the first half of 2015 but performed poorly in the second half. The Fund's negative performance was led primarily by Canadian energy bonds that the portfolio manager believed to be sound investments, but which fell in value with the Energy sector in general. The Fund maintained a shorter term to maturity and a larger cash position than usual. This positioning helped dampen the volatility of the Fund in light of large interest-rate fluctuations that occurred in the first half of the year and the meaningful high-yield bond sell-off in the second half. It also enabled the Fund to take advantage of attractively valued securities.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

### **Recent Developments**

Economic and financial-market uncertainty and volatility remain elevated due to a number of global risks, including weak economic growth in Europe, decelerating growth in emerging-market countries and a slowing expansion in China. Furthermore, the U.S. Federal Reserve (the "Fed") recently began a monetary-tightening cycle – raising interest rates – for the first time in nine years. Most other central banks, including Canada's, remain keen to stimulate the economy by keeping target interest rates low. There remains widespread uncertainty about how fixed-income markets will respond to the contrasting intentions of the Fed versus other major central banks.

It is becoming more difficult to trade securities given that banks no longer have the same levels of "liquidity" available before the 2008 financial crisis. Accordingly, the Fund remains well-diversified with higher-quality issues that the portfolio manager is comfortable holding for extended periods. In addition, the Fund retains a larger cash balance so that it can be in position to exploit any opportunities offered by market declines.

### **Related-Party Transactions**

#### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***Other Related-Party Transactions***

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

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	11.97	0.77	(0.17)	(0.05)	(0.95)	(0.40)	(0.60)	—	—	—	(0.60)	10.97
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
Advisor Series												
Dec. 31, 2015	11.97	0.77	(0.17)	(0.05)	(0.95)	(0.40)	(0.60)	—	—	—	(0.60)	10.97
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
Series D												
Dec. 31, 2015	11.84	0.77	(0.10)	(0.05)	(0.94)	(0.32)	(0.67)	—	—	—	(0.67)	10.85
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
Series F												
Dec. 31, 2015	11.91	0.77	(0.11)	(0.05)	(0.95)	(0.34)	(0.67)	—	—	—	(0.67)	10.91
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
Series O												
Dec. 31, 2015	11.43	0.74	—	(0.04)	(0.91)	(0.21)	(0.74)	—	—	—	(0.74)	10.47
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>10.97</b>	<b>281 732</b>	<b>25 678</b>	<b>1.44</b>	<b>1.44</b>	<b>108.96</b>	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>10.97</b>	<b>56 717</b>	<b>5 169</b>	<b>1.44</b>	<b>1.44</b>	<b>108.96</b>	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>10.85</b>	<b>610 061</b>	<b>56 237</b>	<b>0.87</b>	<b>0.87</b>	<b>108.96</b>	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>10.91</b>	<b>385 236</b>	<b>35 317</b>	<b>0.89</b>	<b>0.89</b>	<b>108.96</b>	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.47</b>	<b>1 864 376</b>	<b>178 093</b>	<b>0.03</b>	<b>0.03</b>	<b>108.96</b>	—
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	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

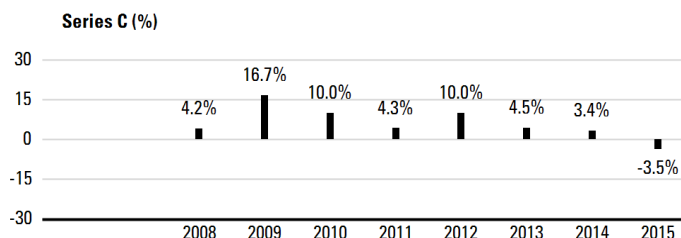
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

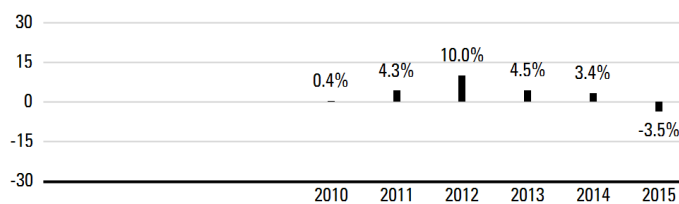
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

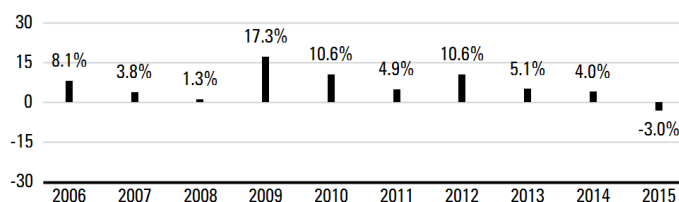
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



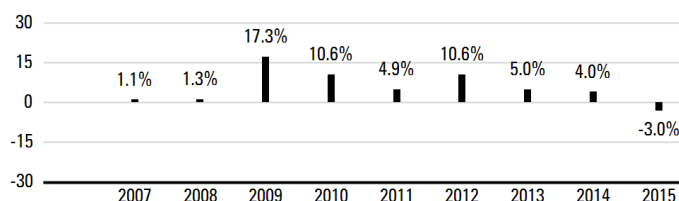
**Advisor Series (%)**



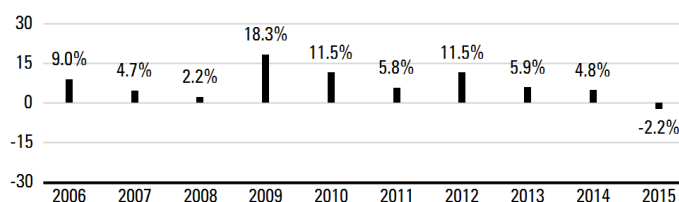
**Series D (%)**



**Series F (%)**



**Series O (%)**





## 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, 2015, 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	-3.5	1.4	3.6	—	6.8
Benchmark	3.5	3.6	4.8	—	5.5
Advisor Series	-3.5	1.4	3.6	—	3.6
Benchmark	3.5	3.6	4.8	—	4.5
Series D	-3.0	2.0	4.2	6.1	—
Benchmark	3.5	3.6	4.8	5.0	—
Series F	-3.0	1.9	4.2	—	5.9
Benchmark	3.5	3.6	4.8	—	5.5
Series O	-2.2	2.8	5.1	7.0	—
Benchmark	3.5	3.6	4.8	5.0	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Corporate Bonds	83.5
Cash/Other	16.5

### Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	16.2
Quebecor Media Inc. 6.625% Jan 15 23	6.4
Bank of Nova Scotia 3.367% Dec 8 25	4.3
Trilogy Energy Corp. 7.250% Dec 13 19	3.8
Quebecor Media Inc. 7.375% Jan 15 21	3.5
Baytex Energy Corp. 6.625% Jul 19 22	3.4
Western Energy Services Corp. 7.875% Jan 30 19	3.1
Trinidad Drilling Ltd. USD 7.875% Jan 15 19	2.9
Precision Drilling Corp. USD 6.625% Nov 15 20	2.9
Corus Entertainment Inc. 4.250% Feb 11 20	2.8
Canadian Energy Services & Technology Corp. 7.375% Apr 17 20	2.7
Paramount Resources Ltd. USD 6.875% Jun 30 23	2.7
Baytex Energy Corp. USD 6.750% Feb 17 21	2.7
Videotron Ltd. 6.875% Jul 15 21	2.4
Superior Plus LP 6.500% Dec 9 21	2.3
Bank of Montreal 3.340% Dec 8 25	2.1
Gibson Energy Inc. 7.000% Jul 15 20	2.1
Precision Drilling Corp. USD 5.250% Nov 15 24	2.0
Newalta Corp. 7.750% Nov 14 19	2.0
Parkland Fuel Corp. 6.000% Nov 21 22	1.9
MPL 2 Acquisition Canco Inc. USD 9.875% Aug 15 18	1.8
Atlantic Power LP 5.950% Jun 23 36	1.8
Calfrac Holdings LP 7.500% Dec 1 20	1.7
Savanna Energy Services Corp. 7.000% May 25 18	1.5
Gibson Energy Inc. USD 6.750% Jul 15 21	1.5
Top 25 Holdings	80.5

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH LONG  
INFLATION-LINKED BOND FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$49 million as of December 31, 2015, from \$34 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 1.7%, which underperformed the 2.8% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Global bond markets were more volatile than usual during 2015, and the Fund's mandated exposure to longer-term assets made it especially sensitive to short-term fluctuations.

The Fund invests in the two longest-term Government of Canada real-return bonds, which mature in 2044 and 2047. These bonds began the year with a real yield of 0.6%, which increased to 0.7% as of December 31, 2015.

**Recent Developments**

The Fund's performance will depend entirely on the performance of the two bonds in the portfolio. Inflation-adjusted interest rates are low by historical standards, and below levels that reflect the portfolio manager's expectations for Canada's economic growth rate. As a result, the portfolio manager expects that real yields will ultimately rise, and given the long-term nature of the Fund, any rise could lead to significant investor losses.

**Related-Party Transactions**
***Manager, Portfolio Manager and Registrar***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager, principal portfolio manager 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 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**  
**LONG 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 Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
<b>Series O</b>												
<b>Dec. 31, 2015</b>	<b>11.63</b>	<b>0.24</b>	—	<b>0.31</b>	<b>(0.42)</b>	<b>0.13</b>	<b>(0.20)</b>	—	<b>(0.27)</b>	—	<b>(0.47)</b>	<b>11.35</b>
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 <sup>3</sup>	10.00 <sup>†</sup>	0.40	—	0.27	2.39	3.06	(0.28)	—	(0.20)	—	(0.48)	12.04

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>11.35</b>	<b>49 142</b>	<b>4 330</b>	<b>0.02</b>	<b>0.03</b>	<b>57.72</b>	—
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 <sup>4</sup>	12.05	2 495	207	0.02	0.27	23.15	—

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From January 2011.

**Management Fees**

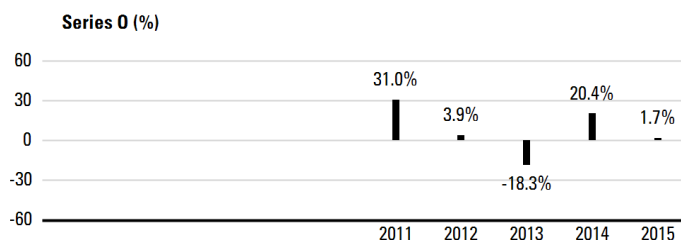
RBC GAM is the manager, portfolio manager and registrar of the Fund. No management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

**PHILLIPS, HAGER & NORTH**  
**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, 2015, 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	1.7	0.0	—	—	6.5
Benchmark	2.8	0.4	—	—	5.1

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.

Series 0 units have been available for sale to unitholders since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

**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, 2015

**Investment Mix**

	% of Net Asset Value
Federal Bonds	99.6
Cash/Other	0.4

**Top 25 Holdings\***

	% of Net Asset Value
Government of Canada 1.250% Dec 1 47	69.9
Government of Canada 1.500% Dec 1 44	29.8
Cash & Cash Equivalents	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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## BALANCED FUND

PHILLIPS, HAGER & NORTH  
MONTHLY INCOME FUND*December 31, 2015***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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager primarily invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value fell to \$2.6 billion of December 31, 2015, from \$3.5 billion at the end of 2014. The decrease was due mainly to net redemptions.

Over the past year, the Fund's Series O units lost 2.8%, which outperformed the 4.0% decline in the benchmark. The broad-based index rose 3.5%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In January 2015, monthly distributions by the Fund were decreased to 4.60 cents per Series O unit. For the year, the Fund made distributions of 55 cents per Series O unit, consisting of 29 cents of return of capital, 21 cents of dividends, 4 cents of capital gains and 1 cent of interest.

Heightened bond volatility prompted the portfolio manager to keep the Fund's term to maturity slightly shorter than or close to its benchmark for the majority of the year, and these interest-rate strategies were modestly positive for relative returns. A more meaningful impact to performance came from strategies in provincial and corporate bonds, with Ontario bonds aiding returns and changes in corporate-bond allocations coming at opportune times during the year.

The portfolio manager reduced exposure to corporate bonds as the year progressed, and focused on higher-quality companies and industries less exposed to economic growth in order to provide some protection from any future market weakness.

The equity portion of the Fund benefited from strong stock selection in the Financials, Materials and Industrials sectors. Stocks that had a positive impact on performance included Agnico Eagle Mines, a gold-mining company, and Brookfield Property Partners, a commercial real estate investment trust. The stocks that hurt performance the most came from the Energy sector, as exploration and production company Baytex Energy, oil-services company Trinidad Drilling, and natural-gas producer Encana all held back returns.

There were no material changes to the Fund's strategy during the reporting period.

### Recent Developments

The portfolio manager expects recent fixed-income volatility to continue in the near term as Chinese growth concerns abound, the U.S. Federal Reserve increases interest rates and investors have a degree of difficulty trading bonds without triggering large price movements, known as liquidity. As a result, the portfolio manager believes that the Fund is positioned to take advantage of any opportunities that materialize.

The Fund continues to keep a meaningful allocation in provincial bonds, especially Ontario, the largest and most liquid issuer. The Fund also has a small position in inflation-linked bonds, which appear attractive compared to counterparts that do not track inflation. The weak performance of companies in Canada's resources sectors as a result of weak commodity prices provides the potential for increased investment opportunities in both stocks and bonds.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 \$359,000 (2014 – \$1,019,000), or 5% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	10.03	0.37	(0.19)	(0.07)	(0.53)	(0.42)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.08
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
Advisor Series												
Dec. 31, 2015	10.03	0.37	(0.19)	(0.07)	(0.53)	(0.42)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.08
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
Series H												
Dec. 31, 2015	10.08	0.37	(0.17)	(0.07)	(0.53)	(0.40)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.15
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 <sup>3</sup>	10.22 <sup>†</sup>	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, 2015	10.49	0.38	(0.11)	(0.07)	(0.56)	(0.36)	(0.01)	(0.21)	(0.04)	(0.27)	(0.53)	9.58
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
Series F												
Dec. 31, 2015	10.64	0.39	(0.09)	(0.07)	(0.57)	(0.34)	(0.01)	(0.20)	(0.04)	(0.28)	(0.53)	9.74
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
Series I												
Dec. 31, 2015	10.69	0.39	(0.07)	(0.07)	(0.56)	(0.31)	(0.01)	(0.20)	(0.04)	(0.28)	(0.53)	9.81
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 <sup>3</sup>	10.52 <sup>†</sup>	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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series O												
Dec. 31, 2015	11.06	0.41	(0.01)	(0.08)	(0.59)	(0.27)	(0.01)	(0.21)	(0.04)	(0.29)	(0.55)	10.21
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From July 2012.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>9.08</b>	<b>2 048 442</b>	<b>225 496</b>	<b>1.92</b>	<b>1.92</b>	<b>206.03</b>	<b>0.24</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>9.08</b>	<b>94 677</b>	<b>10 422</b>	<b>1.92</b>	<b>1.92</b>	<b>206.03</b>	<b>0.24</b>
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
<b>Series H</b>							
<b>Dec. 31, 2015</b>	<b>9.15</b>	<b>40 118</b>	<b>4 385</b>	<b>1.74</b>	<b>1.74</b>	<b>206.03</b>	<b>0.24</b>
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 <sup>4</sup>	10.45	33 912	3 245	1.77	1.77	192.25	0.27
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>9.58</b>	<b>130 065</b>	<b>13 571</b>	<b>1.09</b>	<b>1.09</b>	<b>206.03</b>	<b>0.24</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>9.74</b>	<b>66 943</b>	<b>6 872</b>	<b>0.83</b>	<b>0.83</b>	<b>206.03</b>	<b>0.24</b>
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

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series I</b>							
<b>Dec. 31, 2015</b>	<b>9.81</b>	<b>8 160</b>	<b>832</b>	<b>0.65</b>	<b>0.65</b>	<b>206.03</b>	<b>0.24</b>
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 <sup>4</sup>	10.82	14 179	1 310	0.68	0.68	192.25	0.27
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.21</b>	<b>195 642</b>	<b>19 159</b>	<b>0.06</b>	<b>0.06</b>	<b>206.03</b>	<b>0.24</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From July 2012.

## Management Fees

RBC GAM is the manager and portfolio manager 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.

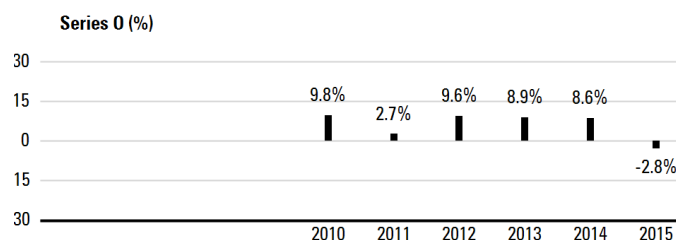
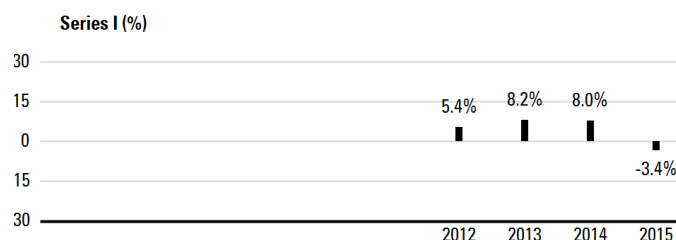
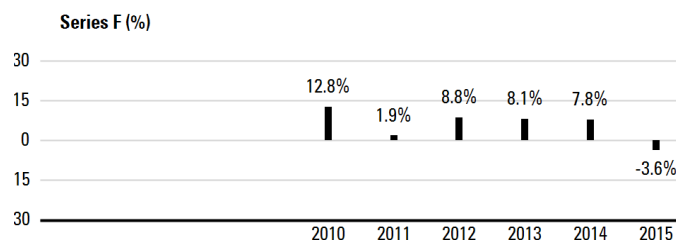
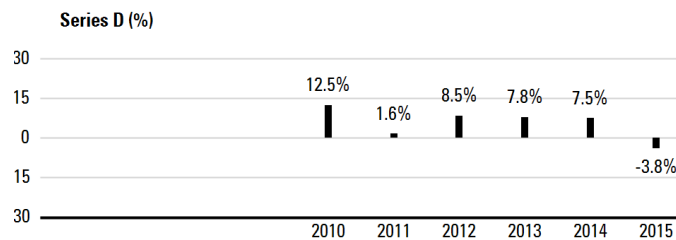
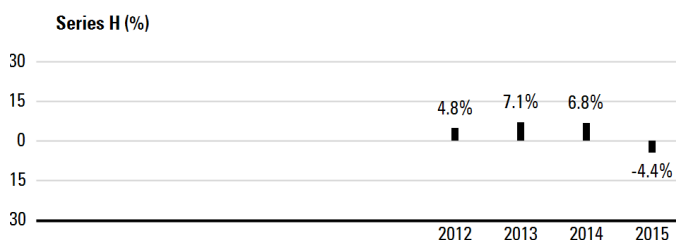
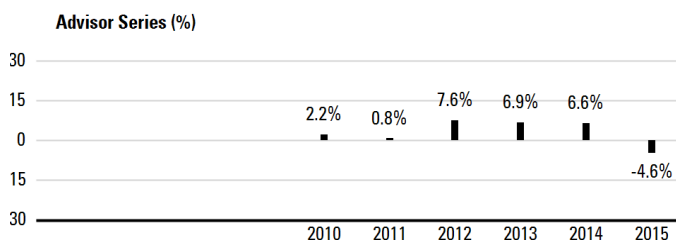
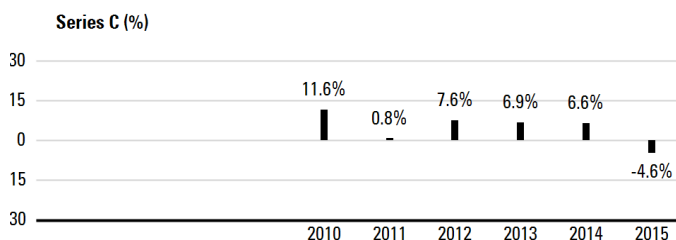
\* Includes all costs related to management, investment advisory services, general administration and profit.

## 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, 2015, 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	-4.6	2.8	3.4	—	4.7
Benchmark	-4.0	3.6	3.4	—	5.1
Broad-based index	3.5	3.6	4.8	—	5.1
Advisor Series	-4.6	2.8	3.4	—	3.7
Benchmark	-4.0	3.6	3.4	—	3.9
Broad-based index	3.5	3.6	4.8	—	4.5
Series H	-4.4	3.0	—	—	3.9
Benchmark	-4.0	3.6	—	—	4.7
Broad-based index	3.5	3.6	—	—	3.4
Series D	-3.8	3.7	4.2	—	5.5
Benchmark	-4.0	3.6	3.4	—	5.1
Broad-based index	3.5	3.6	4.8	—	5.1
Series F	-3.6	4.0	4.5	—	5.8
Benchmark	-4.0	3.6	3.4	—	5.1
Broad-based index	3.5	3.6	4.8	—	5.1
Series I	-3.4	4.1	—	—	5.1
Benchmark	-4.0	3.6	—	—	4.7
Broad-based index	3.5	3.6	—	—	3.4
Series O	-2.8	4.8	5.3	—	6.2
Benchmark	-4.0	3.6	3.4	—	4.6
Broad-based index	3.5	3.6	4.8	—	5.2

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.

Series H and Series I units have been available for sale to unitholders since July 2012, Advisor Series units since October 2010, Series O units since April 2010, and Series C, Series D and Series F units since December 2009.

Inception dates are not provided for series that have been in existence for more than 10 years.

**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, 2015

**Investment Mix**

	% of Net Asset Value
Canadian Equities	55.9
Bonds	44.0
Cash/Other	0.1

**Top 25 Holdings**

	% of Net Asset Value
RBC High Yield Bond Fund	5.6
Royal Bank of Canada	4.0
Toronto-Dominion Bank	4.0
Phillips, Hager & North High Yield Bond Fund	3.7
Bank of Nova Scotia	3.4
Government of Canada 0.750% Sep 1 20	3.3
Manulife Financial Corporation	2.5
Enbridge Inc.	2.3
Government of Canada 1.250% Feb 1 16	1.9
Province of Ontario 7.600% Jun 2 27	1.7
Brookfield Asset Management Inc., Class A	1.7
Alimentation Couche-Tard Inc.	1.7
CI Financial Corp.	1.6
PrairieSky Royalty Ltd.	1.5
ARC Resources Ltd.	1.4
Thomson Corp.	1.3
Canadian National Railway Co.	1.3
Province of Ontario 6.500% Mar 8 29	1.2
Pembina Pipeline Corp.	1.1
National Bank of Canada	1.1
Province of Ontario 2.900% Dec 2 46	1.1
Canadian Imperial Bank of Commerce	1.1
Industrial Alliance Insurance & Financial Services Inc.	1.1
TELUS Corp.	1.0
Loblaw Companies Ltd.	1.0
Top 25 Holdings	51.6

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## BALANCED FUND

**PHILLIPS, HAGER & NORTH**  
**BALANCED FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$791 million as of December 31, 2015, from \$722 million at the end of 2014. The increase was due to a combination of investment gains and net inflows.

Over the past year, the Fund's Series O units gained 6.0%, which outperformed the 3.6% rise in the benchmark. The broad-based index rose 3.5%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent on commodity exports, including Russia and Brazil, while Canada's economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

The Fund's overweight position in equities and underweight position in fixed income were positive for performance. Bonds issued by governments in the U.S., Japan and Western Europe posted modest returns in 2015 as investors weighed the impact of stronger economic growth, which generally boosts fixed-income yields, against central-bank bond purchases, which tend to push yields down. Returns on non-government bonds declined for the first time since 2011. Concern mounted that issuers were using debt to finance transactions such as stock buybacks rather than investing in products and services that generate revenues to service debt. Canadian federal-government bonds outperformed U.S. treasuries as weak Canadian growth pulled down domestic yields. Overall, the Fund's fixed-income holdings had a positive impact on returns, led by the Phillips, Hager & North Bond Fund.

Global equity markets were driven by concerns including the timing of the first rate rise by the Fed, extraordinarily loose monetary policies and political conflict in Europe, as well as China coming to terms with slowing growth and its transition to a service economy. In addition, broad strength in the U.S. dollar, continued commodity-price weakness and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe resulted in higher equity-market volatility. Against this backdrop, market returns were somewhat muted. The majority of the Fund's equity holdings had a positive impact on returns. The largest contributor to performance was the RBC Global Equity Focus Fund.

### Recent Developments

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals. For now, the Fund remains underweight bonds and overweight stocks.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

##### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	18.78	0.55	(0.39)	0.78	(0.23)	0.71	(0.06)	(0.20)	(0.64)	—	(0.90)	18.63
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
Advisor Series												
Dec. 31, 2015	18.79	0.55	(0.39)	0.78	(0.23)	0.71	(0.06)	(0.20)	(0.64)	—	(0.90)	18.64
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
Series D												
Dec. 31, 2015	18.52	0.55	(0.17)	0.77	(0.22)	0.93	(0.08)	(0.29)	(0.64)	—	(1.01)	18.47
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
Series F												
Dec. 31, 2015	18.54	0.55	(0.17)	0.77	(0.23)	0.92	(0.08)	(0.28)	(0.67)	—	(1.03)	18.46
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
Series O												
Dec. 31, 2015	18.32	0.54	—	0.76	(0.22)	1.08	(0.12)	(0.39)	(0.65)	—	(1.16)	18.26
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>18.63</b>	<b>24 677</b>	<b>1 325</b>	<b>2.00</b>	<b>2.00</b>	<b>17.64</b>	<b>0.08</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>18.64</b>	<b>5 881</b>	<b>316</b>	<b>2.00</b>	<b>2.00</b>	<b>17.64</b>	<b>0.08</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>18.47</b>	<b>713 802</b>	<b>38 649</b>	<b>0.88</b>	<b>0.88</b>	<b>17.64</b>	<b>0.08</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>18.46</b>	<b>7 085</b>	<b>384</b>	<b>0.92</b>	<b>0.92</b>	<b>17.64</b>	<b>0.08</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>18.26</b>	<b>39 081</b>	<b>2 140</b>	<b>0.04</b>	<b>0.04</b>	<b>17.64</b>	<b>0.08</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

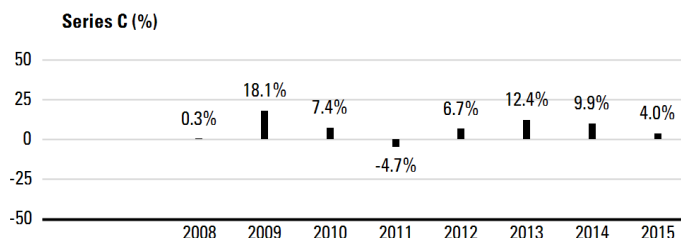
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

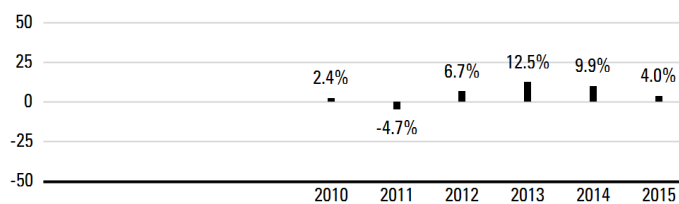
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

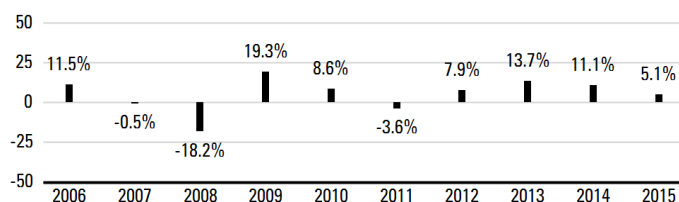
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



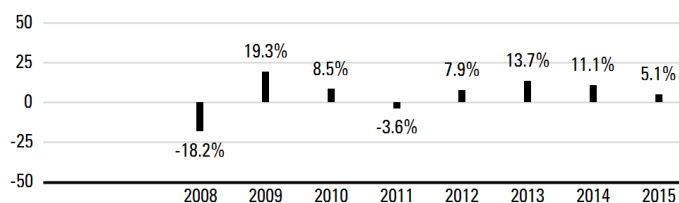
**Advisor Series (%)**



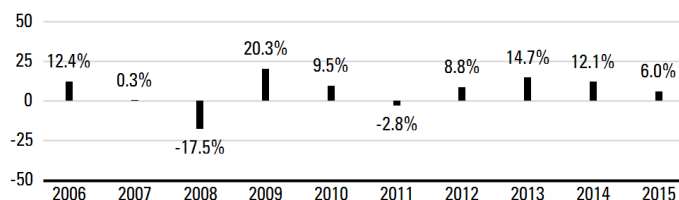
**Series D (%)**



**Series F (%)**



**Series O (%)**



## 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, 2015, compared with the following benchmarks:

The blended benchmark (the "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 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	4.0	8.7	5.5	—	7.4
Benchmark	3.6	8.7	6.6	—	8.6
Broad-based index	3.5	3.6	4.8	—	5.5
Advisor Series	4.0	8.7	5.5	—	5.8
Benchmark	3.6	8.7	6.6	—	6.8
Broad-based index	3.5	3.6	4.8	—	4.5
Series D	5.1	9.9	6.7	5.0	—
Benchmark	3.6	8.7	6.6	5.5	—
Broad-based index	3.5	3.6	4.8	5.0	—
Series F	5.1	9.9	6.6	—	4.9
Benchmark	3.6	8.7	6.6	—	4.9
Broad-based index	3.5	3.6	4.8	—	5.3
Series O	6.0	10.9	7.6	5.9	—
Benchmark	3.6	8.7	6.6	5.5	—
Broad-based index	3.5	3.6	4.8	5.0	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since December 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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.

\* 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, 2015

### Investment Mix

	% of Net Asset Value
Bonds	37.1
Global Equities	31.1
Canadian Equities	29.8
Cash/Other	2.0

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	34.1
Phillips, Hager & North Canadian Equity Underlying Fund	29.7
RBC Global Equity Focus Fund	20.3
RBC QUBE Global Equity Fund	6.8
RBC Emerging Markets Equity Fund	4.0
RBC High Yield Bond Fund	3.0
Phillips, Hager & North Canadian Money Market Fund	1.5
Cash & Cash Equivalents	0.6
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## BALANCED FUND

**PHILLIPS, HAGER & NORTH  
COMMUNITY VALUES BALANCED FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 COMMUNITY  
VALUES BALANCED FUND****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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$61 million as of December 31, 2015, from \$46 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 6.7%, which outperformed the 4.2% rise in the benchmark. The broad-based index rose 3.5%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent on commodity exports, including Russia and Brazil, while Canada's economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

The Fund's overweight position in equities and underweight position in fixed income were positive for performance. Bonds issued by governments in the U.S., Japan and Western Europe posted modest returns in 2015 as investors weighed the impact of stronger economic growth, which generally boosts fixed-income yields, against massive central-bank bond purchases, which tend to push yields down. Returns on non-government bonds declined for the first time since 2011. Concern mounted that issuers were using debt to finance transactions such as stock buybacks rather than investing in products and services that generate revenues to service debt. Canadian federal-government bonds outperformed U.S. treasuries as weak Canadian growth pulled down domestic yields. The Fund's sole fixed-income holding, the Phillips, Hager & North Community Values Bond Fund, had a positive impact on returns.

Global equity markets were driven by concerns including the timing of the first rate rise by the Fed, extraordinarily loose monetary policies and political conflict in Europe, as well as China coming to terms with slowing growth and its transition to a service economy. In addition, broad strength in the U.S. dollar, continued commodity-price weakness and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe resulted in higher equity-market volatility. Against this backdrop, market returns were somewhat muted. The Fund's equity holdings posted mixed results. The Phillips, Hager & North Community Values Global Equity Fund aided returns, while the Phillips, Hager & North Community Values Canadian Equity Fund had a negative impact on performance.

**Recent Developments**

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals. For now, the Fund remains underweight bonds and overweight stocks.

**PHILLIPS, HAGER & NORTH COMMUNITY  
VALUES BALANCED FUND**
**Related-Party Transactions**
***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	14.47	0.39	(0.31)	0.65	(0.15)	0.58	(0.02)	(0.05)	(0.53)	—	(0.60)	14.55
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
Advisor Series												
Dec. 31, 2015	14.47	0.39	(0.31)	0.65	(0.15)	0.58	(0.02)	(0.05)	(0.53)	—	(0.60)	14.56
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
Series D												
Dec. 31, 2015	14.28	0.39	(0.14)	0.65	(0.15)	0.75	(0.06)	(0.19)	(0.53)	—	(0.78)	14.35
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
Series F												
Dec. 31, 2015	14.47	0.39	(0.14)	0.65	(0.15)	0.75	(0.06)	(0.18)	(0.54)	—	(0.78)	14.55
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
Series O												
Dec. 31, 2015	14.32	0.40	(0.02)	0.66	(0.15)	0.89	(0.09)	(0.27)	(0.54)	—	(0.90)	14.39
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>14.55</b>	<b>8 395</b>	<b>577</b>	<b>2.15</b>	<b>2.16</b>	<b>16.27</b>	<b>0.07</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>14.56</b>	<b>4 500</b>	<b>309</b>	<b>2.15</b>	<b>2.16</b>	<b>16.27</b>	<b>0.07</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>14.35</b>	<b>19 596</b>	<b>1 366</b>	<b>1.03</b>	<b>1.04</b>	<b>16.27</b>	<b>0.07</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>14.55</b>	<b>2 153</b>	<b>148</b>	<b>1.02</b>	<b>1.03</b>	<b>16.27</b>	<b>0.07</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>14.39</b>	<b>25 897</b>	<b>1 799</b>	<b>0.22</b>	<b>0.23</b>	<b>16.27</b>	<b>0.07</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

**PHILLIPS, HAGER & NORTH COMMUNITY  
VALUES BALANCED FUND**
**FINANCIAL HIGHLIGHTS (cont.)**
**Management Fees**

RBC GAM is the manager and portfolio manager 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.

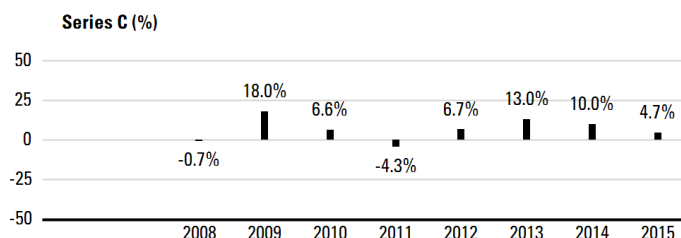
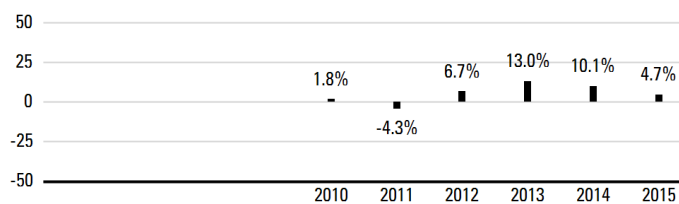
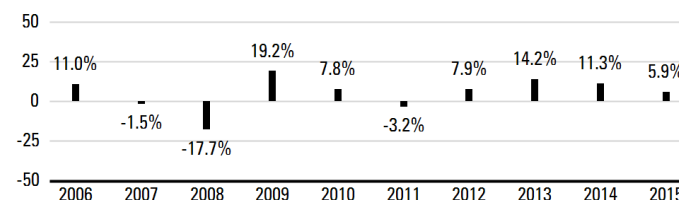
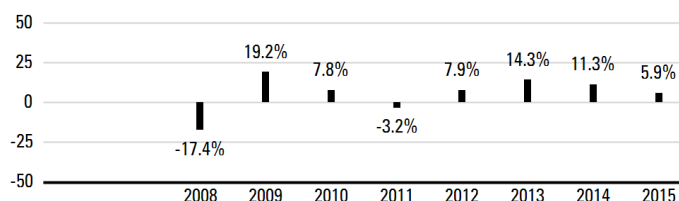
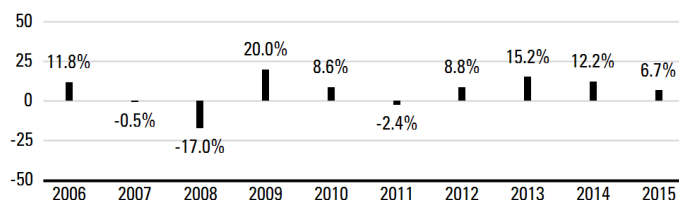
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.


**Advisor Series (%)**

**Series D (%)**

**Series F (%)**

**Series O (%)**


**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, 2015, compared with the following benchmarks:

The blended benchmark (the "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 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	4.7	9.2	5.9	—	7.4
Benchmark	4.2	9.4	7.1	—	8.7
Broad-based index	3.5	3.6	4.8	—	5.5
Advisor Series	4.7	9.2	5.9	—	6.0
Benchmark	4.2	9.4	7.1	—	7.3
Broad-based index	3.5	3.6	4.8	—	4.5
Series D	5.9	10.4	7.0	5.0	—
Benchmark	4.2	9.4	7.1	5.6	—
Broad-based index	3.5	3.6	4.8	5.0	—
Series F	5.9	10.4	7.1	—	5.1
Benchmark	4.2	9.4	7.1	—	5.2
Broad-based index	3.5	3.6	4.8	—	5.3
Series O	6.7	11.3	7.9	5.8	—
Benchmark	4.2	9.4	7.1	5.6	—
Broad-based index	3.5	3.6	4.8	5.0	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since December 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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.

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

\* 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, 2015

**Investment Mix**

	% of Net Asset Value
Bonds	37.3
Global Equities	30.9
Canadian Equities	29.9
Cash/Other	1.9

**Top 25 Holdings\***

	% of Net Asset Value
Phillips, Hager & North Community Values Bond Fund	37.3
Phillips, Hager & North Community Values Global Equity Fund	30.8
Phillips, Hager & North Community Values Canadian Equity Fund	29.9
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**DIVIDEND INCOME FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value fell to \$2.3 billion as of December 31, 2015, from \$2.7 billion at the end of 2014. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 7.4%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Global equity markets fluctuated significantly in 2015, with many indexes finishing lower. The Canadian stock benchmark, the S&P/TSX Composite Index, underperformed most markets including the S&P 500 Index, which ended the year essentially unchanged. The drop in the Canadian index was due largely to continued weakness in prices for commodities, which account for over a quarter of the resource-heavy S&P/TSX's market capitalization. Global demand for commodities was soft due to China's slowing economy and decelerating demand growth in other emerging markets, while OPEC's refusal to reduce oil output even in the face of oversupply led to continued declines. Even in developed markets, growth was weaker than in past recoveries.

Expectations that the U.S. Federal Reserve (the "Fed") would raise interest rates led to volatile equity markets. The Bank of Canada cut its benchmark rate twice in 2015 due to the weak economy. Within the Fund, the sectors that performed best on a relative basis

were Financials, Industrials and Materials. The Consumer Discretionary, Consumer Staples and Information Technology sectors underperformed.

The Fund's performance was driven positively by investments including Brookfield Asset Management, Brookfield Infrastructure Partners and Crius Energy Trust, a large U.S. energy retailer whose stock continues to be attractive.

Shares of Brookfield Asset Management performed well as the asset manager continued to display a strong ability to attract assets and increase the value of its asset-management platform. Brookfield has approximately US\$225 billion in assets under management, with a focus on property, renewable energy, infrastructure and private equity.

Brookfield Infrastructure Partners had a solid year. The firm owns high-quality assets and aims to generate sustainable and growing distributions over the long term and is situated to withstand economic headwinds.

The Fund's performance was hurt by holdings in ATCO, Canexus and Gibson Energy. Additionally, the Fund was hurt by a lack of exposure to CGI Group, which performed well but does not pay a dividend.

During 2015, the Fund's new investments included Smart REIT, Milestone Apartments REIT, Northland Power and Restaurant Brands International. Positions in Corus Entertainment, Canadian Apartment Properties REIT, Inter Pipeline and WSP Global were eliminated.

### Recent Developments

In the U.S., the long wait for the Fed to raise short-term interest rates ended in December, with a 0.25% increase. The Fed has indicated its intention to continue raising rates at a gradual pace as long as economic data is strong enough. However, interest rates globally continue to remain at historically low levels. A weaker Canadian dollar, coupled with a stronger U.S. economy, provides the potential for improving manufacturing exports in Canada. However, low commodities prices will likely remain a headwind for the Canadian economy.

Given relatively low interest rates and a year of sideways price action in the U.S. equity market, valuations are now somewhat more attractive. Revenue and earnings growth remains challenging but should emerge if the U.S. dollar appreciation moderates and global growth becomes less sluggish.

## **Related-Party Transactions**

### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 \$34,000 (2014 – \$42,000), or 9% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

#### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	97.40	3.50	(1.91)	2.06	(12.47)	(8.82)	—	(1.45)	—	—	(1.45)	87.03
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
Advisor Series												
Dec. 31, 2015	97.42	3.50	(1.91)	2.07	(12.48)	(8.82)	—	(1.44)	—	—	(1.44)	87.06
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
Series D												
Dec. 31, 2015	96.54	3.47	(1.08)	2.05	(12.37)	(7.93)	—	(2.25)	—	—	(2.25)	86.24
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
Series F												
Dec. 31, 2015	97.28	3.50	(0.87)	2.07	(12.48)	(7.78)	—	(2.46)	—	—	(2.46)	86.92
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
Series O												
Dec. 31, 2015	95.08	3.42	(0.02)	2.02	(12.19)	(6.77)	—	(3.25)	—	—	(3.25)	84.92
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.



## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>87.03</b>	<b>59 220</b>	<b>680</b>	<b>2.03</b>	<b>2.03</b>	<b>5.28</b>	<b>0.01</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>87.06</b>	<b>6 470</b>	<b>74</b>	<b>2.03</b>	<b>2.03</b>	<b>5.28</b>	<b>0.01</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>86.24</b>	<b>1 498 563</b>	<b>17 377</b>	<b>1.16</b>	<b>1.16</b>	<b>5.28</b>	<b>0.01</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>86.92</b>	<b>32 131</b>	<b>370</b>	<b>0.93</b>	<b>0.93</b>	<b>5.28</b>	<b>0.01</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>84.92</b>	<b>667 635</b>	<b>7 862</b>	<b>0.02</b>	<b>0.02</b>	<b>5.28</b>	<b>0.01</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

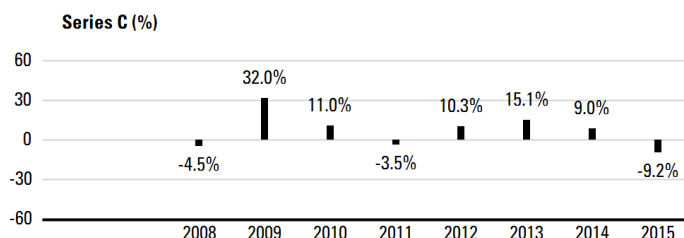
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

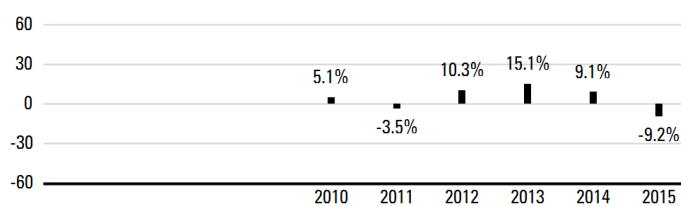
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

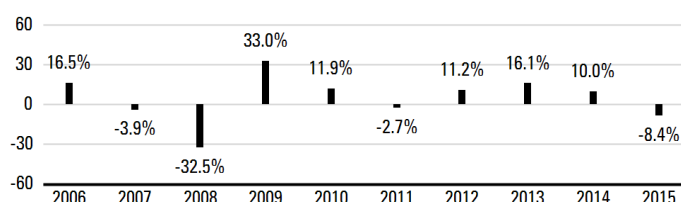
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



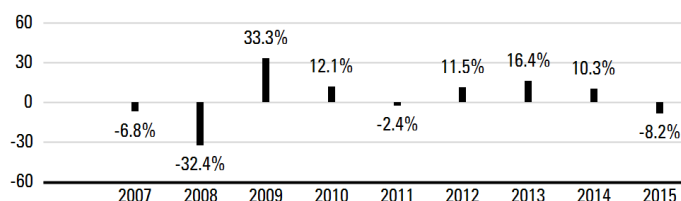
**Advisor Series (%)**



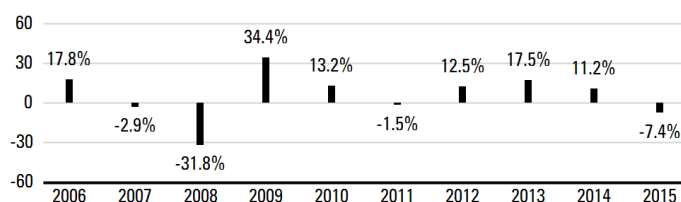
**Series D (%)**



**Series F (%)**



**Series O (%)**



## 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, 2015, 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	-9.2	4.5	3.9	—	7.7
Benchmark	-8.3	4.6	2.3	—	8.1
Advisor Series	-9.2	4.5	3.9	—	4.8
Benchmark	-8.3	4.6	2.3	—	3.5
Series D	-8.4	5.4	4.8	3.6	—
Benchmark	-8.3	4.6	2.3	4.4	—
Series F	-8.2	5.6	5.1	—	2.2
Benchmark	-8.3	4.6	2.3	—	2.2
Series O	-7.4	6.6	6.0	4.8	—
Benchmark	-8.3	4.6	2.3	4.4	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Financials	50.2
Energy	17.5
Utilities	7.2
Industrials	5.9
Telecommunication Services	5.8
Consumer Discretionary	4.8
Materials	3.8
Consumer Staples	2.2
Health Care	0.4
Cash/Other	2.2

### Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	8.4
Toronto-Dominion Bank	8.2
Bank of Nova Scotia	5.2
Canadian National Railway Co.	4.7
Brookfield Asset Management Inc., Class A	4.4
Bank of Montreal	4.0
Canadian Imperial Bank of Commerce	3.3
Manulife Financial Corporation	3.3
Enbridge Inc.	3.2
Suncor Energy Inc.	3.2
BCE Inc.	2.5
TELUS Corp.	2.5
TransCanada Corp.	2.4
Sun Life Financial Inc.	2.0
Atco Ltd., Class I, Non-Voting	2.0
Magna International Inc., Class A	2.0
Canadian Natural Resources Ltd.	1.8
Loblaw Companies Ltd.	1.7
Cash & Cash Equivalents	1.6
CI Financial Corp.	1.6
Thomson Corp.	1.5
Intact Financial Corp.	1.5
Power Corporation of Canada	1.4
Cenovus Energy Inc.	1.4
Great-West Lifeco Inc.	1.1
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**CANADIAN EQUITY FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests in companies that they 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value fell to \$1.0 billion as of December 31, 2015, from \$1.2 billion at the end of 2014. The decrease was due to a combination of investment losses and net redemptions.

Over the past year, the Fund's Series O units lost 6.8%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Canadian stocks declined during the year as Canada's main stock index had its worst year since 2011. Decisions by the portfolio manager had a positive impact on relative performance in six of the 10 industry sectors, with the Industrials, Information Technology and Consumer Discretionary sectors contributing the most to relative performance.

The Industrials sector was the most significant contributor to returns during the period, driven by stock selection. In terms of security selection, a lack of relative exposure to Canadian Pacific Railway aided performance. In the Information Technology sector, significant exposure to Kinaxis continued to drive strong performance.

The Energy sector was the worst performing during the period and had the most negative impact on the Fund's relative performance. Significant sector positions that held back returns included Encana, MEG Energy and ARC Resources. The Utilities sector also hurt returns during the period due to overweight allocations to Canadian Utilities and TransAlta.

### Recent Developments

The Canadian economy remains troubled by low resource prices. Weak market performance in this area has started to provide the Fund with increased investment opportunities, in the view of the portfolio manager. For example, in the Energy sector, the portfolio manager has begun focusing on companies that it believes offer the best chances for gains in the low-oil-price environment. The portfolio manager continues to believe that the best opportunities will come from companies that can increase earnings, as market valuations are less attractive than they were several years ago.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 \$41,000 (2014 – \$91,000), or 6% (2014 – 10%) of the total transaction costs paid for this Fund.

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***Other Related-Party Transactions***

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

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	94.27	2.63	(1.90)	1.39	(10.12)	(8.00)	—	(0.75)	(1.01)	—	(1.76)	84.33
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
Advisor Series												
Dec. 31, 2015	94.29	2.63	(1.90)	1.39	(10.11)	(7.99)	—	(0.75)	(1.01)	—	(1.76)	84.36
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
Series D												
Dec. 31, 2015	91.51	2.56	(1.05)	1.35	(9.85)	(6.99)	—	(1.48)	(0.99)	—	(2.47)	81.84
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
Series F												
Dec. 31, 2015	93.41	2.61	(0.86)	1.38	(10.07)	(6.94)	—	(1.71)	(1.01)	—	(2.72)	83.52
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
Series O												
Dec. 31, 2015	91.06	2.56	(0.02)	1.35	(9.85)	(5.96)	—	(2.47)	(1.02)	—	(3.49)	81.34
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>84.33</b>	<b>18 743</b>	<b>222</b>	<b>2.02</b>	<b>2.02</b>	<b>26.84</b>	<b>0.07</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>84.36</b>	<b>1 087</b>	<b>13</b>	<b>2.02</b>	<b>2.02</b>	<b>26.84</b>	<b>0.07</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>81.84</b>	<b>448 506</b>	<b>5 480</b>	<b>1.15</b>	<b>1.15</b>	<b>26.84</b>	<b>0.07</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>83.52</b>	<b>7 583</b>	<b>91</b>	<b>0.92</b>	<b>0.92</b>	<b>26.84</b>	<b>0.07</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>81.34</b>	<b>565 810</b>	<b>6 956</b>	<b>0.02</b>	<b>0.02</b>	<b>26.84</b>	<b>0.07</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.



## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

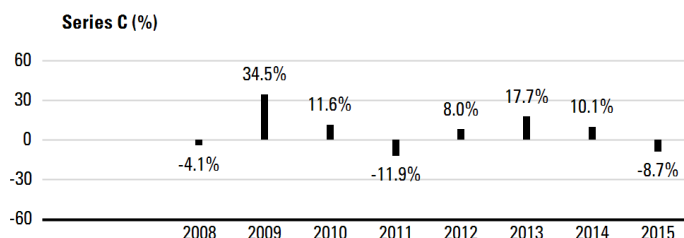
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

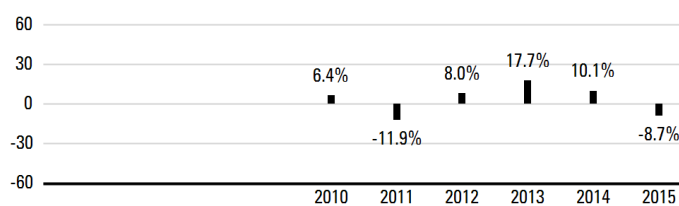
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

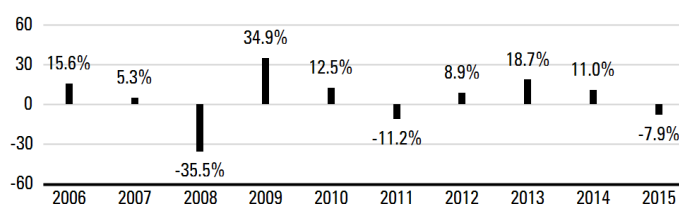
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



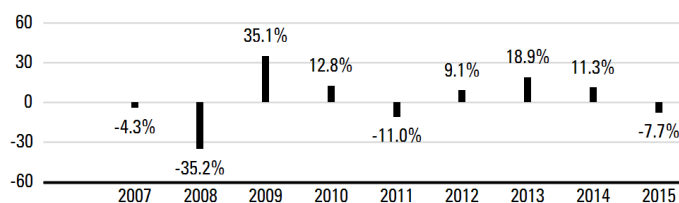
**Advisor Series (%)**



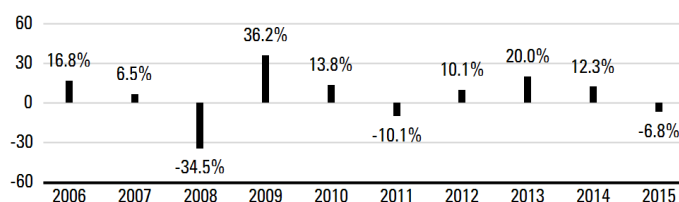
**Series D (%)**



**Series F (%)**



**Series O (%)**



## 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, 2015, 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	-8.7	5.8	2.4	—	7.0
Benchmark	-8.3	4.6	2.3	—	8.1
Advisor Series	-8.7	5.8	2.4	—	3.5
Benchmark	-8.3	4.6	2.3	—	3.5
Series D	-7.9	6.7	3.3	3.4	—
Benchmark	-8.3	4.6	2.3	4.4	—
Series F	-7.7	6.9	3.5	—	1.4
Benchmark	-8.3	4.6	2.3	—	2.2
Series O	-6.8	7.9	4.4	4.6	—
Benchmark	-8.3	4.6	2.3	4.4	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Financials	38.9
Energy	20.8
Consumer Discretionary	8.6
Industrials	8.2
Materials	8.1
Consumer Staples	4.1
Information Technology	3.4
Telecommunication Services	3.0
Health Care	2.4
Utilities	0.8
Cash/Other	1.7

### Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	13.3
Toronto-Dominion Bank	8.0
Royal Bank of Canada	7.6
Bank of Nova Scotia	5.4
Manulife Financial Corporation	4.2
Enbridge Inc.	3.5
Canadian National Railway Co.	3.4
Brookfield Asset Management Inc., Class A	3.2
Bank of Montreal	2.7
Valeant Pharmaceuticals International Inc.	2.4
Canadian Natural Resources Ltd.	2.3
Alimentation Couche-Tard Inc.	2.2
PrairieSky Royalty Ltd.	1.8
Suncor Energy Inc.	1.7
TELUS Corp.	1.7
ARC Resources Ltd.	1.6
Cash & Cash Equivalents	1.6
Pembina Pipeline Corp.	1.5
TransCanada Corp.	1.4
Rogers Communications Inc., Class B	1.4
Thomson Corp.	1.3
Magna International Inc., Class A	1.2
CGI Group Inc., Class A	1.2
Agrium Inc.	1.2
Cenovus Energy Inc.	1.1
Top 25 Holdings	76.9

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## CANADIAN EQUITY FUND

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


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 December 31, 2015

**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 4, 2016.

**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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*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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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. The portfolio manager's 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, the portfolio manager invests in companies that they 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value was \$73 million as of December 31, 2015, unchanged from the end of 2014.

Over the past year, the Fund's Series O units lost 6.5%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Canadian stocks declined during the year as Canada's main stock index had its worst year since 2011. Decisions by the portfolio manager had a positive impact on relative performance in six of the 10 industry sectors, with Industrials, Consumer Discretionary and Materials contributing the most to relative performance.

The Industrials sector was the most significant contributor to returns during the period, driven by stock selection. In terms of security selection, the Fund's overweight position in Boyd Group Income Fund aided performance. In the Consumer Discretionary sector, significant exposure to Dollarama and Thomson Reuters continued to drive strong performance.

The Consumer Staples sector had the most negative impact on relative performance during the period due to a complete lack of exposure to Alimentation Couche-Tard. The Utilities sector also hurt returns during the period due to overweight positions in Canadian Utilities and TransAlta.

**Recent Developments**

The Canadian economy remains troubled by low resource prices. Weak market performance in this area has started to provide the Fund with increased investment opportunities, in the view of the portfolio manager. For example, in the Energy sector, the portfolio manager has begun focusing on companies that it believes offer the best chances for gains in the low-oil-price environment. The portfolio manager continues to believe that the best opportunities will come from companies that can increase earnings, as market valuations are less attractive than they were several years ago.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 \$3,000 (2014 – \$5,000), or 4% (2014 – 9%) 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	24.44	0.69	(0.50)	0.44	(2.66)	(2.03)	—	(0.14)	(0.60)	—	(0.74)	21.68
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
Advisor Series												
Dec. 31, 2015	24.43	0.68	(0.50)	0.44	(2.65)	(2.03)	—	(0.13)	(0.59)	—	(0.72)	21.69
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
Series D												
Dec. 31, 2015	24.27	0.68	(0.29)	0.44	(2.66)	(1.83)	—	(0.33)	(0.59)	—	(0.92)	21.54
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
Series F												
Dec. 31, 2015	24.60	0.69	(0.23)	0.45	(2.69)	(1.78)	—	(0.40)	(0.60)	—	(1.00)	21.83
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
Series O												
Dec. 31, 2015	24.42	0.69	(0.03)	0.45	(2.68)	(1.57)	—	(0.59)	(0.60)	—	(1.19)	21.65
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>21.68</b>	<b>1 295</b>	<b>60</b>	<b>2.06</b>	<b>2.06</b>	<b>39.83</b>	<b>0.09</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>21.69</b>	<b>1 104</b>	<b>51</b>	<b>2.06</b>	<b>2.06</b>	<b>39.83</b>	<b>0.09</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>21.54</b>	<b>18 769</b>	<b>871</b>	<b>1.20</b>	<b>1.20</b>	<b>39.83</b>	<b>0.09</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>21.83</b>	<b>898</b>	<b>41</b>	<b>0.93</b>	<b>0.93</b>	<b>39.83</b>	<b>0.09</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>21.65</b>	<b>51 319</b>	<b>2 371</b>	<b>0.11</b>	<b>0.11</b>	<b>39.83</b>	<b>0.09</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
CANADIAN EQUITY FUND**
**FINANCIAL HIGHLIGHTS (cont.)**
**Management Fees**

RBC GAM is the manager and portfolio manager 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.

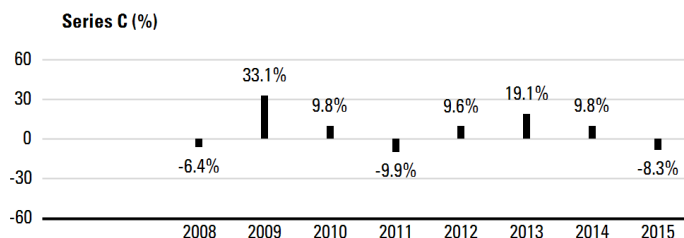
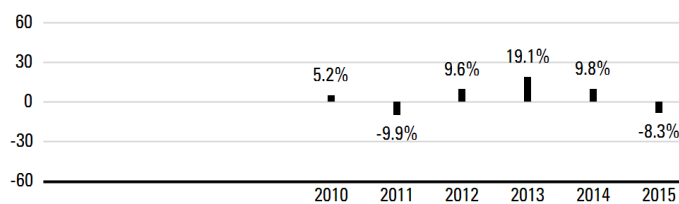
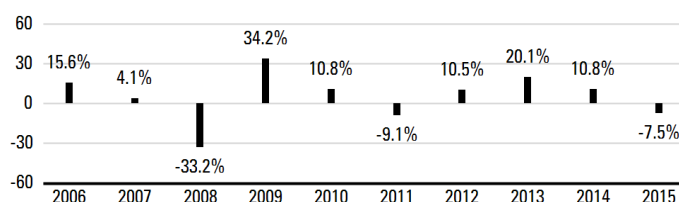
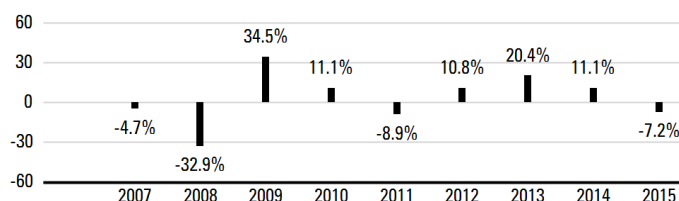
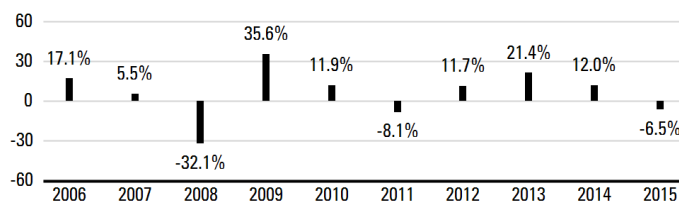
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.


**Advisor Series (%)**

**Series D (%)**

**Series F (%)**

**Series O (%)**




**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, 2015, 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	-8.3	6.3	3.5	—	7.1
Benchmark	-8.3	4.6	2.3	—	8.1
Advisor Series	-8.3	6.3	3.5	—	4.4
Benchmark	-8.3	4.6	2.3	—	3.5
Series D	-7.5	7.2	4.3	4.0	—
Benchmark	-8.3	4.6	2.3	4.4	—
Series F	-7.2	7.5	4.6	—	2.1
Benchmark	-8.3	4.6	2.3	—	2.2
Series O	-6.5	8.3	5.5	5.2	—
Benchmark	-8.3	4.6	2.3	4.4	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

**Investment Mix**

	% of Net Asset Value
Financials	41.2
Energy	19.5
Consumer Discretionary	10.0
Industrials	9.1
Materials	8.5
Information Technology	3.9
Telecommunication Services	3.4
Consumer Staples	2.5
Utilities	1.0
Cash/Other	0.9

**Top 25 Holdings**

	% of Net Asset Value
Toronto-Dominion Bank	8.3
Royal Bank of Canada	7.9
Bank of Nova Scotia	5.6
Manulife Financial Corporation	4.4
Canadian National Railway Co.	3.8
Brookfield Asset Management Inc., Class A	3.5
Bank of Montreal	2.8
Canadian Natural Resources Ltd.	2.3
Pembina Pipeline Corp.	2.2
PrairieSky Royalty Ltd.	2.0
TransCanada Corp.	1.9
TELUS Corp.	1.8
Suncor Energy Inc.	1.8
Thomson Corp.	1.7
ARC Resources Ltd.	1.7
Rogers Communications Inc., Class B	1.6
CGI Group Inc., Class A	1.5
Agrium Inc.	1.4
Magna International Inc., Class A	1.3
Industrial Alliance Insurance & Financial Services Inc.	1.2
Finning International Inc.	1.2
Cenovus Energy Inc.	1.2
Element Financial Corp.	1.1
Potash Corporation of Saskatchewan Inc.	1.1
Badger Daylighting Ltd.	1.1
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**CANADIAN EQUITY VALUE FUND**

December 31, 2015

**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$986 million as of December 31, 2015, from \$896 million at the end of 2014. The increase was due to net inflows.

Over the past year, the Fund's Series O units lost 5.9%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, underperformed most other global indices during the period. Declining commodity prices weighed on many global markets, but the resource-heavy Canadian index was especially impacted. The price of crude oil declined further in 2015 as the market struggled with excess supply. This weighed on Canadian energy stocks, which account for about a fifth of the S&P/TSX market capitalization. Global growth concerns also deepened throughout the year after economic data out of a number of large economies, most notably China, indicated the possibility of slower growth going forward. These factors prompted the Bank of Canada (the "BOC") to cut its overnight lending rate twice throughout the year. Meanwhile, the U.S. Federal Reserve (the "Fed") felt the U.S. economy was on solid enough footing to finally embark on a long-anticipated tightening cycle, although the cadence of future increases is likely to be measured.

In 2015, stronger performance in the Materials and Consumers Staples sectors offset weaker performance in the Utilities and Information Technology sectors.

In the Financials sector, the Fund benefited from an overweight position in Brookfield Asset Management as increased assets under management bolstered the outlook for fee revenue. An overweight position in Element Financial also contributed to performance after

the company agreed to acquire most of General Electric's vehicle-leasing business.

In the Consumer Staples sector, an overweight position in Maple Leaf Foods aided the Fund's performance after the food company showed signs of executing on its plan to boost revenue growth and profit margins. An underweight position in Saputo, a cheesemaker, also proved beneficial as the stock performed poorly.

In the Materials sector, stock selection drove positive relative performance. The Fund benefited from an overweight position in Agnico Eagle Mines and an underweight position in Eldorado Gold.

In the Information Technology sector, a zero weighting in Constellation Software had a negative impact on relative performance. The company, which has grown through a series of takeovers, managed to offset a slowdown in the pace of acquisitions with cost-cutting.

In the Utilities sector, an overweight position in Atco had a negative impact on relative returns. Lower earnings from the utilities segment were driven by a regulatory adjustment to the allowed return on equity, weaker Alberta power prices and uncertainty surrounding the impact of a new carbon policy in Alberta.

### Recent Developments

An improvement in the performance of Canadian equity markets will require a bigger contribution from stocks in the Financials and Energy sectors. For that to happen, energy prices will have to move higher, in the view of the portfolio manager. Energy prices, specifically oil, are difficult to forecast, and it now appears prices will be lower on average and more volatile than in the recent past, although an eventual rebalancing of the market is likely to see prices move higher from current levels. For growth, Canada also depends on the U.S., where a stronger labour market and improving housing market indicate an improving economy. The interest-rate policy divergence between the Fed and the BOC is likely to widen if commodity prices remain weak, which could add further pressure to the Canadian dollar.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 \$69,000 (2014 – \$125,000), or 8% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

#### ***Inter-Fund Trading***

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

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

interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	13.31	0.39	(0.26)	0.48	(1.67)	(1.06)	—	(0.06)	(0.47)	—	(0.53)	11.75
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
Advisor Series												
Dec. 31, 2015	13.30	0.39	(0.26)	0.48	(1.67)	(1.06)	—	(0.06)	(0.46)	—	(0.52)	11.74
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
Series H												
Dec. 31, 2015	13.33	0.39	(0.25)	0.47	(1.65)	(1.04)	—	(0.08)	(0.46)	—	(0.54)	11.78
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 <sup>3</sup>	11.75 <sup>†</sup>	0.12	(0.10)	0.06	0.52	0.60	—	—	—	—	—	12.85
Series D												
Dec. 31, 2015	13.47	0.40	(0.16)	0.48	(1.69)	(0.97)	—	(0.17)	(0.47)	—	(0.64)	11.89
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
Series F												
Dec. 31, 2015	13.49	0.40	(0.12)	0.48	(1.70)	(0.94)	—	(0.20)	(0.47)	—	(0.67)	11.91
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
Series I												
Dec. 31, 2015	13.45	0.40	(0.10)	0.48	(1.68)	(0.90)	—	(0.22)	(0.48)	—	(0.70)	11.87
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 <sup>3</sup>	11.99 <sup>†</sup>	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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
<b>Series O</b>												
<b>Dec. 31, 2015</b>	<b>13.38</b>	<b>0.39</b>	<b>—</b>	<b>0.47</b>	<b>(1.66)</b>	<b>(0.80)</b>	<b>—</b>	<b>(0.31)</b>	<b>(0.48)</b>	<b>—</b>	<b>(0.79)</b>	<b>11.80</b>
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From August 2013.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>11.75</b>	<b>9 252</b>	<b>787</b>	<b>2.03</b>	<b>2.03</b>	<b>43.12</b>	<b>0.09</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>11.74</b>	<b>216 457</b>	<b>18 432</b>	<b>2.03</b>	<b>2.03</b>	<b>43.12</b>	<b>0.09</b>
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
<b>Series H</b>							
<b>Dec. 31, 2015</b>	<b>11.78</b>	<b>4 345</b>	<b>369</b>	<b>1.89</b>	<b>1.89</b>	<b>43.12</b>	<b>0.09</b>
Dec. 31, 2014	13.33	2 181	164	1.79	1.79	72.04	0.13
Dec. 31, 2013 <sup>4</sup>	12.86	231	18	1.92	1.92	70.36	0.18
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>11.89</b>	<b>64 665</b>	<b>5 437</b>	<b>1.19</b>	<b>1.19</b>	<b>43.12</b>	<b>0.09</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>11.91</b>	<b>91 336</b>	<b>7 667</b>	<b>0.94</b>	<b>0.94</b>	<b>43.12</b>	<b>0.09</b>
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

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series I</b>							
<b>Dec. 31, 2015</b>	<b>11.87</b>	<b>7 739</b>	<b>652</b>	<b>0.79</b>	<b>0.79</b>	<b>43.12</b>	<b>0.09</b>
Dec. 31, 2014	13.45	6 661	495	0.79	0.79	72.04	0.13
Dec. 31, 2013 <sup>4</sup>	13.02	4 186	322	0.81	0.81	70.36	0.18
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>11.80</b>	<b>591 951</b>	<b>50 166</b>	<b>0.04</b>	<b>0.04</b>	<b>43.12</b>	<b>0.09</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From August 2013.

### Management Fees

RBC GAM is the manager and portfolio manager 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.

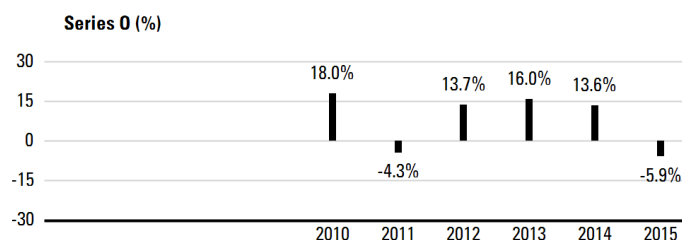
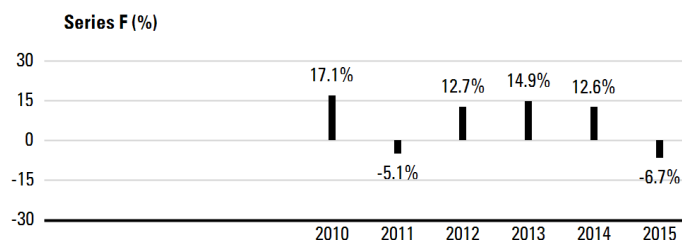
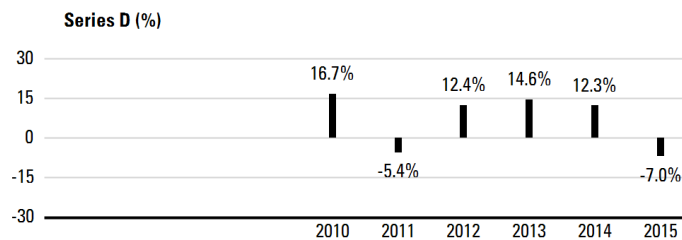
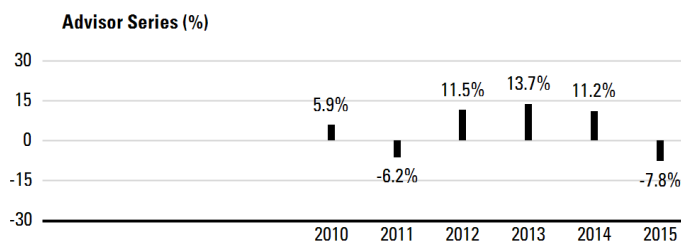
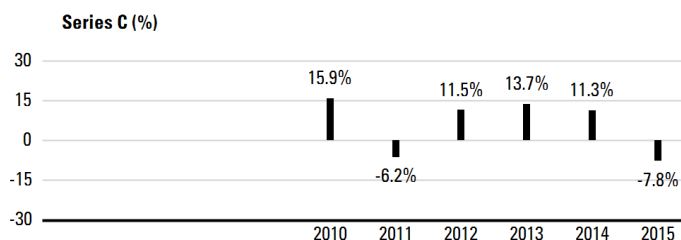
\* Includes all costs related to management, investment advisory services, general administration and profit.

## 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, 2015, 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	-7.8	5.3	4.1	—	6.0
Benchmark	-8.3	4.6	2.3	—	4.7
Advisor Series	-7.8	5.3	4.1	—	5.1
Benchmark	-8.3	4.6	2.3	—	3.5
Series H	-7.6	—	—	—	5.4
Benchmark	-8.3	—	—	—	4.3
Series D	-7.0	6.2	4.9	—	6.8
Benchmark	-8.3	4.6	2.3	—	4.7
Series F	-6.7	6.5	5.2	—	7.1
Benchmark	-8.3	4.6	2.3	—	4.7
Series I	-6.6	—	—	—	6.5
Benchmark	-8.3	—	—	—	4.3
Series O	-5.9	7.4	6.2	—	8.1
Benchmark	-8.3	4.6	2.3	—	4.7

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.

Series H and Series I units have been available for sale to unitholders since August 2013, Advisor Series units since October 2010, and Series C, Series D, Series F and Series O units since December 2009.

Inception dates are not provided for series that have been in existence for more than 10 years.

**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, 2015

**Investment Mix**

	% of Net Asset Value
Financials	41.3
Energy	19.8
Materials	6.1
Industrials	6.1
Telecommunication Services	5.5
Consumer Staples	4.9
Consumer Discretionary	4.8
Information Technology	2.4
Utilities	2.3
Index Funds	1.0
Health Care	0.5
Cash/Other	5.3

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	7.1
Toronto-Dominion Bank	6.5
Cash & Cash Equivalents	5.1
Bank of Nova Scotia	4.7
Suncor Energy Inc.	3.8
Brookfield Asset Management Inc., Class A	3.4
Canadian National Railway Co.	3.1
Bank of Montreal	3.0
Manulife Financial Corporation	2.8
BCE Inc.	2.7
Canadian Natural Resources Ltd.	2.6
Enbridge Inc.	2.5
Canadian Imperial Bank of Commerce	2.3
TransCanada Corp.	2.2
Canadian Pacific Railway Ltd.	2.1
Thomson Corp.	1.6
Sun Life Financial Inc.	1.6
Power Corporation of Canada	1.6
Alimentation Couche-Tard Inc.	1.5
Cenovus Energy Inc.	1.5
Loblaw Companies Ltd.	1.5
TELUS Corp.	1.5
Rogers Communications Inc., Class B	1.4
Imperial Oil Ltd.	1.2
Potash Corporation of Saskatchewan Inc.	1.2
Top 25 Holdings	68.5

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**CANADIAN EQUITY UNDERLYING FUND**

December 31, 2015

**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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**  
**CANADIAN EQUITY UNDERLYING FUND**
**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 the portfolio manager will focus primarily on larger-capitalization stocks. The portfolio manager generally invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value fell to \$2.4 billion as of December 31, 2015, from \$2.5 billion at the end of 2014. The decrease was due to investment losses.

Over the past year, the Fund's Series O units lost 6.8%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Canadian stocks declined during the year as Canada's main index had its worst year since 2011. Decisions by the portfolio manager had a positive impact on relative performance in six of the 10 industry sectors, with the Industrials, Information Technology and Consumer Discretionary sectors contributing the most to relative performance.

The Industrials sector was the most significant contributor to returns during the period, driven by stock selection. In terms of security selection, a lack of relative exposure to Canadian Pacific Railway aided performance. In the Information Technology sector, significant exposure to Kinaxis continued to drive strong performance.

The Energy sector was the worst performing during the period and had the most negative impact on the Fund's relative performance. Significant sector positions that held back returns included Encana, MEG Energy and ARC Resources. The Utilities sector also hurt returns during the period due to overweight allocations to Canadian Utilities and TransAlta.

**Recent Developments**

The Canadian economy remains troubled by low resource prices. Weak market performance in this area has started to provide the Fund with increased investment opportunities, in the view of the portfolio manager. For example, in the Energy sector, the portfolio manager has begun focusing on companies that it believes offer the best chances for gains in the low-oil-price environment. The portfolio manager continues to believe that the best opportunities will come from companies that can increase earnings, as market valuations are less attractive than they were several years ago.

**Related-Party Transactions**
***Manager, Portfolio Manager and Registrar***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager, principal portfolio manager 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 \$104,000 (2014 – \$263,000), or 6% (2014 – 11%) 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 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;

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY UNDERLYING FUND**

- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

*Inter-Fund Trading*

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
<b>Series O</b>												
<b>Dec. 31, 2015</b>	<b>11.06</b>	<b>0.31</b>	—	<b>(0.05)</b>	<b>(1.00)</b>	<b>(0.74)</b>	—	<b>(0.31)</b>	—	—	<b>(0.31)</b>	<b>10.00</b>
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 <sup>3</sup>	10.00 <sup>†</sup>	0.27	—	(0.55)	(1.10)	(1.38)	(0.02)	(0.12)	—	—	(0.14)	8.85

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.00</b>	<b>2 387 979</b>	<b>238 883</b>	<b>0.02</b>	<b>0.02</b>	<b>29.58</b>	<b>0.07</b>
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 <sup>4</sup>	8.87	671 650	75 696	0.02	0.02	70.24	0.21

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From January 2011.

**Management Fees**

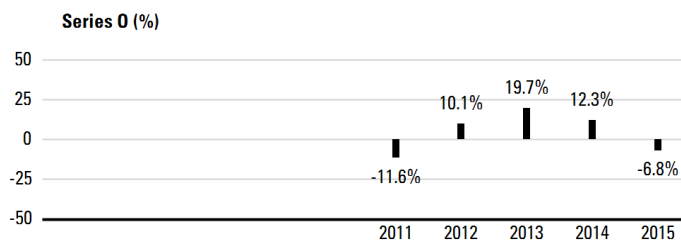
RBC GAM is the manager, portfolio manager and registrar of the Fund. No management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

**PHILLIPS, HAGER & NORTH**  
**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 O of the Fund and for each of the periods indicated ended on December 31, 2015, 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 O	-6.8	7.8	—	—	4.1
Benchmark	-8.3	4.6	—	—	2.1

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.

Series O units have been available for sale to unitholders since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

**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, 2015*

**Investment Mix**

	% of Net Asset Value
Financials	39.0
Energy	21.0
Consumer Discretionary	8.5
Materials	8.1
Industrials	8.1
Consumer Staples	4.2
Information Technology	3.7
Telecommunication Services	3.2
Health Care	2.4
Utilities	0.8
Cash/Other	1.0

**Top 25 Holdings**

	% of Net Asset Value
Toronto-Dominion Bank	8.0
Royal Bank of Canada	7.7
Bank of Nova Scotia	5.5
Manulife Financial Corporation	4.4
Enbridge Inc.	3.5
Canadian National Railway Co.	3.5
Brookfield Asset Management Inc., Class A	3.2
Bank of Montreal	2.7
Valeant Pharmaceuticals International Inc.	2.4
Canadian Natural Resources Ltd.	2.3
Alimentation Couche-Tard Inc.	2.3
PrairieSky Royalty Ltd.	1.8
Suncor Energy Inc.	1.7
TELUS Corp.	1.7
ARC Resources Ltd.	1.6
Pembina Pipeline Corp.	1.5
TransCanada Corp.	1.5
Rogers Communications Inc., Class B	1.4
Thomson Corp.	1.3
Magna International Inc., Class A	1.2
Agrium Inc.	1.2
CGI Group Inc., Class A	1.2
Cenovus Energy Inc.	1.1
Potash Corporation of Saskatchewan Inc.	1.1
Industrial Alliance Insurance & Financial Services Inc.	1.1
<b>Top 25 Holdings</b>	<b>64.9</b>

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**CANADIAN EQUITY UNDERLYING FUND II**

December 31, 2015

**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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**  
**CANADIAN EQUITY UNDERLYING FUND II**
**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 the portfolio manager will focus primarily on stocks with market capitalization greater than \$1 billion. The portfolio manager generally invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$1.4 billion as of December 31, 2015, from \$409 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units lost 7.9%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Canadian stocks declined during the year as Canada's main index had its worst year since 2011. Decisions by the portfolio manager had a positive impact on relative performance in five of the 10 industry sectors, with the Consumer Discretionary, Financials and Industrials sectors contributing the most to relative performance.

The Consumer Discretionary sector was the most significant contributor to returns during the period, driven by stock selection. In terms of security selection, the Fund's overweight position in Dollarama added to performance. In the Financials sector, significant exposure to Brookfield Asset Management added to performance.

The Utilities sector had the most negative impact on relative performance during the period due to overweight positions in Canadian Utilities and TransAlta. The Consumer Staples sector also had a negative impact on returns during the period as the Fund did not own food retailers Loblaw and Metro Inc.

Portfolio turnover is normally high for this Fund, as the portfolio manager attempts to generate better returns through active sector and stock selection.

**Recent Developments**

The Canadian economy remains troubled by low resource prices. Weak market performance in this area has started to provide the Fund with increased investment opportunities, in the view of the portfolio manager. For example, in the Energy sector, the portfolio manager has begun focusing on companies that it believes offer the best chances for gains in the low-oil-price environment. The portfolio manager continues to believe that the best opportunities will come from companies that can increase earnings, as market valuations are less attractive than they were several years ago.

**Related-Party Transactions**
***Manager, Portfolio Manager and Registrar***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager, principal portfolio manager 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 \$159,000 (2014 – \$34,000), or 4% (2014 – 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 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;



**PHILLIPS, HAGER & NORTH**  
**CANADIAN EQUITY UNDERLYING FUND II**

- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

*Inter-Fund Trading*

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
<b>Series O</b>												
<b>Dec. 31, 2015</b>	<b>9.64</b>	<b>0.29</b>	—	<b>(0.10)</b>	<b>(1.08)</b>	<b>(0.89)</b>	—	<b>(0.15)</b>	<b>(0.21)</b>	—	<b>(0.36)</b>	<b>8.52</b>
Dec. 31, 2014 <sup>3</sup>	10.00 <sup>†</sup>	0.10	—	(0.03)	0.18	0.25	—	(0.04)	(0.01)	—	(0.05)	9.64

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From July 2014.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>8.52</b>	<b>1 399 198</b>	<b>164 149</b>	<b>0.02</b>	<b>0.02</b>	<b>171.02</b>	<b>0.47</b>
<b>Dec. 31, 2014<sup>4</sup></b>	<b>9.64</b>	<b>409 071</b>	<b>42 435</b>	<b>0.02</b>	<b>0.02</b>	<b>56.94</b>	<b>0.27</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From July 2014.

**Management Fees**

RBC GAM is the manager, portfolio manager 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**  
**CANADIAN EQUITY UNDERLYING FUND II**
**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 O of the Fund and for each of the periods indicated ended on December 31, 2015, 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 O	-7.9	—	—	—	-7.9
Benchmark	-8.3	—	—	—	-10.1

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.

Series O units have been available for sale to unitholders since August 2014.

Inception dates are not provided for series that have been in existence for more than 10 years.

**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, 2015

**Investment Mix**

	% of Net Asset Value
Financials	41.6
Energy	21.8
Industrials	7.5
Materials	6.5
Consumer Staples	6.0
Consumer Discretionary	4.8
Information Technology	3.3
Telecommunication Services	2.8
Health Care	2.4
Utilities	1.9
Cash/Other	1.4

**Top 25 Holdings**

	% of Net Asset Value
Toronto-Dominion Bank	7.7
Royal Bank of Canada	7.6
Bank of Nova Scotia	5.8
Manulife Financial Corporation	4.8
Enbridge Inc.	4.6
Alimentation Couche-Tard Inc.	3.5
Canadian National Railway Co.	3.5
Brookfield Asset Management Inc., Class A	3.4
Valeant Pharmaceuticals International Inc.	2.5
National Bank of Canada	2.3
CI Financial Corp.	2.2
Pembina Pipeline Corp.	2.2
PrairieSky Royalty Ltd.	2.0
Thomson Corp.	1.9
ARC Resources Ltd.	1.9
Cenovus Energy Inc.	1.7
Industrial Alliance Insurance & Financial Services Inc.	1.7
Element Financial Corp.	1.6
Rogers Communications Inc., Class B	1.5
TELUS Corp.	1.4
Canadian Natural Resources Ltd.	1.4
Magna International Inc., Class A	1.3
Finning International Inc.	1.3
Loblaw Companies Ltd.	1.3
Vermilion Energy Inc.	1.2
<b>Top 25 Holdings</b>	<b>70.3</b>

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**CANADIAN GROWTH FUND**

December 31, 2015

**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests primarily in companies that they 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$510 million as of December 31, 2015, from \$452 million at the end of 2014. The increase was due to net inflows.

Over the past year, the Fund's Series O units lost 5.3%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Global equity markets fluctuated significantly in 2015, with many indexes finishing lower. The Canadian stock benchmark, the S&P/TSX Composite Index, underperformed most markets including the S&P 500 Index, which ended the year essentially unchanged. The drop in the Canadian index was due largely to continued weakness in prices for commodities which account for over a quarter of the resource-heavy S&P/TSX's market capitalization. Global demand for commodities was soft due to China's slowing economy and decelerating demand growth in other emerging markets, while OPEC's refusal to reduce oil output even in the face of oversupply led to continued declines. Even in developed markets, growth was weaker than in past recoveries. Expectations that the U.S. Federal Reserve (the "Fed") would raise interest rates led to volatile equity markets. The Bank of Canada cut its benchmark rate twice in 2015 due to the weak economy.

Within the Fund, the sectors that performed best on a relative basis were Energy, Health Care and Industrials. The Telecommunication Services, Financials and Information Technology sectors underperformed.

The Fund's performance was driven positively by investments including Boyd Group Income Fund, Crius Energy Trust and ProMetic Life Sciences.

Boyd Group is the largest operator of non-franchised collision-repair centres in North America by number of locations. Crius Energy is one of the largest independent U.S. energy retailers and its stock continues to be attractive. ProMetic Life Sciences is a Canadian-based biopharmaceutical company that specializes in large-scale protein purification technologies to serve the global pharmaceutical industry.

The Fund's performance was hurt by investments in Callidus Capital, Gear Energy and Bellatrix Exploration. New investments in the Fund during 2015 included Cara Operations, Clearwater Seafoods, Milestone Apartments REIT and Spin Master. Positions in Altus Group, Badger Daylighting, Enerflex and Performance Sports were eliminated.

### Recent Developments

In the U.S., the long wait for the Fed to raise short-term interest rates ended in December, with a 0.25% increase. The Fed has indicated its intention to continue raising rates at a gradual pace as long as economic data is strong enough. However, interest rates globally continue to remain at historically low levels. A weaker Canadian dollar, coupled with a stronger U.S. economy, provides the potential for improving manufacturing exports in Canada. However, low commodities prices will likely remain a headwind for the Canadian economy.

Given relatively low interest rates and a year of sideways price action in the U.S. equity market, valuations are now somewhat more attractive. Revenue and earnings growth remains challenging but should emerge if the U.S. dollar appreciation moderates and global growth becomes less sluggish.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 \$38,000 (2014 – \$16,000), or 12% (2014 – 4%) 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

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

manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	33.47	0.91	(0.67)	(0.25)	(2.54)	(2.55)	—	(0.14)	—	—	(0.14)	30.93
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
Advisor Series												
Dec. 31, 2015	33.47	0.91	(0.67)	(0.25)	(2.52)	(2.53)	—	(0.14)	—	—	(0.14)	30.94
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
Series D												
Dec. 31, 2015	33.07	0.90	(0.39)	(0.25)	(2.52)	(2.26)	—	(0.39)	—	—	(0.39)	30.57
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
Series F												
Dec. 31, 2015	33.28	0.91	(0.30)	(0.25)	(2.53)	(2.17)	—	(0.49)	—	—	(0.49)	30.76
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
Series O												
Dec. 31, 2015	33.93	0.93	(0.02)	(0.25)	(2.58)	(1.92)	—	(0.78)	—	—	(0.78)	31.35
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>30.93</b>	<b>2 499</b>	<b>81</b>	<b>2.00</b>	<b>2.00</b>	<b>30.74</b>	<b>0.07</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>30.94</b>	<b>186</b>	<b>6</b>	<b>2.00</b>	<b>2.00</b>	<b>30.74</b>	<b>0.07</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>30.57</b>	<b>112 805</b>	<b>3 691</b>	<b>1.19</b>	<b>1.19</b>	<b>30.74</b>	<b>0.07</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>30.76</b>	<b>551</b>	<b>18</b>	<b>0.90</b>	<b>0.90</b>	<b>30.74</b>	<b>0.07</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>31.35</b>	<b>393 664</b>	<b>12 555</b>	<b>0.04</b>	<b>0.04</b>	<b>30.74</b>	<b>0.07</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.



## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

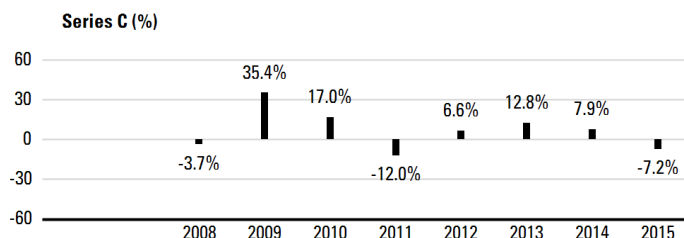
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

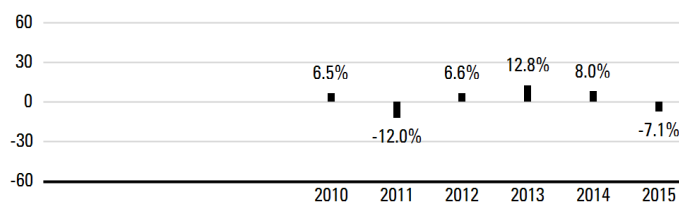
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

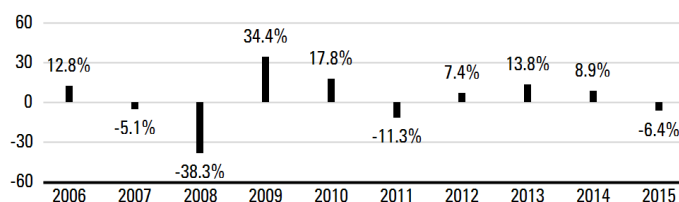
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



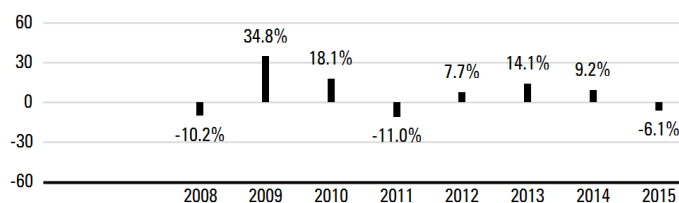
**Advisor Series (%)**



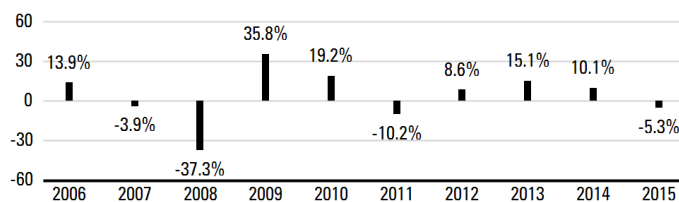
**Series D (%)**



**Series F (%)**



**Series O (%)**



**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, 2015, 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	-7.2	4.2	1.2	—	7.0
Benchmark	-8.3	4.6	2.3	—	8.1
Advisor Series	-7.1	4.2	1.2	—	2.4
Benchmark	-8.3	4.6	2.3	—	3.5
Series D	-6.4	5.1	2.0	1.5	—
Benchmark	-8.3	4.6	2.3	4.4	—
Series F	-6.1	5.4	2.3	—	6.8
Benchmark	-8.3	4.6	2.3	—	7.2
Series O	-5.3	6.3	3.2	2.6	—
Benchmark	-8.3	4.6	2.3	4.4	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since October 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

**Investment Mix**

	% of Net Asset Value
Financials	36.0
Energy	16.6
Materials	8.7
Consumer Discretionary	8.4
Industrials	8.1
Consumer Staples	4.4
Health Care	4.2
Information Technology	3.6
Telecommunication Services	2.9
Utilities	2.5
Cash/Other	4.6

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	6.2
Toronto-Dominion Bank	5.8
Cash & Cash Equivalents	4.6
Canadian National Railway Co.	4.3
Bank of Nova Scotia	3.9
Suncor Energy Inc.	3.1
Bank of Montreal	2.9
Manulife Financial Corporation	2.4
Valeant Pharmaceuticals International Inc.	2.3
Canadian Imperial Bank of Commerce	2.2
BCE Inc.	2.1
Enbridge Inc.	2.0
Canadian Natural Resources Ltd.	2.0
TransCanada Corp.	2.0
Brookfield Asset Management Inc., Class A	1.9
Magna International Inc., Class A	1.8
Power Corporation of Canada	1.7
Alimentation Couche-Tard Inc.	1.6
Sun Life Financial Inc.	1.2
Thomson Corp.	1.1
Loblaw Companies Ltd.	1.1
Agrium Inc.	1.0
Potash Corporation of Saskatchewan Inc.	1.0
Canadian Pacific Railway Ltd.	1.0
Rogers Communications Inc., Class B	0.9
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**CANADIAN INCOME FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$984 million as of December 31, 2015, from \$838 million at the end of 2014. The increase was due to net inflows.

Over the past year, the Fund's Series O units lost 6.7%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The portfolio manager improved relative returns in five of the 10 industry sectors and had a negative impact on relative returns in the other five. The Financials, Materials and Industrials sectors were the most significant contributors to relative returns. Stocks that had a positive impact on performance included Agnico Eagle Mines, a gold-mining company, and Brookfield Property Partners, a commercial-property real estate investment trust.

The Energy, Consumer Staples and Consumer Discretionary sectors had a negative impact on relative performance during the year. The stocks that hurt performance the most came from the Energy sector. In this sector, exposure to exploration and production company Baytex Energy, oil-services company Trinidad Drilling and natural-gas producer Encana had a negative impact on returns amid falling oil and gas prices. Power-generating utility TransAlta also had a significant negative impact on returns. In the Consumer Staples sector, a stake in Saputo, a cheesemaker, hurt performance after midyear earnings lagged expectations.

There were no material changes to the Fund's strategy during the reporting period.

Portfolio turnover is normally high for this Fund, as the portfolio manager attempts to generate better returns through active sector and stock selection.

### Recent Developments

The Canadian economy remains troubled by low resource prices. Weak market performance in this area has started to provide the Fund with increased investment opportunities, in the view of the portfolio manager. For example, in the Energy sector, the portfolio manager has begun focusing on companies that it believes offer the best chances for gains in the low-oil-price environment. The portfolio manager continues to believe that the best opportunities will come from companies that can increase earnings, as market valuations are less attractive than they were several years ago.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***Brokerage***

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$212,000 (2014 – \$360,000), or 4% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total		
<b>Series C</b>													
<b>Dec. 31, 2015</b>	<b>14.35</b>	<b>0.49</b>	<b>(0.28)</b>	<b>(0.68)</b>	<b>(0.76)</b>	<b>(1.23)</b>	—	<b>(0.09)</b>	—	—	<b>(0.09)</b>	<b>13.05</b>	
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	
<b>Advisor Series</b>													
<b>Dec. 31, 2015</b>	<b>14.35</b>	<b>0.49</b>	<b>(0.28)</b>	<b>(0.68)</b>	<b>(0.76)</b>	<b>(1.23)</b>	—	<b>(0.09)</b>	—	—	<b>(0.09)</b>	<b>13.05</b>	
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	
<b>Series D</b>													
<b>Dec. 31, 2015</b>	<b>14.31</b>	<b>0.49</b>	<b>(0.17)</b>	<b>(0.68)</b>	<b>(0.76)</b>	<b>(1.12)</b>	—	<b>(0.17)</b>	—	—	<b>(0.17)</b>	<b>13.04</b>	
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	
<b>Series F</b>													
<b>Dec. 31, 2015</b>	<b>14.34</b>	<b>0.48</b>	<b>(0.13)</b>	<b>(0.67)</b>	<b>(0.75)</b>	<b>(1.07)</b>	—	<b>(0.21)</b>	—	—	<b>(0.21)</b>	<b>13.06</b>	
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	
<b>Series O</b>													
<b>Dec. 31, 2015</b>	<b>14.30</b>	<b>0.48</b>	<b>(0.01)</b>	<b>(0.67)</b>	<b>(0.75)</b>	<b>(0.95)</b>	<b>(0.01)</b>	<b>(0.44)</b>	—	—	<b>(0.45)</b>	<b>12.91</b>	
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	

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>13.05</b>	<b>4 880</b>	<b>374</b>	<b>2.03</b>	<b>2.03</b>	<b>207.29</b>	<b>0.48</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>13.05</b>	<b>939</b>	<b>72</b>	<b>2.03</b>	<b>2.03</b>	<b>207.29</b>	<b>0.48</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>13.04</b>	<b>57 305</b>	<b>4 395</b>	<b>1.19</b>	<b>1.19</b>	<b>207.29</b>	<b>0.48</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>13.06</b>	<b>1 265</b>	<b>97</b>	<b>0.93</b>	<b>0.93</b>	<b>207.29</b>	<b>0.48</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>12.91</b>	<b>920 098</b>	<b>71 280</b>	<b>0.07</b>	<b>0.07</b>	<b>207.29</b>	<b>0.48</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

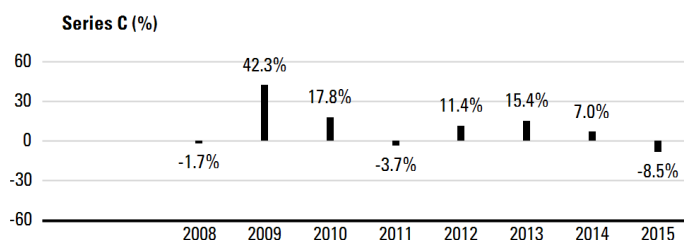
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

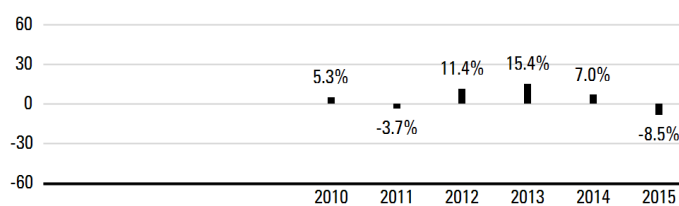
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

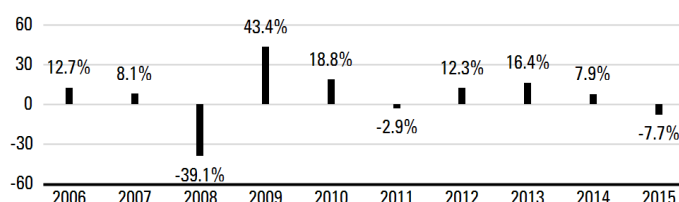
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



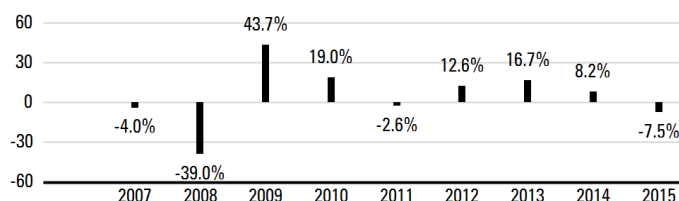
**Advisor Series (%)**



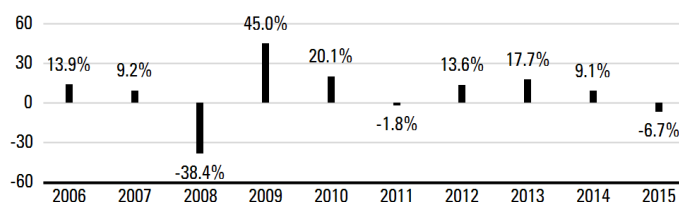
**Series D (%)**



**Series F (%)**



**Series O (%)**





## 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, 2015, 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	-8.5	4.2	3.9	—	10.3
Benchmark	-8.3	4.6	2.3	—	8.1
Advisor Series	-8.5	4.2	3.9	—	4.8
Benchmark	-8.3	4.6	2.3	—	3.5
Series D	-7.7	5.0	4.8	4.8	—
Benchmark	-8.3	4.6	2.3	4.4	—
Series F	-7.5	5.3	5.1	—	3.0
Benchmark	-8.3	4.6	2.3	—	2.2
Series O	-6.7	6.2	6.0	6.0	—
Benchmark	-8.3	4.6	2.3	4.4	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Financials	46.4
Energy	21.3
Industrials	7.8
Consumer Staples	6.8
Consumer Discretionary	5.6
Telecommunication Services	3.7
Information Technology	2.3
Materials	2.3
Utilities	2.3
Cash/Other	1.5

### Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	7.8
Toronto-Dominion Bank	7.8
Bank of Nova Scotia	6.5
Enbridge Inc.	4.8
Manulife Financial Corporation	4.8
Brookfield Asset Management Inc., Class A	3.4
Alimentation Couche-Tard Inc.	3.3
CI Financial Corp.	3.0
Thomson Corp.	2.8
Canadian National Railway Co.	2.7
PrairieSky Royalty Ltd.	2.7
ARC Resources Ltd.	2.7
Pembina Pipeline Corp.	2.3
National Bank of Canada	2.2
Canadian Imperial Bank of Commerce	2.1
TELUS Corp.	2.0
Industrial Alliance Insurance & Financial Services Inc.	2.0
Loblaws Companies Ltd.	1.9
Vermilion Energy Inc.	1.9
Rogers Communications Inc., Class B	1.7
Empire Co. Ltd., Class A	1.6
Finning International Inc.	1.6
Brookfield Renewable Energy Partners LP	1.5
Pure Industrial Real Estate Investment Trust	1.5
Magna International Inc., Class A	1.4
Top 25 Holdings	76.0

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
VINTAGE FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 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, the portfolio manager focuses 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$52 million as of December 31, 2015, from \$51 million at the end of 2014. The increase was due to net inflows.

Over the past year, the Fund's Series O units lost 8.3%, which matched the performance of the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Canadian stocks declined during the year as Canada's main stock index had its worst year since 2011. Decisions by the portfolio manager had a positive impact on relative performance in five of the 10 industry sectors, with Industrials and Information Technology contributing the most to relative performance, while the Energy sector hurt relative returns the most.

The Industrials sector was the most significant contributor to performance during the year, driven by good stock selection in general and overweight positions in collision-repair company Boyd Group and engineering firm WSP Global. Stock selection was also strong in the Information Technology sector, where the Fund benefited from a position in Kinaxis, whose software products track the movement of goods (supply-chain management). Other large contributors to performance included positions in dollar-store operator Dollarama and specialty-packaging manufacturer CCL Industries.

The stocks that hurt returns most came from the Energy sector. Trinidad Drilling and Calfrac both held back returns significantly, as falling oil prices over the past year reduced demand for the companies' oil-field services. Encana, a developer of natural-gas projects, had a negative impact on returns as prices for natural gas fell.

### Recent Developments

The Canadian economy remains troubled by low resource prices. Weak performance from companies in the Energy and Materials sectors has provided the Fund with increased investment opportunities, in the view of the portfolio manager. In the Energy sector, for example, the portfolio manager has been focusing on investments in companies with the best risk-to-reward outlook given low oil prices. The portfolio manager continues to believe that the best opportunities for stock gains will come more from finding companies with the ability to increase earnings rather than depending on rising market valuations.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 \$2,000 (2014 – \$4,000), or 4% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	27.22	0.70	(0.61)	0.30	(3.39)	(3.00)	—	—	—	—	—	24.41
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
Advisor Series												
Dec. 31, 2015	27.25	0.70	(0.61)	0.30	(3.38)	(2.99)	—	—	—	—	—	24.44
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
Series D												
Dec. 31, 2015	28.25	0.73	(0.41)	0.32	(3.53)	(2.89)	—	(0.17)	—	—	(0.17)	25.37
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
Series F												
Dec. 31, 2015	29.37	0.75	(0.36)	0.33	(3.65)	(2.93)	—	(0.24)	—	—	(0.24)	26.37
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
Series O												
Dec. 31, 2015	30.70	0.79	(0.02)	0.34	(3.83)	(2.72)	—	(0.58)	—	—	(0.58)	27.56
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>24.41</b>	<b>1 781</b>	<b>73</b>	<b>2.27</b>	<b>2.28</b>	<b>41.32</b>	<b>0.11</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>24.44</b>	<b>453</b>	<b>19</b>	<b>2.27</b>	<b>2.28</b>	<b>41.32</b>	<b>0.11</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>25.37</b>	<b>31 096</b>	<b>1 226</b>	<b>1.45</b>	<b>1.46</b>	<b>41.32</b>	<b>0.11</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>26.37</b>	<b>2 585</b>	<b>98</b>	<b>1.22</b>	<b>1.23</b>	<b>41.32</b>	<b>0.11</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>27.56</b>	<b>16 583</b>	<b>602</b>	<b>0.06</b>	<b>0.07</b>	<b>41.32</b>	<b>0.11</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

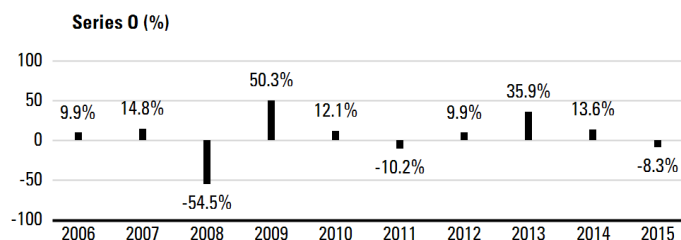
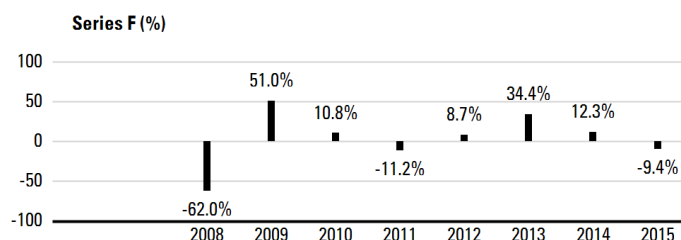
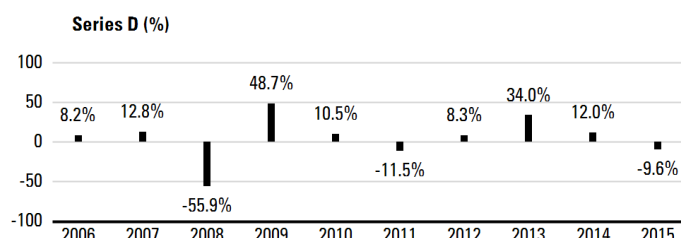
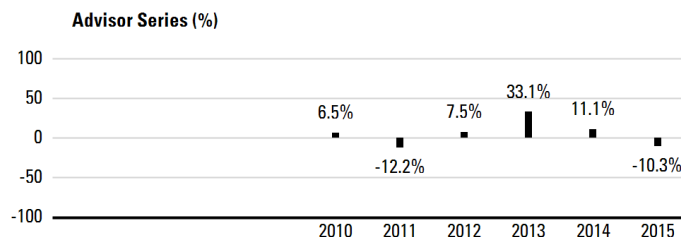
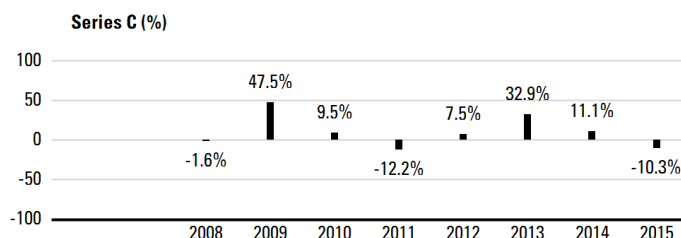
\* Includes all costs related to management, investment advisory services, general administration and profit.

## 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, 2015, 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	-10.3	9.8	4.6	—	10.2
Benchmark	-8.3	4.6	2.3	—	8.1
Advisor Series	-10.3	9.9	4.6	—	5.7
Benchmark	-8.3	4.6	2.3	—	3.5
Series D	-9.6	10.7	5.4	1.4	—
Benchmark	-8.3	4.6	2.3	4.4	—
Series F	-9.4	11.0	5.7	—	-2.3
Benchmark	-8.3	4.6	2.3	—	2.2
Series O	-8.3	12.3	6.9	3.1	—
Benchmark	-8.3	4.6	2.3	4.4	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Financials	38.4
Energy	19.7
Consumer Discretionary	11.3
Industrials	9.9
Materials	7.0
Information Technology	4.6
Consumer Staples	3.2
Health Care	2.4
Telecommunication Services	1.7
Utilities	0.5
Cash/Other	1.3

### Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	7.4
Royal Bank of Canada	7.3
Bank of Nova Scotia	5.2
Enbridge Inc.	3.0
Badger Daylighting Ltd.	3.0
Element Financial Corp.	3.0
Manulife Financial Corporation	2.9
Canadian National Railway Co.	2.8
Brookfield Asset Management Inc., Class A	2.6
Valeant Pharmaceuticals International Inc.	2.4
Home Capital Group Inc.	2.3
Alimentation Couche-Tard Inc.	2.3
Industrial Alliance Insurance & Financial Services Inc.	1.9
ARC Resources Ltd.	1.8
PrairieSky Royalty Ltd.	1.7
Quebecor Inc., Class B	1.7
Canadian Natural Resources Ltd.	1.6
Pembina Pipeline Corp.	1.6
Canaccord Genuity Group Inc.	1.3
Magna International Inc., Class A	1.3
TransCanada Corp.	1.2
Seven Generations Energy Ltd.	1.2
RONA Inc.	1.2
Cash & Cash Equivalents	1.2
Canadian Pacific Railway Ltd.	1.1
Top 25 Holdings	63.0

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).



## U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**U.S. DIVIDEND INCOME FUND**

December 31, 2015

**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$201 million as of December 31, 2015, from \$190 million at the end of 2014. The increase was due to investment gains.

Over the past year, the Fund's Series O units gained 15.4%, which underperformed the 20.7% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P 500 Index fell from a record high in May after concern about a global economic slowdown replaced some of the optimism from stronger U.S. labour and housing markets. The market's leading sectors were Consumer Discretionary, Health Care, Information Technology and Consumer Staples. The Consumer Discretionary sector benefited from big gains in Amazon.com as consumers continued to increase their preference for online shopping. The Health Care sector benefited from the performance of health-insurance providers, as a wave of mergers and acquisitions propelled the whole industry higher, and strength in software and semiconductors helped performance in the Information Technology sector. The lagging sectors were Utilities, Materials and Energy. The Utilities sector declined on expectations that interest rates will rise, while substantial falls in commodity prices pulled down stocks in the Materials and Energy sectors.

Stock selection in the Health Care and Information Technology sectors had a negative impact on performance. The stocks that had the most negative impact on returns were Alliance Resource Partners and Seagate Technology. The largest contribution to performance was stock selection in the Consumer Staples, Information Technology and Materials sectors. Stocks that contributed significantly to returns included Altria, Microsoft and Dow Chemical.

Overall, the portfolio manager kept the number of holdings in the Fund unchanged. New positions in the Fund were Altria and PepsiCo in the Consumer Discretionary sector and Pfizer and Medtronic in Health Care. Large positions that were eliminated from the portfolio were United Technologies, Ensco and National Oilwell Varco.

**Recent Developments**

The portfolio manager expects muted stock-market gains over the coming year. Valuations appear fair, global growth is slow and further strength in the U.S. dollar may continue to pressure earnings growth. However, improving global growth would likely result in higher commodity prices, a weaker U.S. dollar and faster earnings growth, potentially driving the market to new highs.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 \$38,000 (2014 – \$0), or 26% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	12.08	0.41	(0.26)	1.37	0.06	1.58	—	(0.15)	—	—	(0.15)	13.52
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
Advisor Series												
Dec. 31, 2015	12.08	0.41	(0.26)	1.37	0.06	1.58	—	(0.15)	—	—	(0.15)	13.52
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
Series D												
Dec. 31, 2015	12.01	0.41	(0.15)	1.37	0.06	1.69	—	(0.27)	—	—	(0.27)	13.43
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
Series F												
Dec. 31, 2015	11.98	0.41	(0.12)	1.37	0.06	1.72	—	(0.30)	—	—	(0.30)	13.40
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
Series O												
Dec. 31, 2015	12.02	0.41	(0.01)	1.37	0.06	1.83	—	(0.43)	—	—	(0.43)	13.44
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

## 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>13.52</b>	<b>12 974</b>	<b>959</b>	<b>2.04</b>	<b>2.04</b>	<b>76.34</b>	<b>0.07</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>13.52</b>	<b>12 585</b>	<b>931</b>	<b>2.04</b>	<b>2.04</b>	<b>76.34</b>	<b>0.07</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>13.43</b>	<b>78 132</b>	<b>5 816</b>	<b>1.19</b>	<b>1.19</b>	<b>76.34</b>	<b>0.07</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>13.40</b>	<b>7 349</b>	<b>548</b>	<b>0.94</b>	<b>0.94</b>	<b>76.34</b>	<b>0.07</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>13.44</b>	<b>90 426</b>	<b>6 729</b>	<b>0.08</b>	<b>0.08</b>	<b>76.34</b>	<b>0.07</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

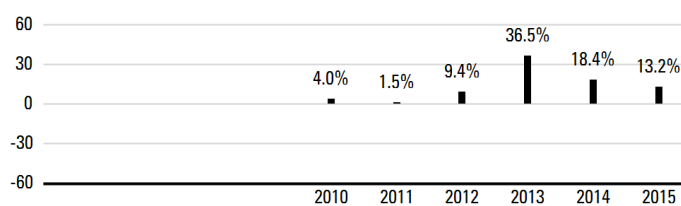
## PAST PERFORMANCE

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.

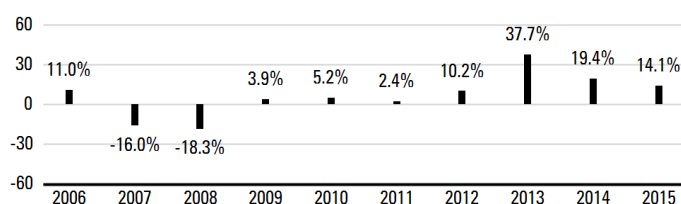
### Year-by-Year Returns (%)

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.

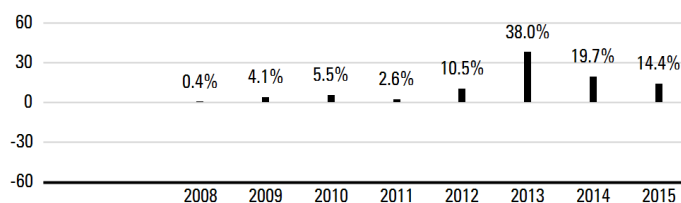
Advisor Series (%)



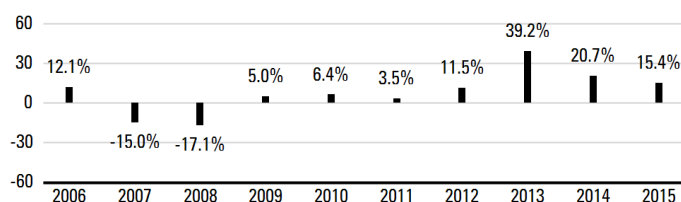
Series D (%)



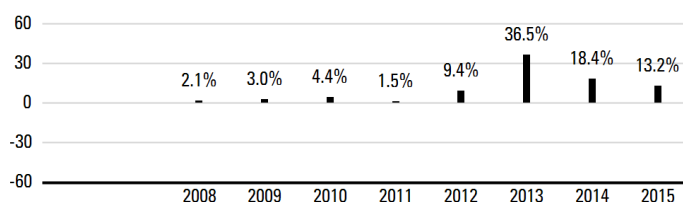
Series F (%)



Series O (%)



Series C (%)



**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, 2015, 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	13.2	22.3	15.2	—	12.0
Benchmark	20.7	28.6	20.2	—	16.6
Advisor Series	13.2	22.3	15.2	—	15.6
Benchmark	20.7	28.6	20.2	—	20.5
Series D	14.1	23.3	16.2	5.8	—
Benchmark	20.7	28.6	20.2	9.2	—
Series F	14.4	23.6	16.5	—	12.8
Benchmark	20.7	28.6	20.2	—	15.6
Series O	15.4	24.7	17.5	7.0	—
Benchmark	20.7	28.6	20.2	9.2	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since October 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

**Investment Mix**

	% of Net Asset Value
Health Care	17.6
Financials	17.2
Information Technology	16.5
Consumer Staples	15.1
Utilities	6.9
Consumer Discretionary	6.6
Industrials	6.3
Energy	5.0
Telecommunication Services	4.3
Materials	1.0
Cash/Other	3.5

**Top 25 Holdings**

	% of Net Asset Value
Cisco Systems Inc.	4.2
Altria Group Inc.	4.2
Johnson & Johnson	4.0
Microsoft Corp.	3.9
PepsiCo Inc.	3.4
Cash & Cash Equivalents	3.4
General Electric Company	3.3
Apple Inc.	3.2
Pfizer Inc.	3.2
Intel Corp.	3.1
JPMorgan Chase & Co.	3.1
Wells Fargo & Company	3.1
Merck & Co. Inc.	3.0
McDonald's Corp.	3.0
AbbVie Inc.	2.9
UnitedHealth Group Incorporated	2.6
Target Corporation	2.2
Simon Property Group Inc.	2.2
Entergy Corp.	2.2
AT&T Inc.	2.2
CVS Health Corp.	2.2
The Procter & Gamble Co.	2.1
Verizon Communications Inc.	2.1
Medtronic Plc.	2.1
Public Service Enterprise Group	2.1
Top 25 Holdings	73.0

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**U.S. MULTI-STYLE ALL-CAP**  
**EQUITY FUND**


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 December 31, 2015
**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 4, 2016.

**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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*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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$3.9 billion as of December 31, 2015, from \$2.2 billion at the end of 2014. The increase was due mostly to net inflows.

Over the past year, the Fund's Series O units gained 19.9%, which outperformed the 19.7% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

U.S. equity markets traded in a range during 2015 as worries about weaker growth in Europe and emerging markets, especially China, largely offset the positive impact of modest economic growth in the U.S. The investment environment was further compromised by falling U.S. corporate earnings hurt by a stronger U.S. dollar and the collapse of profits in the Energy sector as oil prices plunged. Excluding the Energy sector, earnings remained relatively robust and the employment picture improved steadily, enabling the U.S. Federal Reserve to boost its benchmark interest rate in December for the first time in almost a decade.

During the year, the Fund introduced four quantitative-based investment strategies (known as QUBE). This investment approach uses statistical models as inputs during the investment decision-making process and complements the existing strategies which have more of a fundamental focus.

In the Large Cap Value strategy, outperformance was attributed to favourable stock selection primarily within the Consumer Staples, Health Care and Telecommunication Services sectors. However, this was slightly offset by stock selection within Industrials and Materials.

The Mid Cap Value component outperformed its benchmark, the Russell Mid Cap Value Index, during the period. Favourable sector allocation and stock selection decisions both contributed to the strategy's relative performance. Stock selection within the Materials, Financials, Health Care and Energy sectors had the biggest positive impact on portfolio performance.

The Small Cap Core strategy's underperformance was due to sector allocation decisions. A significant overweight within the Industrials and Consumer Discretionary sectors weighed on performance. However, favourable stock selection within the Consumer Discretionary and Energy sectors helped offset the negative impact.

Portfolio turnover is normally high for this Fund, as the portfolio manager attempts to generate better returns through active sector and stock selection.

**Recent Developments**

Stocks experienced significant volatility in 2015 driven by uncertainty about the direction of global economic growth. While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 U.S. MULTI-STYLE  
ALL-CAP EQUITY 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 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 \$58,000 (2014 – \$95,000), or 2% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

**Related-Party Trading Activities**

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

**Inter-Fund Trading**

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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**
**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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	14.95	0.31	(0.33)	2.16	0.31	2.45	—	—	(1.51)	—	(1.51)	16.05
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
Advisor Series												
Dec. 31, 2015	14.96	0.31	(0.33)	2.18	0.31	2.47	—	—	(1.51)	—	(1.51)	16.06
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
Series D												
Dec. 31, 2015	15.48	0.31	(0.20)	2.22	0.32	2.65	—	(0.04)	(1.56)	—	(1.60)	16.74
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
Series F												
Dec. 31, 2015	15.45	0.32	(0.16)	2.23	0.32	2.71	—	(0.08)	(1.57)	—	(1.65)	16.69
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
Series O												
Dec. 31, 2015	15.16	0.30	(0.01)	2.13	0.31	2.73	—	(0.24)	(1.56)	—	(1.80)	16.35
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>16.05</b>	<b>2 558</b>	<b>159</b>	<b>2.02</b>	<b>2.02</b>	<b>133.63</b>	<b>0.12</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>16.06</b>	<b>870</b>	<b>54</b>	<b>2.02</b>	<b>2.02</b>	<b>133.63</b>	<b>0.12</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>16.74</b>	<b>34 522</b>	<b>2 062</b>	<b>1.17</b>	<b>1.17</b>	<b>133.63</b>	<b>0.12</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>16.69</b>	<b>459</b>	<b>28</b>	<b>0.95</b>	<b>0.95</b>	<b>133.63</b>	<b>0.12</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>16.35</b>	<b>3 875 711</b>	<b>237 032</b>	<b>0.06</b>	<b>0.06</b>	<b>133.63</b>	<b>0.12</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

**PHILLIPS, HAGER & NORTH U.S. MULTI-STYLE  
ALL-CAP EQUITY FUND**
**FINANCIAL HIGHLIGHTS (cont.)**
**Management Fees**

RBC GAM is the manager and portfolio manager 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.

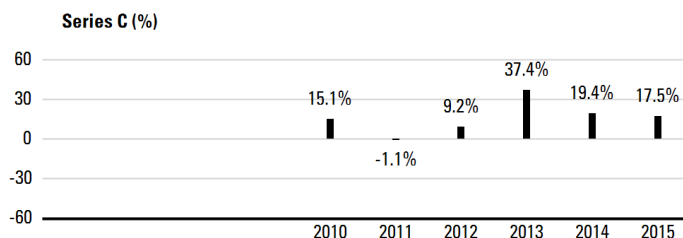
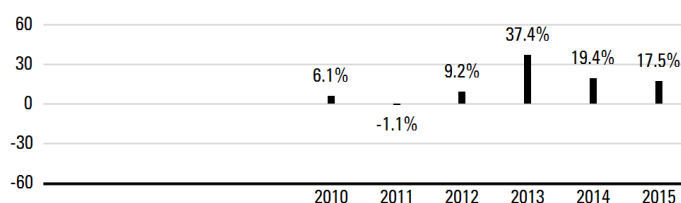
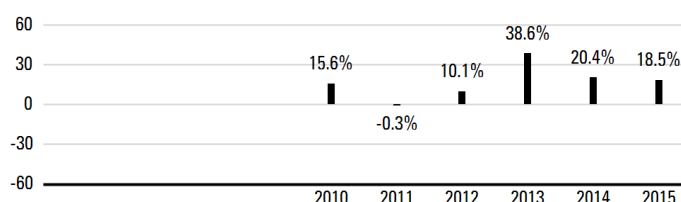
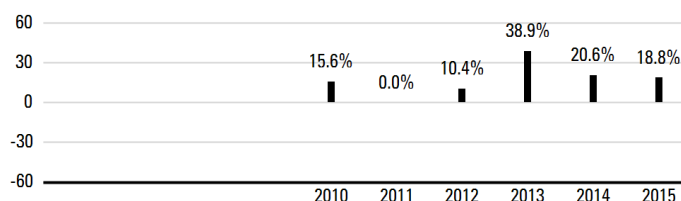
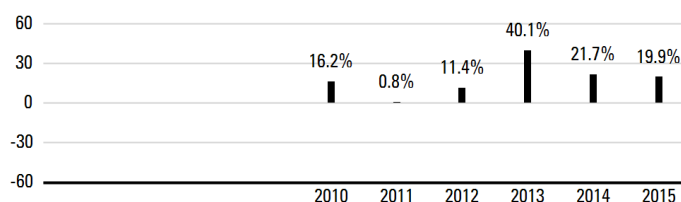
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.


**Advisor Series (%)**

**Series D (%)**

**Series F (%)**

**Series O (%)**


**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, 2015, 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	17.5	24.5	15.8	—	17.2
Benchmark	19.7	28.1	19.8	—	21.2
Advisor Series	17.5	24.5	15.8	—	16.6
Benchmark	19.7	28.1	19.8	—	20.2
Series D	18.5	25.5	16.8	—	18.2
Benchmark	19.7	28.1	19.8	—	21.2
Series F	18.8	25.8	17.1	—	18.5
Benchmark	19.7	28.1	19.8	—	21.2
Series O	19.9	26.9	18.1	—	19.5
Benchmark	19.7	28.1	19.8	—	21.2

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.

Advisor Series units have been available for sale to unitholders since October 2010, and Series C, Series D, Series F and Series O units since June 2010.

Inception dates are not provided for series that have been in existence for more than 10 years.

**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, 2015

**Investment Mix**

	% of Net Asset Value
Information Technology	20.4
Financials	17.5
Consumer Discretionary	14.3
Health Care	13.3
Industrials	11.9
Consumer Staples	7.4
Energy	4.9
Utilities	4.6
Materials	3.1
Telecommunication Services	1.9
Cash/Other	0.7

**Top 25 Holdings**

	% of Net Asset Value
Apple Inc.	2.9
Microsoft Corp.	1.7
Home Depot Inc.	1.4
Amazon.com, Inc.	1.3
Citigroup Inc.	1.2
Alphabet Inc., Class C	1.2
Boeing Co.	1.2
Bank of America Corp.	1.1
Accenture Plc., Class A	1.1
Gilead Sciences Inc.	1.1
MasterCard Inc.	1.1
JPMorgan Chase & Co.	1.0
AmerisourceBergen Corp.	1.0
Johnson & Johnson	1.0
Public Service Enterprise Group	1.0
Altria Group Inc.	0.9
UnitedHealth Group Incorporated	0.9
General Electric Company	0.9
Exxon Mobil Corp.	0.9
Facebook Inc., Class A	0.9
Starbucks Corp.	0.9
PPL Corporation	0.8
Cisco Systems Inc.	0.8
The Goldman Sachs Group Inc.	0.8
Alphabet Inc., Class A	0.8
Top 25 Holdings	27.9

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**U.S. EQUITY FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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. The portfolio manager places 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value fell to \$557 million as of December 31, 2015, from \$587 million at the end of 2014. The decrease was due to net redemptions.

Over the past year, the Fund's Series O units gained 13.3%, which underperformed the 20.7% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The U.S. stock market recorded a modest return in 2015, but this return was much larger in Canadian-dollar terms due to extreme weakness in the Canadian dollar. The market's leading sectors were Consumer Discretionary, Health Care and Information Technology.

Stronger consumer spending was reflected in share gains for retailers such as Netflix and Amazon.com. The Fund was underweight in both companies and this had a negative impact on relative performance. The Fund's above-benchmark exposure to Hewlett Packard and Oracle in the Information Technology sector were both negative for relative returns. Among the Industrials stocks that had the most negative impact on relative performance were United Technologies and Emerson Electric.

The largest contributions to performance came from stock selection in the Financials sector, where Bank of the Ozarks, First Republic Bank and JPMorgan Chase all contributed to relative returns. Other stocks that contributed significantly to performance were Starz, Google and Microsoft.

Portfolio turnover is normally high for this Fund, as the portfolio manager attempts to generate better returns through active sector and stock selection.

### Recent Developments

The long wait for the U.S. Federal Reserve (the "Fed") to raise short-term interest rates ended in December, with a 0.25% increase. The Fed has indicated its intention to continue raising rates at a gradual pace as long as economic data is strong enough. However, interest rates globally continue to remain at historically low levels. A weaker Canadian dollar, coupled with a stronger U.S. economy, provides the potential for improving manufacturing exports in Canada. However, low commodities prices will likely remain a headwind for the Canadian economy.

Given relatively low interest rates and a year of sideways price action in the U.S. equity market, valuations are now somewhat more attractive. Revenue and earnings growth remains challenging but should emerge if the U.S. dollar appreciation moderates and global growth becomes less sluggish.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 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.



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***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 \$40,000 (2014 – \$7,000), or 9% (2014 – 1%) 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total		
Series C													
Dec. 31, 2015	51.52	0.99	(1.13)	13.91	(7.84)	5.93	—	—	—	—	—	57.22	
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	
Advisor Series													
Dec. 31, 2015	51.52	0.99	(1.13)	13.90	(7.83)	5.93	—	—	—	—	—	57.22	
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	
Series D													
Dec. 31, 2015	51.27	0.99	(0.65)	13.88	(7.82)	6.40	—	(0.37)	—	—	(0.37)	57.08	
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	
Series F													
Dec. 31, 2015	51.51	1.00	(0.52)	14.04	(7.91)	6.61	—	(0.51)	—	—	(0.51)	57.33	
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	
Series O													
Dec. 31, 2015	52.07	1.01	(0.01)	14.12	(7.95)	7.17	—	(1.07)	—	—	(1.07)	57.93	
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	

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>57.22</b>	<b>4 615</b>	<b>81</b>	<b>2.05</b>	<b>2.05</b>	<b>106.27</b>	<b>0.08</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>57.22</b>	<b>1 979</b>	<b>35</b>	<b>2.05</b>	<b>2.05</b>	<b>106.27</b>	<b>0.08</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>57.08</b>	<b>147 545</b>	<b>2 585</b>	<b>1.18</b>	<b>1.18</b>	<b>106.27</b>	<b>0.08</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>57.33</b>	<b>3 580</b>	<b>62</b>	<b>0.94</b>	<b>0.94</b>	<b>106.27</b>	<b>0.08</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>57.93</b>	<b>399 193</b>	<b>6 891</b>	<b>0.02</b>	<b>0.02</b>	<b>106.27</b>	<b>0.08</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

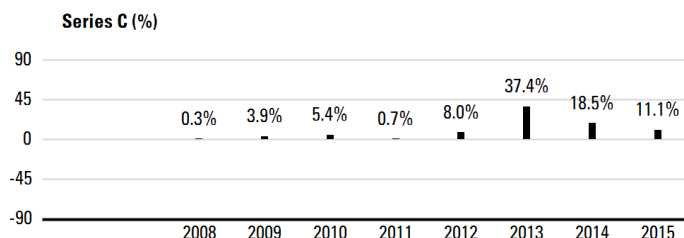
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

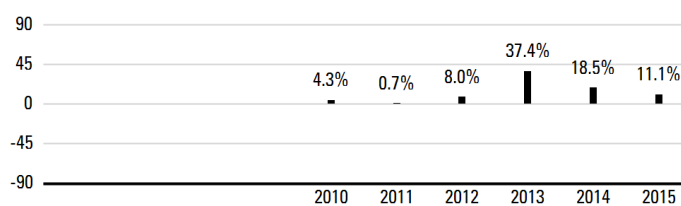
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

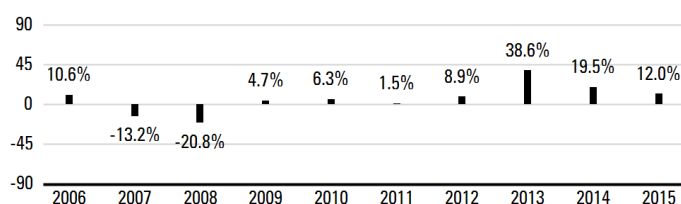
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



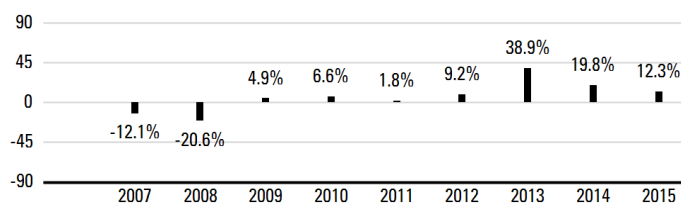
**Advisor Series (%)**



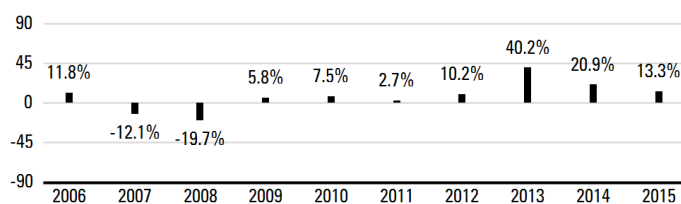
**Series D (%)**



**Series F (%)**



**Series O (%)**



## 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, 2015, 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	11.1	21.8	14.5	—	11.5
Benchmark	20.7	28.6	20.2	—	16.6
Advisor Series	11.1	21.8	14.5	—	14.9
Benchmark	20.7	28.6	20.2	—	20.5
Series D	12.0	22.9	15.4	5.7	—
Benchmark	20.7	28.6	20.2	9.2	—
Series F	12.3	23.2	15.7	—	5.8
Benchmark	20.7	28.6	20.2	—	9.3
Series O	13.3	24.3	16.8	6.9	—
Benchmark	20.7	28.6	20.2	9.2	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Information Technology	23.5
Financials	17.1
Health Care	15.3
Consumer Discretionary	13.7
Consumer Staples	8.9
Industrials	8.9
Energy	6.2
Materials	2.9
Utilities	2.7
Cash/Other	0.8

### Top 25 Holdings

	% of Net Asset Value
Microsoft Corp.	3.7
Apple Inc.	3.3
Alphabet Inc., Class C	2.9
Amazon.com, Inc.	2.6
Facebook Inc., Class A	2.2
Honeywell International Inc.	2.0
PepsiCo Inc.	2.0
Wells Fargo & Company	2.0
Visa Inc., Class A	1.9
The Procter & Gamble Co.	1.9
Invesco Ltd.	1.8
Citigroup Inc.	1.8
Johnson & Johnson	1.8
Medtronic Plc.	1.8
Occidental Petroleum Corp.	1.7
Lowe's Companies	1.7
Thermo Fisher Scientific Inc.	1.6
Skyworks Solutions Inc.	1.6
Synchrony Financial	1.6
Bank of America Corp.	1.5
Cigna Corp.	1.4
Allergan plc	1.4
General Electric Company	1.4
Merck & Co. Inc.	1.4
DTE Energy Company	1.4
Top 25 Holdings	48.4

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**CURRENCY-HEDGED U.S. EQUITY FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 CURRENCY-HEDGED  
U.S. EQUITY FUND****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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value fell to \$41 million as of December 31, 2015, from \$43 million at the end of 2014. The decrease was due to investment losses.

Over the past year, the Fund's Series O units lost 4.8%, which underperformed the 0.9% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The U.S. stock market recorded a modest return in 2015, but this return was much larger in Canadian-dollar terms due to extreme weakness in the Canadian dollar. The market's leading sectors were Consumer Discretionary, Health Care and Information Technology.

Stronger consumer spending was reflected in share gains for retailers such as Netflix and Amazon.com. The Fund was underweight in both companies and this had a negative impact on relative performance. The Fund's above-benchmark exposure to Hewlett Packard and Oracle in the Information Technology sector were both negative for relative returns. Among the Industrials stocks that had the most negative impact on relative performance were United Technologies and Emerson Electric.

The largest contributions to performance came from stock selection in the Financials sector, where Bank of the Ozarks, First Republic Bank and JPMorgan Chase all contributed to relative returns. Other stocks that contributed significantly to performance were Starz, Google and Microsoft.

The Fund's currency-hedging mandate had a negative impact on returns, as the Fund was not able to take advantage of the rise in the U.S. dollar.

**Recent Developments**

The long wait for the U.S. Federal Reserve (the "Fed") to raise short-term interest rates ended in December, with a 0.25% increase. The Fed has indicated its intention to continue raising rates at a gradual pace as long as economic data is strong enough. However, interest rates globally continue to remain at historically low levels. A weaker Canadian dollar, coupled with a stronger U.S. economy, provides the potential for improving manufacturing exports in Canada. However, low commodities prices will likely remain a headwind for the Canadian economy.

Given relatively low interest rates and a year of sideways price action in the U.S. equity market, valuations are now somewhat more attractive. Revenue and earnings growth remains challenging but should emerge if the U.S. dollar appreciation moderates and global growth becomes less sluggish.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED  
U.S. EQUITY FUND***Related-Party Trading Activities*

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

*Inter-Fund Trading*

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	10.50	0.19	(0.21)	(0.24)	(0.44)	(0.70)	—	—	—	—	—	9.81
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
Advisor Series												
Dec. 31, 2015	10.50	0.19	(0.20)	(0.24)	(0.44)	(0.69)	—	—	—	—	—	9.81
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
Series D												
Dec. 31, 2015	10.44	0.19	(0.12)	(0.24)	(0.44)	(0.61)	—	(0.08)	—	—	(0.08)	9.76
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
Series F												
Dec. 31, 2015	10.53	0.19	(0.10)	(0.24)	(0.44)	(0.59)	—	(0.10)	—	—	(0.10)	9.85
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
Series O												
Dec. 31, 2015	10.55	0.19	(0.01)	(0.24)	(0.45)	(0.51)	—	(0.18)	—	—	(0.18)	9.87
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>9.81</b>	<b>1 128</b>	<b>115</b>	<b>2.05</b>	<b>2.06</b>	<b>24.20</b>	<b>0.08</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>9.81</b>	<b>3 153</b>	<b>321</b>	<b>2.05</b>	<b>2.06</b>	<b>24.20</b>	<b>0.08</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>9.76</b>	<b>7 793</b>	<b>799</b>	<b>1.21</b>	<b>1.22</b>	<b>24.20</b>	<b>0.08</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>9.85</b>	<b>761</b>	<b>77</b>	<b>0.95</b>	<b>0.95</b>	<b>24.20</b>	<b>0.08</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>9.87</b>	<b>27 937</b>	<b>2 831</b>	<b>0.13</b>	<b>0.14</b>	<b>24.20</b>	<b>0.08</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED  
U.S. EQUITY FUND**
**FINANCIAL HIGHLIGHTS (cont.)**
**Management Fees**

RBC GAM is the manager and portfolio manager 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.

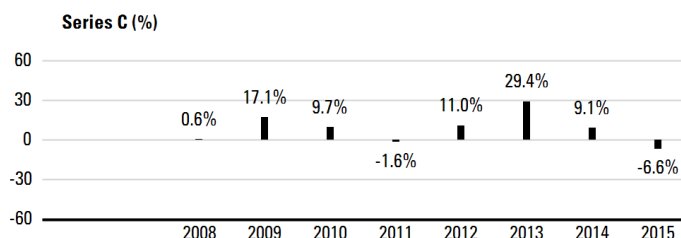
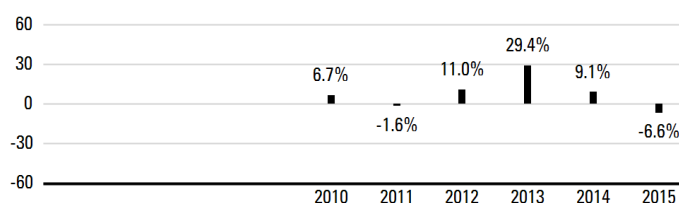
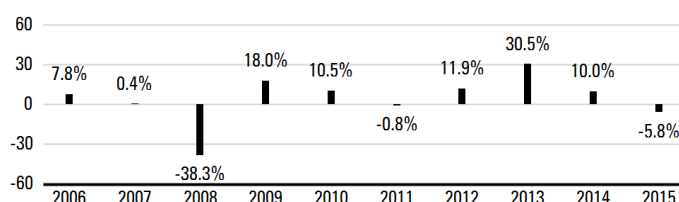
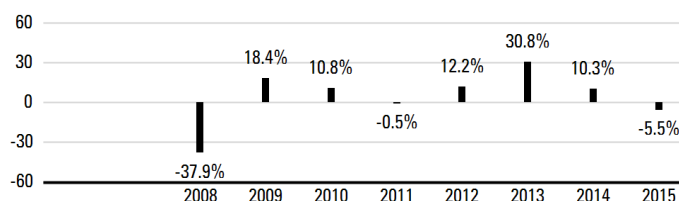
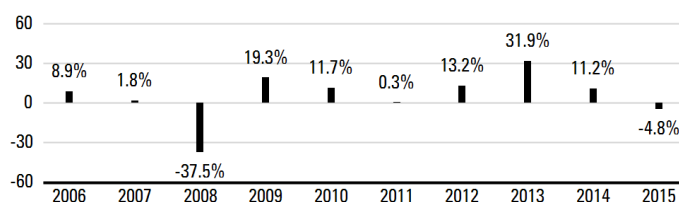
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.


**Advisor Series (%)**

**Series D (%)**

**Series F (%)**

**Series O (%)**


**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, 2015, 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	-6.6	9.6	7.6	—	9.2
Benchmark	0.9	15.4	12.7	—	14.4
Advisor Series	-6.6	9.6	7.6	—	8.7
Benchmark	0.9	15.4	12.7	—	13.7
Series D	-5.8	10.6	8.5	—	2.9
Benchmark	0.9	15.4	12.7	—	6.5
Series F	-5.5	10.9	8.7	—	2.7
Benchmark	0.9	15.4	12.7	—	5.7
Series O	-4.8	11.8	9.6	—	4.1
Benchmark	0.9	15.4	12.7	—	6.5

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, Series F units since December 2007, and Series D and Series O units since June 2006.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

**Investment Mix**

	% of Net Asset Value
Information Technology	23.7
Financials	17.3
Health Care	15.5
Consumer Discretionary	13.8
Industrials	9.0
Consumer Staples	9.0
Energy	6.3
Utilities	2.9
Materials	2.7
Cash/Other	(0.2)

**Top 25 Holdings\***

	% of Net Asset Value
Microsoft Corp.	3.7
Apple Inc.	3.3
Alphabet Inc., Class C	2.9
Amazon.com, Inc.	2.6
Facebook Inc., Class A	2.2
Honeywell International Inc.	2.0
PepsiCo Inc.	2.0
Wells Fargo & Company	2.0
Visa Inc., Class A	1.9
The Procter & Gamble Co.	1.9
Invesco Ltd.	1.8
Citigroup Inc.	1.8
Johnson & Johnson	1.8
Medtronic Plc.	1.8
Occidental Petroleum Corp.	1.7
Lowe's Companies	1.7
Thermo Fisher Scientific Inc.	1.6
Skyworks Solutions Inc.	1.6
Synchrony Financial	1.6
Bank of America Corp.	1.5
Cigna Corp.	1.4
Allergan plc	1.4
General Electric Company	1.4
Merck & Co. Inc.	1.4
DTE Energy Company	1.4
Top 25 Holdings	48.4

\* 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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**U.S. GROWTH FUND**

December 31, 2015

**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests in businesses that they 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 investors remain as discussed in the Simplified Prospectus.

### **Results of Operations**

The Fund's net asset value rose to \$124 million as of December 31, 2015, from \$122 million at the end of 2014. The increase was due to investment gains.

Over the past year, the Fund's Series O units gained 18.4%, which underperformed the 20.7% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The U.S. stock market recorded a modest return in 2015, but this return was much larger in Canadian-dollar terms due to extreme weakness in the Canadian dollar. The market's leading sectors were Consumer Discretionary, Health Care and Information Technology.

Above-benchmark positions in Generac, United Technologies and Copa Holdings had a negative impact on the Fund's relative returns in the Industrials sector, while a relative lack of exposure to Netflix and Amazon.com were negatives in the consumer area, as both performed well during the year. Significant exposure to Seagate Technology and Oracle also hurt returns.

The largest contributions to performance came from stock selection in the Financials sector. Bank of the Ozarks, First Republic Bank and McGraw Hill all contributed to performance in the Financials sector. Other stocks that contributed significantly to relative returns included Google, Cognizant Technology Solutions and Acuity Brands.

Portfolio turnover is normally high for this Fund, as the portfolio manager attempts to generate better returns through active sector and stock selection.

### **Recent Developments**

In the U.S., the long wait for the U.S. Federal Reserve (the "Fed") to raise short-term interest rates ended in December, with a 0.25% increase. The Fed has indicated its intention to continue raising rates at a gradual pace as long as economic data is strong enough. However, interest rates globally continue to remain at historically low levels. A weaker Canadian dollar, coupled with a stronger U.S. economy, provides the potential for improving manufacturing exports in Canada. However, low commodities prices will likely remain a headwind for the Canadian economy.

Given relatively low interest rates and a year of sideways price action in the U.S. equity market, valuations are now somewhat more attractive. Revenue and earnings growth remains challenging but should emerge if the U.S. dollar appreciation moderates and global growth becomes less sluggish.

### **Related-Party Transactions**

#### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 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.

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***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 \$15,000 (2014 – \$1,000), or 14% (2014 – 2%) 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series C												
Dec. 31, 2015	18.79	0.28	(0.41)	5.91	(2.66)	3.12	—	—	—	—	—	21.82
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
Advisor Series												
Dec. 31, 2015	18.78	0.28	(0.41)	5.88	(2.64)	3.11	—	—	—	—	—	21.82
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
Series D												
Dec. 31, 2015	19.18	0.28	(0.25)	6.06	(2.72)	3.37	—	(0.02)	—	—	(0.02)	22.44
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
Series F												
Dec. 31, 2015	19.41	0.29	(0.21)	6.14	(2.76)	3.46	—	(0.07)	—	—	(0.07)	22.70
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
Series O												
Dec. 31, 2015	19.60	0.29	(0.02)	6.21	(2.79)	3.69	—	(0.27)	—	—	(0.27)	22.93
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.



**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>21.82</b>	<b>2 289</b>	<b>105</b>	<b>1.98</b>	<b>1.98</b>	<b>124.55</b>	<b>0.09</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>21.82</b>	<b>166</b>	<b>8</b>	<b>1.98</b>	<b>1.98</b>	<b>124.55</b>	<b>0.09</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>22.44</b>	<b>43 208</b>	<b>1 925</b>	<b>1.18</b>	<b>1.18</b>	<b>124.55</b>	<b>0.09</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>22.70</b>	<b>764</b>	<b>34</b>	<b>0.95</b>	<b>0.95</b>	<b>124.55</b>	<b>0.09</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>22.93</b>	<b>77 521</b>	<b>3 381</b>	<b>0.08</b>	<b>0.08</b>	<b>124.55</b>	<b>0.09</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

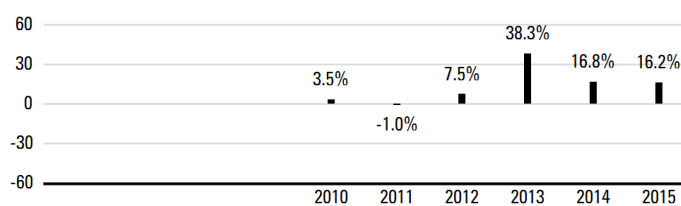
## PAST PERFORMANCE

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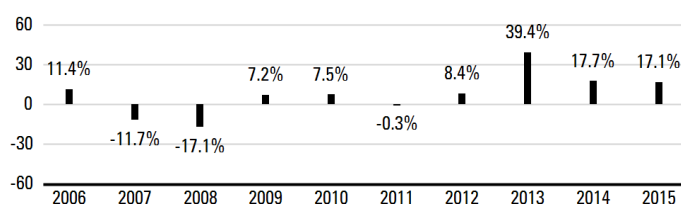
### Year-by-Year Returns (%)

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.

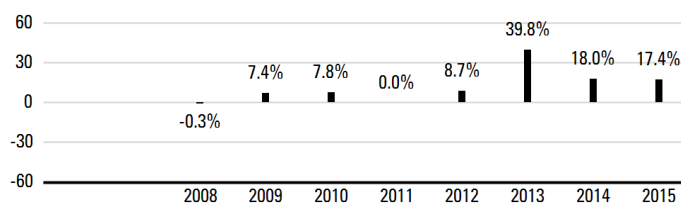
Advisor Series (%)



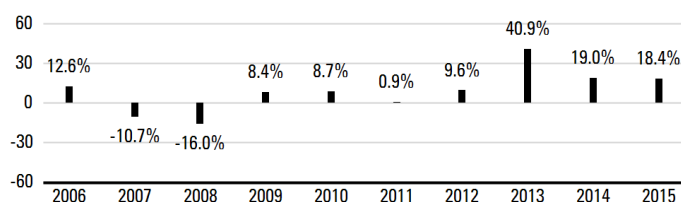
Series D (%)



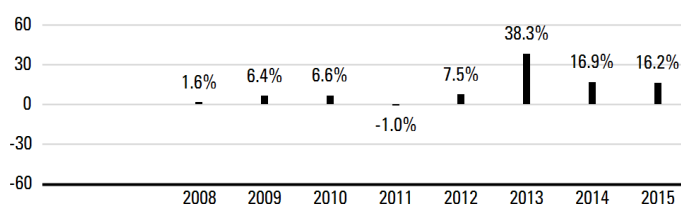
Series F (%)



Series O (%)



Series C (%)



## 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, 2015, 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	16.2	23.4	14.8	—	12.5
Benchmark	20.7	28.6	20.2	—	16.6
Advisor Series	16.2	23.4	14.8	—	15.1
Benchmark	20.7	28.6	20.2	—	20.5
Series D	17.1	24.3	15.7	6.9	—
Benchmark	20.7	28.6	20.2	9.2	—
Series F	17.4	24.6	16.0	—	13.2
Benchmark	20.7	28.6	20.2	—	15.6
Series O	18.4	25.7	17.0	8.1	—
Benchmark	20.7	28.6	20.2	9.2	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since October 2008.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Information Technology	23.5
Financials	17.1
Health Care	15.2
Consumer Discretionary	13.7
Consumer Staples	8.9
Industrials	8.8
Energy	6.1
Materials	2.9
Utilities	2.7
Cash/Other	1.1

### Top 25 Holdings

	% of Net Asset Value
Microsoft Corp.	3.7
Apple Inc.	3.3
Alphabet Inc., Class C	2.9
Amazon.com, Inc.	2.6
Facebook Inc., Class A	2.2
Honeywell International Inc.	2.0
PepsiCo Inc.	2.0
Wells Fargo & Company	2.0
Visa Inc., Class A	1.9
The Procter & Gamble Co.	1.9
Invesco Ltd.	1.8
Citigroup Inc.	1.8
Johnson & Johnson	1.8
Medtronic Plc.	1.8
Occidental Petroleum Corp.	1.7
Lowe's Companies	1.7
Skyworks Solutions Inc.	1.6
Thermo Fisher Scientific Inc.	1.6
Synchrony Financial	1.6
Bank of America Corp.	1.5
Cigna Corp.	1.4
Allergan plc	1.4
General Electric Company	1.4
Merck & Co. Inc.	1.4
DTE Energy Company	1.4
Top 25 Holdings	48.4

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
OVERSEAS EQUITY FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 of companies located in countries outside North America, including countries in Europe, as well as Japan, Australia and the rest of the Far East. To achieve the Fund's investment objective, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$976 million as of December 31, 2015, from \$811 million at the end of 2014. The increase was due to investment gains.

Over the past year, the Fund's Series O units gained 23.3%, which outperformed the 19.0% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, global equity markets were driven by concerns including the timing of the first rate rise by the U.S. Federal Reserve in almost a decade, extraordinarily loose monetary policies and political conflict in Europe, and a China coming to terms with slowing growth and the transition to a service economy. Added to this was broad strength in the U.S. dollar, continued commodity-price weakness most apparent in the oil price and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe. Against this backdrop, market returns were somewhat muted.

Stock selection in the Financials and Materials sectors was a strong contributor to relative returns, while the Fund's Health Care and Energy holdings had a minor negative impact on returns.

Top-performing companies in the portfolio included Japanese pharmaceuticals company Santen, whose eye-care division performed well; French aerospace and defence company Safran, which was buoyed by sales at its commercial-aircraft division and inclusion in the benchmark Eurostoxx 50 Index; and Swedish paper company Svenska Cellulosa, which benefited from new management and strategy, as well as strong revenue growth.

Swiss baked-goods manufacturer Aryzta was the biggest negative for performance and was sold from the Fund after the company announced it would expand into frozen foods. Spanish retail bank CaixaBank was also a negative for returns amid continuing concerns about Spain's banking industry.

### Recent Developments

Equity markets will continue to be exposed to macroeconomic weakness and geopolitical tensions in the coming year. As a result, the portfolio manager will continue to look for opportunities in stocks with attractive valuations and strong fundamentals. Focusing on high-quality companies with these attributes should offer investors price appreciation when stock markets rise and cushion declines when the overall market plunges.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***Brokerage***

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$112,000 (2014 – \$68,000), or 7% (2014 – 2%) 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total		
Series C													
Dec. 31, 2015	11.44	0.30	(0.29)	0.52	1.85	2.38	—	—	—	—	—	13.81	
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	
Advisor Series													
Dec. 31, 2015	11.44	0.30	(0.29)	0.52	1.85	2.38	—	—	—	—	—	13.81	
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	
Series D													
Dec. 31, 2015	11.35	0.30	(0.18)	0.52	1.84	2.48	—	(0.11)	—	—	(0.11)	13.72	
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	
Series F													
Dec. 31, 2015	10.83	0.28	(0.14)	0.49	1.75	2.38	—	(0.14)	—	—	(0.14)	13.08	
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	
Series O													
Dec. 31, 2015	11.58	0.31	(0.01)	0.53	1.89	2.72	—	(0.29)	—	—	(0.29)	13.99	
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	

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>13.81</b>	<b>3 664</b>	<b>265</b>	<b>2.22</b>	<b>2.22</b>	<b>35.42</b>	<b>0.17</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>13.81</b>	<b>1 401</b>	<b>101</b>	<b>2.22</b>	<b>2.22</b>	<b>35.42</b>	<b>0.17</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>13.72</b>	<b>186 721</b>	<b>13 614</b>	<b>1.34</b>	<b>1.34</b>	<b>35.42</b>	<b>0.17</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>13.08</b>	<b>5 569</b>	<b>426</b>	<b>1.13</b>	<b>1.13</b>	<b>35.42</b>	<b>0.17</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>13.99</b>	<b>778 286</b>	<b>55 634</b>	<b>0.09</b>	<b>0.09</b>	<b>35.42</b>	<b>0.17</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.



## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

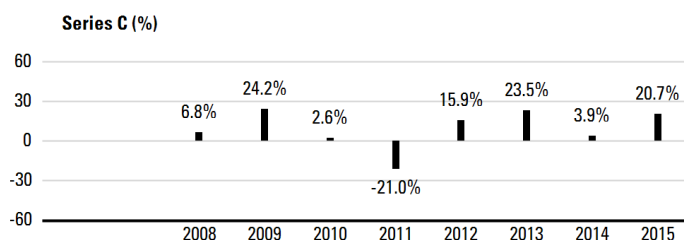
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

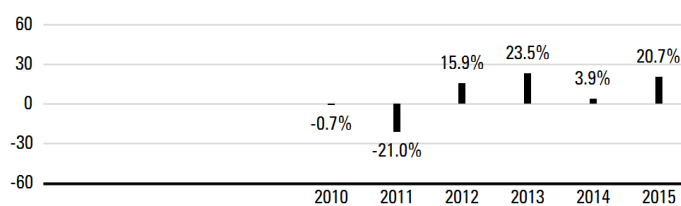
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

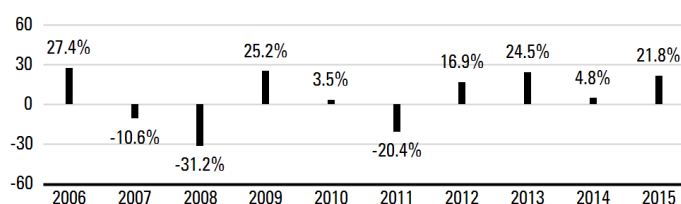
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



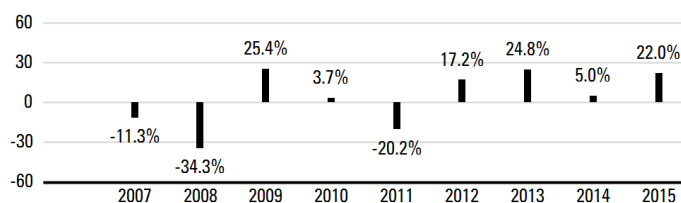
**Advisor Series (%)**



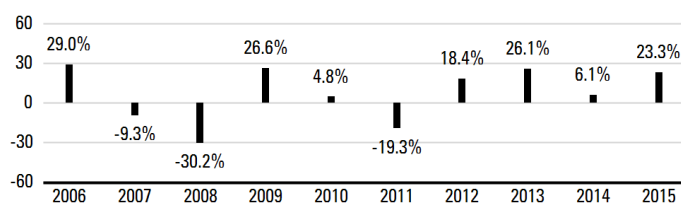
**Series D (%)**



**Series F (%)**



**Series O (%)**



**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, 2015, 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	20.7	15.7	7.2	—	9.7
Benchmark	19.0	17.3	10.8	—	10.4
Advisor Series	20.7	15.7	7.2	—	6.8
Benchmark	19.0	17.3	10.8	—	10.5
Series D	21.8	16.7	8.1	4.1	—
Benchmark	19.0	17.3	10.8	4.8	—
Series F	22.0	17.0	8.4	—	1.5
Benchmark	19.0	17.3	10.8	—	2.7
Series O	23.3	18.2	9.5	5.5	—
Benchmark	19.0	17.3	10.8	4.8	—

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since June 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015*

**Investment Mix – Sectors**

	% of Net Asset Value
Financials	22.4
Consumer Discretionary	17.9
Industrials	15.6
Health Care	12.6
Consumer Staples	11.1
Information Technology	6.2
Materials	5.2
Energy	3.8
Telecommunication Services	3.8
Cash/Other	1.4

**Investment Mix – Countries/Regions**

	% of Net Asset Value
Europe ex-United Kingdom Equities	40.0
United Kingdom Equities	21.5
Japan Equities	20.2
Pacific Rim ex-Japan Equities	13.1
Middle East and Africa Equities	3.8
Cash/Other	1.4

**Top 25 Holdings**

	% of Net Asset Value
InBev N.V.	4.4
Pernod-Ricard S.A.	4.3
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	4.1
Roche Holdings AG Genusscheine	4.1
Naspers Ltd.	3.8
Deutsche Post AG	3.7
Safran S.A.	3.6
Shire Plc.	3.6
InterContinental Hotels Group Plc.	3.4
AIA Group Ltd.	3.3
SMC Corp.	3.2
HDFC Bank Ltd. ADR	3.0
Continental AG	3.0
St James's Place Plc.	2.9
Oriental Land Co. Ltd.	2.9
Admiral Group Plc.	2.9
Astellas Pharma Inc.	2.8
Toyota Motor Corp.	2.7
UBS Group AG	2.6
Nidec Corp.	2.6
Kubota Corp.	2.5
Lloyds TSB Group Plc.	2.5
Svenska Cellulosa AB	2.4
BT Group Plc.	2.2
Liberty Global Plc.	2.1
Top 25 Holdings	78.6

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CURRENCY-HEDGED OVERSEAS  
EQUITY FUND**

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December 31, 2015**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 4, 2016.

**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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*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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 CURRENCY-HEDGED OVERSEAS EQUITY FUND****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, as well as Japan, Australia and the rest of the Far East, while minimizing fluctuations in the value of foreign currencies relative to the Canadian dollar. To achieve the Fund's investment objective, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$171 million as of December 31, 2015, from \$134 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 9.2%, which outperformed the 5.2% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, global equity markets were driven by concerns including the timing of the first rate rise by the U.S. Federal Reserve in almost a decade, extraordinarily loose monetary policies and political conflict in Europe, and a China coming to terms with slowing growth and the transition to a service economy. Added to this was broad strength in the U.S. dollar, continued commodity-price weakness most apparent in the oil price and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe. Against this backdrop, market returns were somewhat muted.

Stock selection in the Financials and Materials sectors was a strong contributor to relative returns, while the Fund's Health Care and Energy holdings had a minor negative impact on returns.

Top-performing companies in the portfolio included Japanese pharmaceuticals company Santen, whose eye-care division performed well; French aerospace and defence company Safran, which was buoyed by sales at its commercial-aircraft division and

inclusion in the benchmark Eurostoxx 50 Index; and Swedish paper company Svenska Cellulosa, which benefited from new management and strategy, as well as strong revenue growth.

Swiss baked-goods manufacturer Aryzta was the biggest negative for performance and was sold from the Fund after the company announced it would expand into frozen foods. Spanish retail bank CaixaBank was also a negative for returns amid continuing concerns about Spain's banking industry.

The Fund's currency-hedging mandate had a negative impact on returns, as the Fund was not able to take advantage of the rise in the U.S. dollar.

**Recent Developments**

Equity markets will continue to be exposed to macroeconomic weakness and geopolitical tensions in the coming year. As a result, the portfolio manager will continue to look for opportunities in stocks with attractive valuations and strong fundamentals. Focusing on high-quality companies with these attributes should offer investors price appreciation when stock markets rise and cushion declines when the overall market plunges.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED  
OVERSEAS EQUITY FUND*****Other Related-Party Transactions***

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

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	9.10	0.22	(0.22)	(0.42)	0.95	0.53	—	—	—	—	—	9.73
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
Advisor Series												
Dec. 31, 2015	9.10	0.21	(0.22)	(0.41)	0.93	0.51	—	—	—	—	—	9.73
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
Series D												
Dec. 31, 2015	8.84	0.21	(0.13)	(0.41)	0.93	0.60	—	(0.08)	—	—	(0.08)	9.46
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
Series F												
Dec. 31, 2015	8.93	0.21	(0.11)	(0.41)	0.93	0.62	—	(0.10)	—	—	(0.10)	9.55
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
Series O												
Dec. 31, 2015	8.96	0.21	(0.02)	(0.41)	0.94	0.72	—	(0.19)	—	—	(0.19)	9.59
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>9.73</b>	<b>733</b>	<b>75</b>	<b>2.30</b>	<b>2.30</b>	<b>20.40</b>	<b>0.17</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>9.73</b>	<b>1 675</b>	<b>172</b>	<b>2.30</b>	<b>2.30</b>	<b>20.40</b>	<b>0.17</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>9.46</b>	<b>11 977</b>	<b>1 266</b>	<b>1.43</b>	<b>1.43</b>	<b>20.40</b>	<b>0.17</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>9.55</b>	<b>3 268</b>	<b>342</b>	<b>1.19</b>	<b>1.19</b>	<b>20.40</b>	<b>0.17</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>9.59</b>	<b>153 811</b>	<b>16 036</b>	<b>0.24</b>	<b>0.24</b>	<b>20.40</b>	<b>0.17</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED  
OVERSEAS EQUITY FUND**
**FINANCIAL HIGHLIGHTS (cont.)**
**Management Fees**

RBC GAM is the manager and portfolio manager 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.

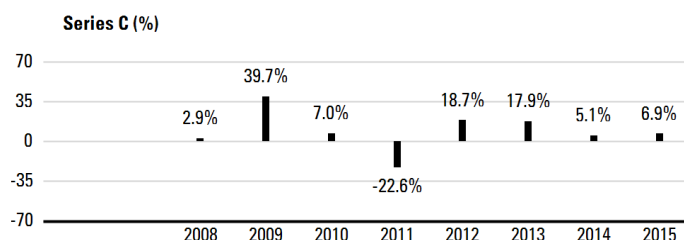
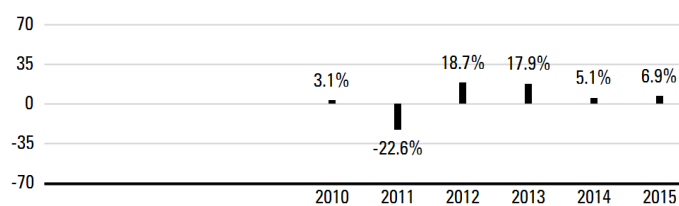
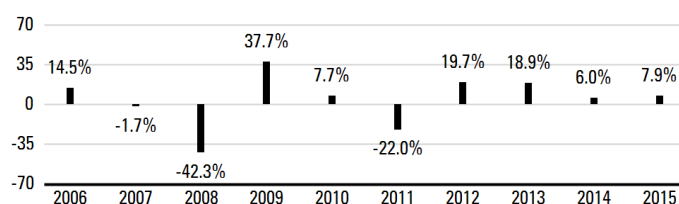
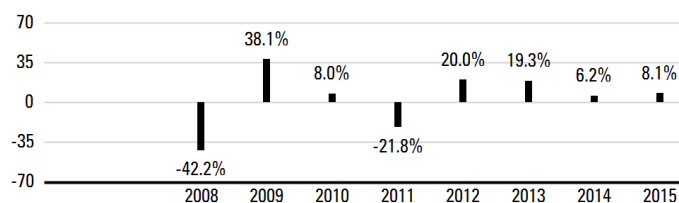
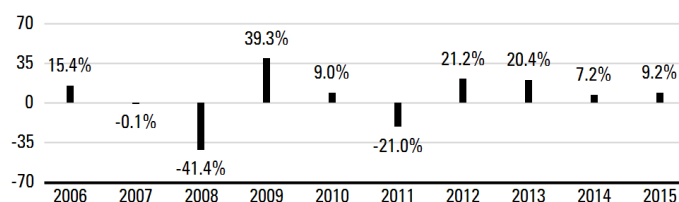
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.


**Advisor Series (%)**

**Series D (%)**

**Series F (%)**

**Series O (%)**




**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, 2015, 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	6.9	9.8	4.0	—	9.2
Benchmark	5.2	12.6	8.1	—	9.7
Advisor Series	6.9	9.8	4.0	—	4.5
Benchmark	5.2	12.6	8.1	—	8.6
Series D	7.9	10.8	4.9	—	2.1
Benchmark	5.2	12.6	8.1	—	2.8
Series F	8.1	11.1	5.2	—	1.3
Benchmark	5.2	12.6	8.1	—	1.3
Series O	9.2	12.1	6.2	—	3.5
Benchmark	5.2	12.6	8.1	—	2.8

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, Series F units since December 2007, and Series D and Series O units since June 2006.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

**Investment Mix – Sectors**

	% of Net Asset Value
Financials	23.3
Consumer Discretionary	18.5
Industrials	16.1
Health Care	13.0
Consumer Staples	11.5
Information Technology	6.4
Materials	5.4
Energy	3.9
Telecommunication Services	3.9
Cash/Other	(2.0)

**Investment Mix – Countries/Regions**

	% of Net Asset Value
Europe ex-United Kingdom Equities	40.9
United Kingdom Equities	21.9
Japan Equities	20.5
Pacific Rim ex-Japan Equities	13.3
Middle East and Africa Equities	3.9
Cash/Other	(0.5)

**Top 25 Holdings\***

	% of Net Asset Value
InBev N.V.	4.4
Pernod-Ricard S.A.	4.3
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	4.1
Roche Holdings AG Genusscheine	4.1
Naspers Ltd.	3.8
Deutsche Post AG	3.7
Safran S.A.	3.6
Shire Plc.	3.6
InterContinental Hotels Group Plc.	3.4
AIA Group Ltd.	3.3
SMC Corp.	3.2
HDFC Bank Ltd. ADR	3.0
Continental AG	3.0
St James's Place Plc.	2.9
Oriental Land Co. Ltd.	2.9
Admiral Group Plc.	2.9
Astellas Pharma Inc.	2.8
Toyota Motor Corp.	2.7
UBS Group AG	2.6
Nidec Corp.	2.6
Kubota Corp.	2.5
Lloyds TSB Group Plc.	2.5
Svenska Cellulosa AB	2.4
BT Group Plc.	2.2
Liberty Global Plc.	2.1
Top 25 Holdings	78.6

\* 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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## GLOBAL EQUITY FUND

**PHILLIPS, HAGER & NORTH**  
**GLOBAL EQUITY FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, as well as Japan, Australia and the rest of the Far East. The portfolio manager invests primarily in companies that they 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 investors remain as discussed in the Simplified Prospectus.

### **Results of Operations**

The Fund's net asset value rose to \$121 million as of December 31, 2015, from \$90 million at the end of 2014. The increase was due mainly to investment gains.

Over the past year, the Fund's Series O units gained 24.9%, which outperformed the 18.9% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, global equity markets were driven by concerns including the timing of the first rate rise by the U.S. Federal Reserve in almost a decade, extraordinarily loose monetary policies and political conflict in Europe, and a China coming to terms with slowing growth and the transition to a service economy. Added to this was broad strength in the U.S. dollar, continued commodity-price weakness most apparent in the oil price and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe. Against this backdrop, market returns were somewhat muted.

Stock selection in the Consumer Discretionary, Financials and Information Technology sectors was a strong contributor to relative returns, while the Fund's Health Care and Industrials holdings had a minor negative impact on returns.

Top-performing stocks in the portfolio included U.S. retailer Amazon, which generated strong growth in its cloud-computing services alongside healthy retail sales; U.S. bank First Republic, which continued to benefit from its focus on customer service; and U.S. Internet stock Alphabet (formerly Google), whose corporate restructuring was welcomed by investors.

Canadian oil-pipeline company Enbridge had the most negative impact on the Fund's returns as falling energy prices dimmed the company's growth outlook, followed by U.S. rail operator Kansas City Southern, which was hurt by declining energy shipments.

### **Recent Developments**

Equity markets will continue to be exposed to macroeconomic weakness and geopolitical tensions in the coming year. As a result, the portfolio manager will continue to look for opportunities in stocks with attractive valuations and strong fundamentals. Focusing on high-quality companies with these attributes should offer investors price appreciation when stock markets rise and cushion declines when the overall market plunges.

### **Related-Party Transactions**

#### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***Brokerage***

The Fund has established standard brokerage agreements at market rates with related-party dealers. These related-party commissions were \$15,000 (2014 – \$3,000), or 8% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total		
<b>Series C</b>													
<b>Dec. 31, 2015</b>	<b>11.82</b>	<b>0.23</b>	<b>(0.28)</b>	<b>0.73</b>	<b>1.95</b>	<b>2.63</b>	—	—	—	—	—	<b>14.47</b>	
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	
<b>Advisor Series</b>													
<b>Dec. 31, 2015</b>	<b>11.82</b>	<b>0.23</b>	<b>(0.28)</b>	<b>0.73</b>	<b>1.94</b>	<b>2.62</b>	—	—	—	—	—	<b>14.47</b>	
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	
<b>Series D</b>													
<b>Dec. 31, 2015</b>	<b>11.94</b>	<b>0.23</b>	<b>(0.16)</b>	<b>0.74</b>	<b>1.98</b>	<b>2.79</b>	—	<b>(0.06)</b>	—	—	<b>(0.06)</b>	<b>14.69</b>	
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	
<b>Series F</b>													
<b>Dec. 31, 2015</b>	<b>12.10</b>	<b>0.24</b>	<b>(0.13)</b>	<b>0.75</b>	<b>1.99</b>	<b>2.85</b>	—	<b>(0.10)</b>	—	—	<b>(0.10)</b>	<b>14.87</b>	
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	
<b>Series O</b>													
<b>Dec. 31, 2015</b>	<b>12.26</b>	<b>0.24</b>	<b>(0.01)</b>	<b>0.77</b>	<b>2.04</b>	<b>3.04</b>	—	<b>(0.23)</b>	—	—	<b>(0.23)</b>	<b>15.08</b>	
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	

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>14.47</b>	<b>7 246</b>	<b>501</b>	<b>2.06</b>	<b>2.06</b>	<b>38.75</b>	<b>0.17</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>14.47</b>	<b>3 686</b>	<b>255</b>	<b>2.06</b>	<b>2.06</b>	<b>38.75</b>	<b>0.17</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>14.69</b>	<b>52 874</b>	<b>3 600</b>	<b>1.19</b>	<b>1.19</b>	<b>38.75</b>	<b>0.17</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>14.87</b>	<b>2 536</b>	<b>171</b>	<b>0.95</b>	<b>0.95</b>	<b>38.75</b>	<b>0.17</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>15.08</b>	<b>54 566</b>	<b>3 619</b>	<b>0.07</b>	<b>0.07</b>	<b>38.75</b>	<b>0.17</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

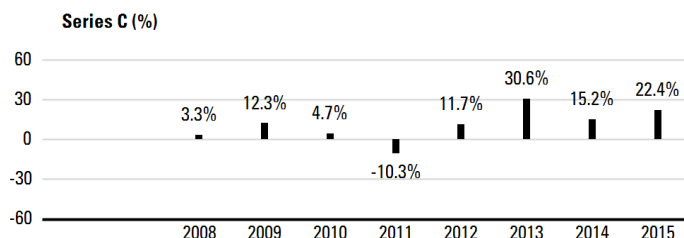
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

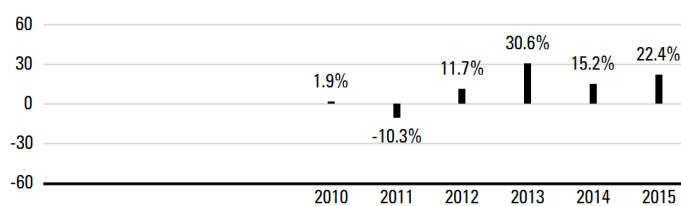
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

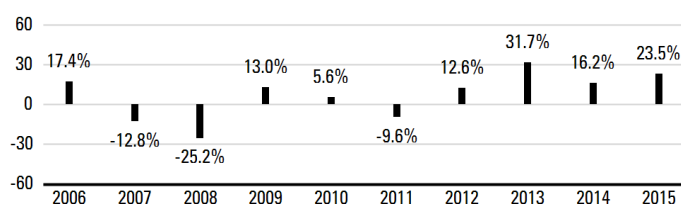
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



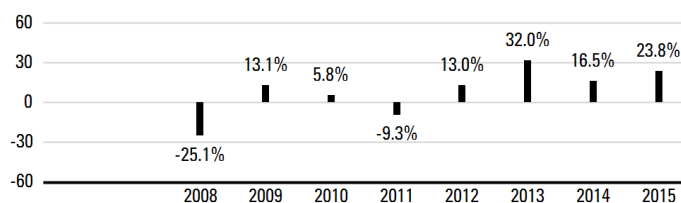
**Advisor Series (%)**



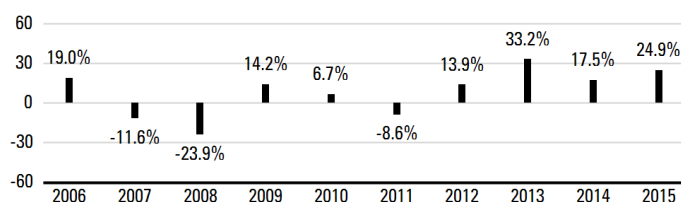
**Series D (%)**



**Series F (%)**



**Series O (%)**



## 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, 2015, compared with the following benchmark:

#### MSCI World Total Return Net Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C	22.4	22.6	13.0	—	12.1
Benchmark	18.9	22.5	15.0	—	13.3
Advisor Series	22.4	22.6	13.0	—	13.0
Benchmark	18.9	22.5	15.0	—	15.1
Series D	23.5	23.6	14.0	5.8	—
Benchmark	18.9	22.5	15.0	6.8	—
Series F	23.8	23.9	14.3	—	7.2
Benchmark	18.9	22.5	15.0	—	7.2
Series O	24.9	25.0	15.3	7.1	—
Benchmark	18.9	22.5	15.0	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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since December 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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

## INDEX DESCRIPTION

**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.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2015

### Investment Mix – Sectors

	% of Net Asset Value
Financials	19.3
Consumer Discretionary	15.4
Health Care	14.7
Information Technology	12.8
Industrials	10.9
Consumer Staples	10.7
Materials	4.9
Utilities	4.2
Energy	4.1
Telecommunication Services	1.3
Cash/Other	1.7

### Investment Mix – Countries/Regions

	% of Net Asset Value
United States Equities	56.1
Europe ex-United Kingdom Equities	17.6
United Kingdom Equities	9.1
Pacific Rim ex-Japan Equities	8.9
Japan Equities	3.6
Middle East and Africa Equities	3.0
Cash/Other	1.7



## SUMMARY OF INVESTMENT PORTFOLIO (cont.)

(after consideration of derivative products, if any)

As at December 31, 2015

### Top 25 Holdings

	% of Net Asset Value
ITC Holdings Corp.	4.2
Estée Lauder Companies Inc., Class A	4.0
TJX Companies Inc.	3.8
UnitedHealth Group Incorporated	3.8
Alphabet Inc., Class A	3.7
Roche Holdings AG Genusscheine	3.7
First Republic Bank	3.7
Danaher Corp.	3.7
International Flavors & Fragrances Inc.	3.7
HDFC Bank Ltd. ADR	3.6
Pernod-Ricard S.A.	3.5
Intuit Inc.	3.4
Amazon.com, Inc.	3.4
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3.4
Blackstone Group LP	3.4
InBev N.V.	3.2
Amgen Inc.	3.2
Deutsche Post AG	3.0
InterContinental Hotels Group Plc.	3.0
Naspers Ltd.	3.0
Shire Plc.	2.8
Safran S.A.	2.8
St James's Place Plc.	2.2
Gartner Inc.	2.2
Toyota Motor Corp.	2.2
Top 25 Holdings	82.6

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

## GLOBAL EQUITY FUND

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


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 December 31, 2015
**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 4, 2016.

**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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*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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 COMMUNITY VALUES  
GLOBAL EQUITY FUND****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, as well as Japan, Australia and the rest of the Far East. The portfolio manager's 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, the portfolio manager invests primarily in companies that they 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 investors remain as discussed in the Simplified Prospectus.

**Results of Operations**

The Fund's net asset value rose to \$123 million as of December 31, 2015, from \$104 million at the end of 2014. The increase was due to investment gains.

Over the past year, the Fund's Series O units gained 24.1%, which outperformed the 18.9% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, global equity markets were driven by concerns including the timing of the first rate rise by the U.S. Federal Reserve in almost a decade, extraordinarily loose monetary policies and political conflict in Europe, and a China coming to terms with slowing growth and the transition to a service economy. Added to this was broad strength in the U.S. dollar, continued commodity-price weakness most apparent in the oil price and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe. Against this backdrop, market returns were somewhat muted.

Stock selection in the Information Technology, Financials and Materials sectors was a strong contributor to relative returns, while the Fund's Health Care and Industrials holdings had a minor negative impact on returns.

Top-performing stocks in the portfolio included U.S. bank First Republic, which continued to benefit from its focus on customer

service; U.S. Internet stock Alphabet (formerly Google) whose corporate restructuring was welcomed by investors; and U.S. pharmaceuticals company Incyte, whose stock was boosted by strong sales of a cancer drug.

Canadian oil-pipeline company Enbridge had the most negative impact on the Fund's returns as falling oil prices dimmed the company's growth outlook. Anglo-Irish pharmaceuticals company Shire also negatively affected returns on concern about the impact of a potential acquisition of rival Baxalta.

**Recent Developments**

Equity markets will continue to be exposed to macroeconomic weakness and geopolitical tensions in the coming year. As a result, the portfolio manager will continue to look for opportunities in stocks with attractive valuations and strong fundamentals. Focusing on high-quality companies with these attributes should offer investors price appreciation when stock markets rise and cushion declines when the overall market plunges.

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
GLOBAL EQUITY 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 \$26,000 (2014 – \$10,000), or 15% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	11.52	0.24	(0.27)	0.91	1.65	2.53	—	—	(0.33)	—	(0.33)	13.70
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
Advisor Series												
Dec. 31, 2015	11.53	0.24	(0.27)	0.91	1.65	2.53	—	—	(0.33)	—	(0.33)	13.70
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
Series D												
Dec. 31, 2015	11.43	0.24	(0.16)	0.91	1.64	2.63	—	(0.08)	(0.33)	—	(0.41)	13.63
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
Series F												
Dec. 31, 2015	11.43	0.24	(0.13)	0.91	1.64	2.66	—	(0.11)	(0.32)	—	(0.43)	13.62
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
Series O												
Dec. 31, 2015	11.64	0.24	(0.02)	0.93	1.68	2.83	—	(0.23)	(0.34)	—	(0.57)	13.87
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>13.70</b>	<b>3 528</b>	<b>258</b>	<b>2.08</b>	<b>2.08</b>	<b>35.36</b>	<b>0.15</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>13.70</b>	<b>3 010</b>	<b>220</b>	<b>2.07</b>	<b>2.07</b>	<b>35.36</b>	<b>0.15</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>13.63</b>	<b>13 458</b>	<b>987</b>	<b>1.24</b>	<b>1.24</b>	<b>35.36</b>	<b>0.15</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>13.62</b>	<b>1 900</b>	<b>139</b>	<b>1.00</b>	<b>1.00</b>	<b>35.36</b>	<b>0.15</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>13.87</b>	<b>101 222</b>	<b>7 297</b>	<b>0.17</b>	<b>0.17</b>	<b>35.36</b>	<b>0.15</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
GLOBAL EQUITY FUND**
**FINANCIAL HIGHLIGHTS (cont.)**
**Management Fees**

RBC GAM is the manager and portfolio manager 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.

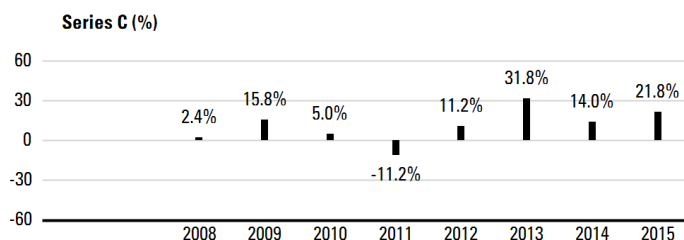
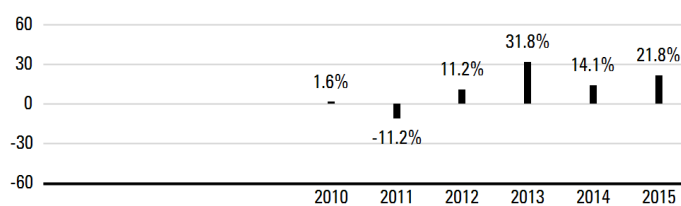
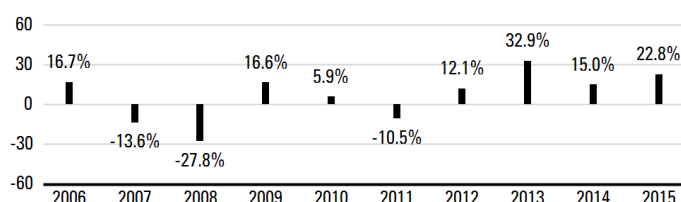
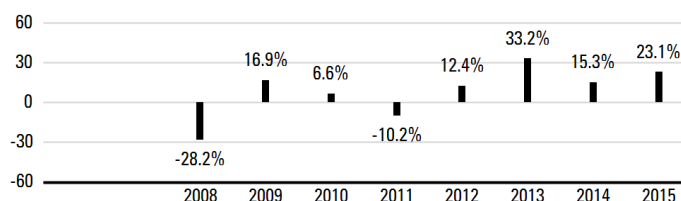
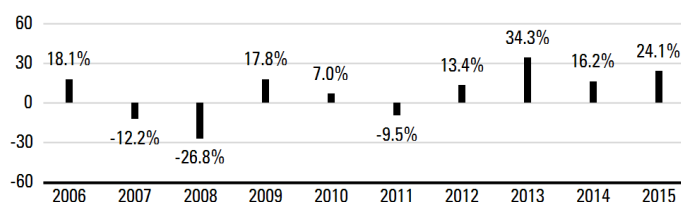
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.


**Advisor Series (%)**

**Series D (%)**

**Series F (%)**

**Series O (%)**


**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, 2015, compared with the following benchmark:

**MSCI World Total Return Net Index (CAD)**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C	21.8	22.3	12.6	—	12.1
Benchmark	18.9	22.5	15.0	—	13.3
Advisor Series	21.8	22.3	12.6	—	12.5
Benchmark	18.9	22.5	15.0	—	15.1
Series D	22.8	23.3	13.5	5.4	—
Benchmark	18.9	22.5	15.0	6.8	—
Series F	23.1	23.6	13.8	—	6.9
Benchmark	18.9	22.5	15.0	—	7.2
Series O	24.1	24.7	14.7	6.6	—
Benchmark	18.9	22.5	15.0	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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, and Series F units since December 2007.

Inception dates are not provided for series that have been in existence for more than 10 years.

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

**INDEX DESCRIPTION**

**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.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2015

**Investment Mix – Sectors**

	% of Net Asset Value
Financials	20.5
Health Care	17.8
Consumer Discretionary	13.9
Information Technology	13.4
Industrials	12.1
Materials	6.4
Consumer Staples	5.2
Utilities	4.3
Energy	3.5
Telecommunication Services	1.2
Cash/Other	1.7

**Investment Mix – Countries/Regions**

	% of Net Asset Value
United States Equities	54.0
Europe ex-United Kingdom Equities	13.9
United Kingdom Equities	11.3
Pacific Rim ex-Japan Equities	9.5
Japan Equities	6.3
Middle East and Africa Equities	3.3
Cash/Other	1.7



**PHILLIPS, HAGER & NORTH COMMUNITY VALUES  
GLOBAL EQUITY FUND**
**SUMMARY OF INVESTMENT PORTFOLIO (cont.)**
*(after consideration of derivative products, if any)*
*As at December 31, 2015*
**Top 25 Holdings**

	% of Net Asset Value
ITC Holdings Corp.	4.3
Estée Lauder Companies Inc., Class A	4.3
International Flavors & Fragrances Inc.	4.1
UnitedHealth Group Incorporated	4.1
Danaher Corp.	4.0
First Republic Bank	4.0
Alphabet Inc., Class A	3.8
TJX Companies Inc.	3.8
Amgen Inc.	3.8
Intuit Inc.	3.7
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	3.7
Roche Holdings AG Genusscheine	3.5
Deutsche Post AG	3.5
Naspers Ltd.	3.3
Safran S.A.	3.3
Blackstone Group LP	3.0
InterContinental Hotels Group Plc.	3.0
Shire Plc.	3.0
HDFC Bank Ltd. ADR	2.9
AIA Group Ltd.	2.4
St James's Place Plc.	2.4
Gartner Inc.	2.2
EOG Resources Inc.	2.1
Lloyds TSB Group Plc.	2.1
Astellas Pharma Inc.	2.0
<b>Top 25 Holdings</b>	<b>82.3</b>

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

**TARGET DATE FUND**
**PHILLIPS, HAGER & NORTH  
LIFETIME 2015 FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$8 million as of December 31, 2015, from \$7 million at the end of 2014. The increase was due mainly to investment gains.

Over the past year, the Fund's Series O units gained 6.6%, which outperformed the 3.5% rise in the FTSE TMX Canada Universe Bond Index and the 8.3% decline in the S&P/TSX Capped Composite Total Return Index. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent on commodity exports, including Russia and Brazil, while Canada's

economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

Bonds issued by governments in the U.S., Japan and Western Europe posted modest returns in 2015 as investors weighed the impact of stronger economic growth, which generally boosts fixed-income yields, against massive central-bank bond purchases, which tend to push yields down. Returns on non-government bonds declined for the first time since 2011. Concern mounted that issuers were using debt to finance transactions such as stock buybacks rather than investing in products and services that generate revenues to service debt. Canadian federal-government bonds outperformed U.S. treasuries as weak Canadian growth pulled down domestic yields. The Fund's fixed-income holdings had a positive overall impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global equity markets were driven by concerns including the timing of the first rate rise by the Fed, extraordinarily loose monetary policies and political conflict in Europe, as well as China coming to terms with slowing growth and its transition to a service economy. In addition, broad strength in the U.S. dollar, continued commodity-price weakness and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe resulted in higher equity-market volatility. Against this backdrop, market returns were somewhat muted. The Fund's equity holdings had a positive overall impact on returns, led by the RBC QUBE Low Volatility Global Equity Fund.

### Recent Developments

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals.

Effective January 1, 2015, the management fee for Series D units was reduced to 0.75% from 0.80%.

## **Related-Party Transactions**

### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

#### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series D												
Dec. 31, 2015	11.19	0.31	(0.11)	0.65	(0.22)	0.63	(0.13)	(0.09)	(0.65)	—	(0.87)	10.96
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 <sup>3</sup>	10.28 <sup>†</sup>	0.15	(0.05)	0.06	0.04	0.20	(0.12)	(0.07)	(0.21)	—	(0.40)	10.19
Series O												
Dec. 31, 2015	11.16	0.32	(0.01)	0.65	(0.22)	0.74	(0.19)	(0.13)	(0.65)	—	(0.97)	10.92
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 <sup>4</sup>	10.00 <sup>†</sup>	0.39	(0.01)	0.17	0.11	0.66	(0.18)	(0.10)	(0.21)	—	(0.49)	10.15

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From June 2011.

<sup>4</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>10.96</b>	<b>5 187</b>	<b>473</b>	<b>0.90</b>	<b>0.93</b>	<b>85.81</b>	<b>0.03</b>
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 <sup>4</sup>	10.19	212	21	0.98	1.77	11.83	0.17
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.92</b>	<b>2 750</b>	<b>252</b>	<b>0.08</b>	<b>0.12</b>	<b>85.81</b>	<b>0.03</b>
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 <sup>5</sup>	10.15	386	38	0.09	0.88	11.83	0.17

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From June 2011.

<sup>5</sup> From January 2011.

### Management Fees

RBC GAM is the manager and portfolio manager 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	0.75%	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.

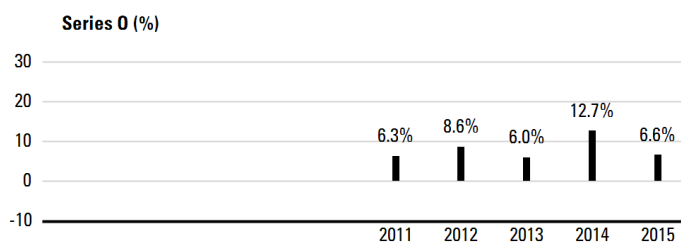
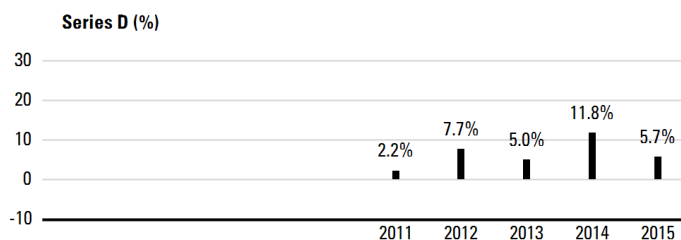
\* Includes all costs related to management, investment advisory services, general administration and profit.

## 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, 2015, 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	5.7	7.5	—	—	7.2
Benchmark 1	3.5	3.6	—	—	4.8
Benchmark 2	-8.3	4.6	—	—	2.5
Series O	6.6	8.4	—	—	8.1
Benchmark 1	3.5	3.6	—	—	5.0
Benchmark 2	-8.3	4.6	—	—	2.1

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.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

## 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, 2015*

### Investment Mix

	% of Net Asset Value
Bonds	61.6
Global Equities	21.4
Canadian Equities	12.3
United States Equities	4.2
Cash/Other	0.5

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Inflation-Linked Bond Fund	38.0
Phillips, Hager & North Bond Fund	23.6
RBC QUBE Low Volatility Global Equity Fund	21.4
Phillips, Hager & North Canadian Equity Underlying Fund	6.5
Phillips, Hager & North Canadian Equity Value Fund	5.8
Vanguard Real Estate Investment Trust Fund	4.2
Phillips, Hager & North Canadian Money Market Fund	0.5
Total	100.0

\* The Fund holds fewer than 25 holdings.

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The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).



## TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2020 FUND**
*December 31, 2015*
**Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

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## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

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### Risk

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### Results of Operations

The Fund's net asset value rose to \$23 million as of December 31, 2015, from \$15 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 7.2%, which outperformed the 3.5% rise in the FTSE TMX Canada Universe Bond Index and the 8.3% decline in the S&P/TSX Capped Composite Total Return Index. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent

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### Recent Developments

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals.

Effective January 1, 2015, the management fee for Series D units was reduced to 0.80% from 0.85%.

## **Related-Party Transactions**

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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.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series D												
Dec. 31, 2015	11.87	0.34	(0.12)	0.61	(0.22)	0.61	(0.08)	(0.11)	(0.51)	—	(0.70)	11.94
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 <sup>3</sup>	10.31 <sup>†</sup>	0.14	(0.05)	0.05	0.08	0.22	(0.10)	(0.07)	(0.15)	—	(0.32)	10.41
Series O												
Dec. 31, 2015	11.81	0.34	(0.01)	0.61	(0.22)	0.72	(0.13)	(0.17)	(0.51)	—	(0.81)	11.85
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 <sup>4</sup>	10.00 <sup>†</sup>	0.51	(0.01)	0.19	0.29	0.98	(0.17)	(0.11)	(0.15)	—	(0.43)	10.35

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From June 2011.

<sup>4</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>11.94</b>	<b>14 303</b>	<b>1 198</b>	<b>0.96</b>	<b>0.98</b>	<b>63.64</b>	<b>0.04</b>
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 <sup>4</sup>	10.41	504	48	1.06	1.50	32.24	0.18
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>11.85</b>	<b>8 448</b>	<b>713</b>	<b>0.09</b>	<b>0.10</b>	<b>63.64</b>	<b>0.04</b>
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 <sup>5</sup>	10.35	721	70	0.09	0.53	32.24	0.18

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From June 2011.

<sup>5</sup> From January 2011.

### Management Fees

RBC GAM is the manager and portfolio manager 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%	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.

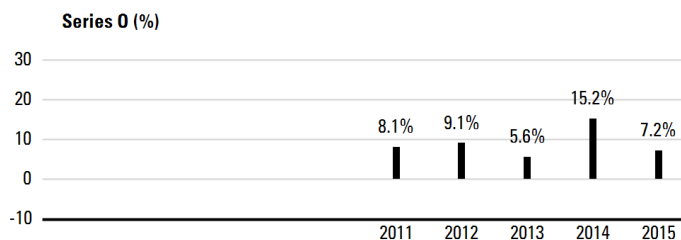
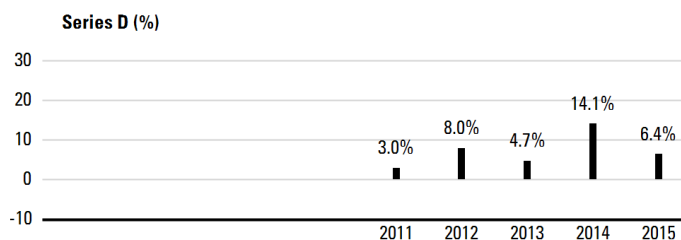
\* Includes all costs related to management, investment advisory services, general administration and profit.

## 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, 2015, 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	6.4	8.3	—	—	8.0
Benchmark 1	3.5	3.6	—	—	4.8
Benchmark 2	-8.3	4.6	—	—	2.5
Series O	7.2	9.3	—	—	9.1
Benchmark 1	3.5	3.6	—	—	5.0
Benchmark 2	-8.3	4.6	—	—	2.1

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.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

## 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, 2015*

### Investment Mix

	% of Net Asset Value
Bonds	52.8
Global Equities	26.2
Canadian Equities	12.9
United States Equities	7.1
Cash/Other	1.0

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Inflation-Linked Bond Fund	39.7
RBC QUBE Low Volatility Global Equity Fund	15.5
Phillips, Hager & North Long Inflation-Linked Bond Fund	10.2
Phillips, Hager & North Canadian Equity Underlying Fund	7.0
Phillips, Hager & North Canadian Equity Value Fund	5.9
RBC Global Equity Focus Fund	5.8
Vanguard Real Estate Investment Trust Fund	5.1
RBC Emerging Markets Equity Fund	3.0
Phillips, Hager & North High Yield Bond Fund	2.8
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	2.0
RBC QUBE Global Equity Fund	1.9
Cash & Cash Equivalents	0.6
Phillips, Hager & North Canadian Money Market Fund	0.5
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2025 FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$23 million as of December 31, 2015, from \$16 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units gained 7.3%, which outperformed the 3.5% rise in the FTSE TMX Canada Universe Bond Index and the 8.3% decline in the S&P/TSX Capped Composite Total Return Index. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the “Fed”) raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent

on commodity exports, including Russia and Brazil, while Canada’s economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

Bonds issued by governments in the U.S., Japan and Western Europe posted modest returns in 2015 as investors weighed the impact of stronger economic growth, which generally boosts fixed-income yields, against massive central-bank bond purchases, which tend to push yields down. Returns on non-government bonds declined for the first time since 2011. Concern mounted that issuers were using debt to finance transactions such as stock buybacks rather than investing in products and services that generate revenues to service debt. Canadian federal-government bonds outperformed U.S. treasuries as weak Canadian growth pulled down domestic yields. The Fund’s fixed-income holdings had a positive overall impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global equity markets were driven by concerns including the timing of the first rate rise by the Fed, extraordinarily loose monetary policies and political conflict in Europe, as well as China coming to terms with slowing growth and its transition to a service economy. In addition, broad strength in the U.S. dollar, continued commodity-price weakness and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe resulted in higher equity-market volatility. Against this backdrop, market returns were somewhat muted. The Fund’s equity holdings had a positive overall impact on returns, led by the RBC QUBE Low Volatility Global Equity Fund.

### Recent Developments

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals.

Effective January 1, 2015, the management fee for Series D units was reduced to 0.85% from 0.90%.

## **Related-Party Transactions**

### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

#### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series D												
Dec. 31, 2015	12.00	0.32	(0.13)	0.71	(0.29)	0.61	(0.06)	(0.10)	(0.59)	—	(0.75)	12.01
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 <sup>3</sup>	10.31 <sup>†</sup>	0.14	(0.05)	0.09	0.11	0.29	(0.08)	(0.06)	(0.15)	—	(0.29)	10.44
Series O												
Dec. 31, 2015	11.92	0.32	(0.01)	0.71	(0.29)	0.73	(0.11)	(0.17)	(0.59)	—	(0.87)	11.93
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 <sup>4</sup>	10.00 <sup>†</sup>	0.44	(0.01)	0.28	0.35	1.06	(0.15)	(0.10)	(0.15)	—	(0.40)	10.38

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From June 2011.

<sup>4</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>12.01</b>	<b>9 384</b>	<b>781</b>	<b>1.02</b>	<b>1.03</b>	<b>43.06</b>	<b>0.05</b>
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 <sup>4</sup>	10.44	383	37	1.08	1.48	26.17	0.19
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>11.93</b>	<b>13 925</b>	<b>1 168</b>	<b>0.09</b>	<b>0.11</b>	<b>43.06</b>	<b>0.05</b>
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 <sup>5</sup>	10.39	1 104	106	0.09	0.49	26.17	0.19

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From June 2011.

<sup>5</sup> From January 2011.

### Management Fees

RBC GAM is the manager and portfolio manager 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%	28%	72%

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.

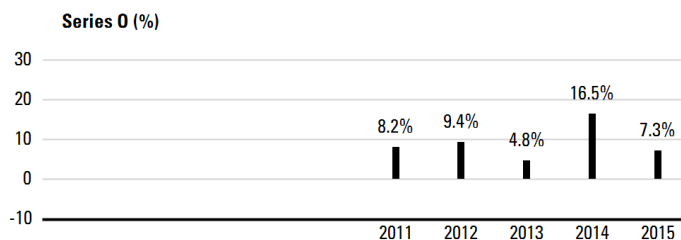
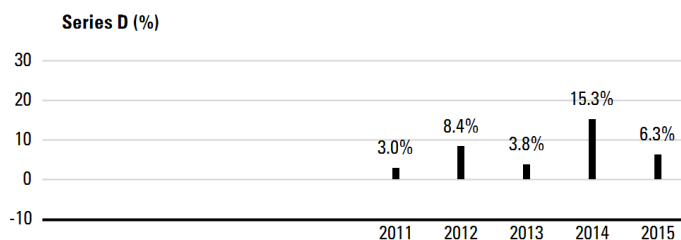
\* Includes all costs related to management, investment advisory services, general administration and profit.

## 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, 2015, 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	6.3	8.4	—	—	8.1
Benchmark 1	3.5	3.6	—	—	4.8
Benchmark 2	-8.3	4.6	—	—	2.5
Series O	7.3	9.4	—	—	9.3
Benchmark 1	3.5	3.6	—	—	5.0
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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.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

## 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.

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\* 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, 2015*

### Investment Mix

	% of Net Asset Value
Bonds	50.2
Global Equities	28.0
Canadian Equities	12.9
United States Equities	7.7
Cash/Other	1.2

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-Linked Bond Fund	32.6
Phillips, Hager & North Inflation-Linked Bond Fund	14.5
RBC QUBE Low Volatility Global Equity Fund	10.4
RBC Global Equity Focus Fund	9.8
Phillips, Hager & North Canadian Equity Underlying Fund	7.5
Phillips, Hager & North Canadian Equity Value Fund	5.6
Vanguard Real Estate Investment Trust Fund	5.0
RBC Emerging Markets Equity Fund	4.5
RBC QUBE Global Equity Fund	3.3
Phillips, Hager & North High Yield Bond Fund	3.0
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	2.7
Cash & Cash Equivalents	0.7
Phillips, Hager & North Canadian Money Market Fund	0.4
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

**TARGET DATE FUND**
**PHILLIPS, HAGER & NORTH  
LIFETIME 2030 FUND**
*December 31, 2015*
**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 4, 2016.

**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

### 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$21 million as of December 31, 2015, from \$14 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units gained 7.1%, which outperformed the 3.5% rise in the FTSE TMX Canada Universe Bond Index and the 8.3% decline in the S&P/TSX Capped Composite Total Return Index. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the “Fed”) raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent

on commodity exports, including Russia and Brazil, while Canada’s economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

Bonds issued by governments in the U.S., Japan and Western Europe posted modest returns in 2015 as investors weighed the impact of stronger economic growth, which generally boosts fixed-income yields, against massive central-bank bond purchases, which tend to push yields down. Returns on non-government bonds declined for the first time since 2011. Concern mounted that issuers were using debt to finance transactions such as stock buybacks rather than investing in products and services that generate revenues to service debt. Canadian federal-government bonds outperformed U.S. treasuries as weak Canadian growth pulled down domestic yields. The Fund’s fixed-income holdings had a positive overall impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global equity markets were driven by concerns including the timing of the first rate rise by the Fed, extraordinarily loose monetary policies and political conflict in Europe, as well as China coming to terms with slowing growth and its transition to a service economy. In addition, broad strength in the U.S. dollar, continued commodity-price weakness and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe resulted in higher equity-market volatility. Against this backdrop, market returns were somewhat muted. The Fund’s equity holdings had a positive overall impact on returns, led by the RBC Global Equity Focus Fund.

### Recent Developments

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals.

Effective January 1, 2015, the management fee for Series D units was reduced to 0.90% from 0.95%.



## **Related-Party Transactions**

### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

#### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series D												
Dec. 31, 2015	11.93	0.32	(0.13)	0.75	(0.30)	0.64	(0.07)	(0.08)	(0.65)	—	(0.80)	11.86
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 <sup>3</sup>	10.29 <sup>†</sup>	0.15	(0.06)	0.07	0.08	0.24	(0.08)	(0.06)	(0.18)	—	(0.32)	10.30
Series O												
Dec. 31, 2015	11.86	0.32	(0.01)	0.74	(0.30)	0.75	(0.12)	(0.16)	(0.65)	—	(0.93)	11.77
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 <sup>4</sup>	10.00 <sup>†</sup>	0.37	(0.01)	0.17	0.20	0.73	(0.14)	(0.11)	(0.18)	—	(0.43)	10.24

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From June 2011.

<sup>4</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>11.86</b>	<b>3 752</b>	<b>316</b>	<b>1.07</b>	<b>1.08</b>	<b>34.53</b>	<b>0.06</b>
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 <sup>4</sup>	10.30	58	6	1.16	1.72	25.67	0.19
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>11.77</b>	<b>17 077</b>	<b>1 450</b>	<b>0.09</b>	<b>0.11</b>	<b>34.53</b>	<b>0.06</b>
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 <sup>5</sup>	10.24	955	93	0.09	0.65	25.67	0.19

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From June 2011.

<sup>5</sup> From January 2011.

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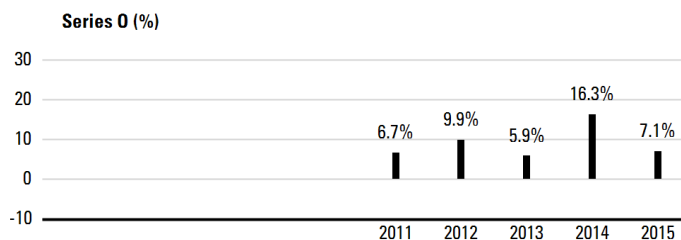
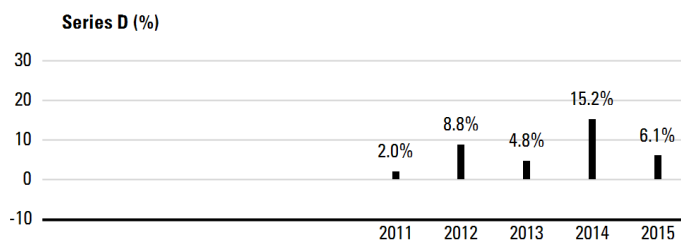
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## PAST PERFORMANCE

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*As at December 31, 2015*

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The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2035 FUND**
*December 31, 2015*
**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 4, 2016.

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## 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 2035 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$26 million as of December 31, 2015, from \$18 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 7.9%, which outperformed the 3.5% rise in the FTSE TMX Canada Universe Bond Index and the 8.3% decline in the S&P/TSX Capped Composite Total Return Index. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent

on commodity exports, including Russia and Brazil, while Canada's economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

Bonds issued by governments in the U.S., Japan and Western Europe posted modest returns in 2015 as investors weighed the impact of stronger economic growth, which generally boosts fixed-income yields, against massive central-bank bond purchases, which tend to push yields down. Returns on non-government bonds declined for the first time since 2011. Concern mounted that issuers were using debt to finance transactions such as stock buybacks rather than investing in products and services that generate revenues to service debt. Canadian federal-government bonds outperformed U.S. treasuries as weak Canadian growth pulled down domestic yields. The Fund's fixed-income holdings had a positive overall impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global equity markets were driven by concerns including the timing of the first rate rise by the Fed, extraordinarily loose monetary policies and political conflict in Europe, as well as China coming to terms with slowing growth and its transition to a service economy. In addition, broad strength in the U.S. dollar, continued commodity-price weakness and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe resulted in higher equity-market volatility. Against this backdrop, market returns were somewhat muted. The Fund's equity holdings had a positive overall impact on returns, led by the RBC Global Equity Focus Fund.

### Recent Developments

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals.

Effective January 1, 2015, the management fee for Series D units was reduced to 0.95% from 1.00%.

## **Related-Party Transactions**

### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

#### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series D												
Dec. 31, 2015	12.13	0.32	(0.14)	0.82	(0.27)	0.73	(0.06)	(0.09)	(0.74)	—	(0.89)	12.07
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 <sup>3</sup>	10.25 <sup>†</sup>	0.15	(0.06)	0.07	(0.02)	0.14	(0.08)	(0.06)	(0.13)	—	(0.27)	10.20
Series O												
Dec. 31, 2015	12.05	0.32	(0.01)	0.82	(0.27)	0.86	(0.11)	(0.17)	(0.74)	—	(1.02)	11.99
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 <sup>4</sup>	10.00 <sup>†</sup>	0.37	(0.01)	0.17	(0.06)	0.47	(0.14)	(0.12)	(0.13)	—	(0.39)	10.14

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From June 2011.

<sup>4</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>12.07</b>	<b>5 209</b>	<b>432</b>	<b>1.13</b>	<b>1.14</b>	<b>36.79</b>	<b>0.08</b>
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 <sup>4</sup>	10.20	112	11	1.24	1.88	10.15	0.23
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>11.99</b>	<b>21 230</b>	<b>1 771</b>	<b>0.10</b>	<b>0.11</b>	<b>36.79</b>	<b>0.08</b>
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 <sup>5</sup>	10.14	775	76	0.09	0.73	10.15	0.23

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From June 2011.

<sup>5</sup> From January 2011.

### Management Fees

RBC GAM is the manager and portfolio manager 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%	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.

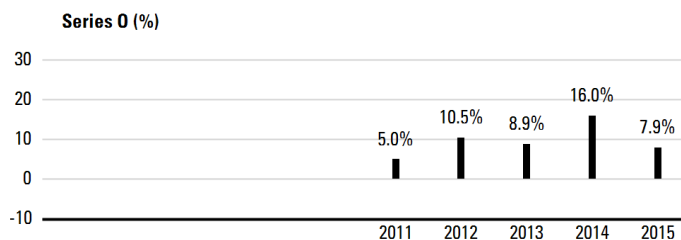
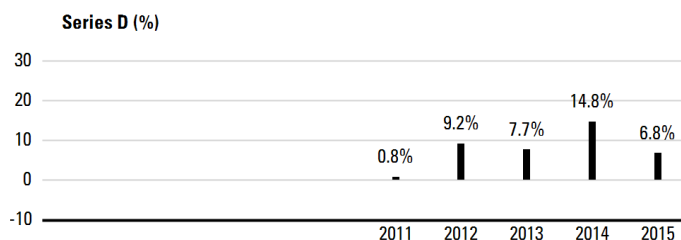
\* Includes all costs related to management, investment advisory services, general administration and profit.

## 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, 2015, 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	6.8	9.7	—	—	8.6
Benchmark 1	3.5	3.6	—	—	4.8
Benchmark 2	-8.3	4.6	—	—	2.5
Series O	7.9	10.9	—	—	9.7
Benchmark 1	3.5	3.6	—	—	5.0
Benchmark 2	-8.3	4.6	—	—	2.1

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.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

## 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, 2015*

### Investment Mix

	% of Net Asset Value
Bonds	43.2
Global Equities	32.6
Canadian Equities	13.2
United States Equities	9.9
Cash/Other	1.1

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-Linked Bond Fund	38.2
RBC Global Equity Focus Fund	18.2
RBC Emerging Markets Equity Fund	7.4
Phillips, Hager & North Canadian Equity Underlying Fund	7.1
Phillips, Hager & North Canadian Equity Value Fund	6.1
RBC QUBE Global Equity Fund	6.1
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	5.0
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.9
RBC QUBE Low Volatility Global Equity Fund	0.8
Cash & Cash Equivalents	0.8
Phillips, Hager & North Canadian Money Market Fund	0.4
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2040 FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$25 million as of December 31, 2015, from \$16 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 8.2%, which outperformed the 3.5% rise in the FTSE TMX Canada Universe Bond Index and the 8.3% decline in the S&P/TSX Capped Composite Total Return Index. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent

on commodity exports, including Russia and Brazil, while Canada's economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

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### Recent Developments

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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 Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
<b>Series D</b>												
<b>Dec. 31, 2015</b>	<b>12.14</b>	<b>0.34</b>	<b>(0.15)</b>	<b>0.83</b>	<b>(0.29)</b>	<b>0.73</b>	<b>(0.05)</b>	<b>(0.09)</b>	<b>(0.72)</b>	—	<b>(0.86)</b>	<b>12.14</b>
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 <sup>3</sup>	10.18 <sup>†</sup>	0.13	(0.06)	0.05	(0.18)	(0.06)	(0.05)	(0.06)	(0.10)	—	(0.21)	9.91
<b>Series O</b>												
<b>Dec. 31, 2015</b>	<b>12.06</b>	<b>0.34</b>	<b>(0.01)</b>	<b>0.83</b>	<b>(0.29)</b>	<b>0.87</b>	<b>(0.11)</b>	<b>(0.18)</b>	<b>(0.72)</b>	—	<b>(1.01)</b>	<b>12.05</b>
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 <sup>4</sup>	10.00 <sup>†</sup>	0.32	(0.01)	0.12	(0.44)	(0.01)	(0.10)	(0.13)	(0.10)	—	(0.33)	9.85

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From June 2011.

<sup>4</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>12.14</b>	<b>3 294</b>	<b>271</b>	<b>1.21</b>	<b>1.22</b>	<b>35.55</b>	<b>0.08</b>
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 <sup>4</sup>	9.90	117	12	1.28	1.69	13.87	0.28
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>12.05</b>	<b>22 083</b>	<b>1 833</b>	<b>0.10</b>	<b>0.12</b>	<b>35.55</b>	<b>0.08</b>
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 <sup>5</sup>	9.84	1 203	122	0.10	0.50	13.87	0.28

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From June 2011.

<sup>5</sup> From January 2011.

### Management Fees

RBC GAM is the manager and portfolio manager 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%	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.

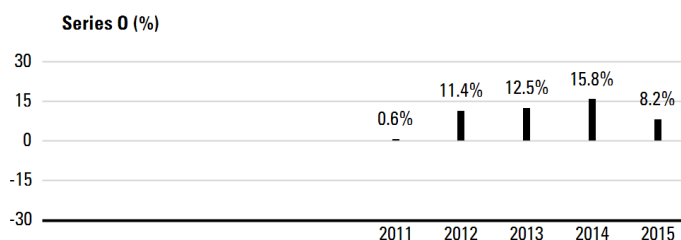
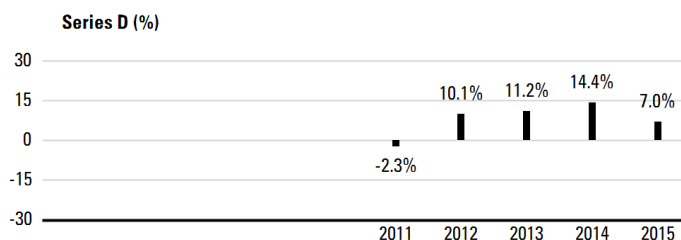
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## PAST PERFORMANCE

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, 2015, 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	7.0	10.8	—	—	8.9
Benchmark 1	3.5	3.6	—	—	4.8
Benchmark 2	-8.3	4.6	—	—	2.5
Series O	8.2	12.1	—	—	9.7
Benchmark 1	3.5	3.6	—	—	5.0
Benchmark 2	-8.3	4.6	—	—	2.1

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.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

## 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, 2015*

### Investment Mix

	% of Net Asset Value
Bonds	39.2
Global Equities	34.3
Canadian Equities	14.9
United States Equities	10.4
Cash/Other	1.2

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-Linked Bond Fund	34.2
RBC Global Equity Focus Fund	19.6
RBC Emerging Markets Equity Fund	8.2
Phillips, Hager & North Canadian Equity Value Fund	7.4
Phillips, Hager & North Canadian Equity Underlying Fund	7.4
RBC QUBE Global Equity Fund	6.5
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	5.7
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.7
Cash & Cash Equivalents	0.9
Phillips, Hager & North Canadian Money Market Fund	0.4
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2045 FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$50 million as of December 31, 2015, from \$31 million at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units gained 9.8%, which outperformed the 3.5% rise in the FTSE TMX Canada Universe Bond Index and the 8.3% decline in the S&P/TSX Capped Composite Total Return Index. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the “Fed”) raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent

on commodity exports, including Russia and Brazil, while Canada’s economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

Bonds issued by governments in the U.S., Japan and Western Europe posted modest returns in 2015 as investors weighed the impact of stronger economic growth, which generally boosts fixed-income yields, against massive central-bank bond purchases, which tend to push yields down. Returns on non-government bonds declined for the first time since 2011. Concern mounted that issuers were using debt to finance transactions such as stock buybacks rather than investing in products and services that generate revenues to service debt. Canadian federal-government bonds outperformed U.S. treasuries as weak Canadian growth pulled down domestic yields. The Fund’s fixed-income holdings had a positive overall impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global equity markets were driven by concerns including the timing of the first rate rise by the Fed, extraordinarily loose monetary policies and political conflict in Europe, as well as China coming to terms with slowing growth and its transition to a service economy. In addition, broad strength in the U.S. dollar, continued commodity-price weakness and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe resulted in higher equity-market volatility. Against this backdrop, market returns were somewhat muted. The Fund’s equity holdings had a positive overall impact on returns, led by the RBC Global Equity Focus Fund.

### Recent Developments

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals.

Effective January 1, 2015, the management fee for Series D units was reduced to 1.05% from 1.10%.

## **Related-Party Transactions**

### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

#### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
Series D												
Dec. 31, 2015	12.38	0.36	(0.16)	0.82	(0.09)	0.93	(0.04)	(0.11)	(0.71)	—	(0.86)	12.59
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 <sup>3</sup>	10.14 <sup>†</sup>	0.13	(0.06)	0.03	(0.20)	(0.10)	(0.04)	(0.08)	(0.08)	—	(0.20)	9.74
Series O												
Dec. 31, 2015	12.31	0.36	(0.01)	0.83	(0.10)	1.08	(0.09)	(0.21)	(0.71)	—	(1.01)	12.51
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 <sup>4</sup>	10.00 <sup>†</sup>	0.32	(0.01)	0.07	(0.50)	(0.12)	(0.08)	(0.16)	(0.08)	—	(0.32)	9.69

<sup>1</sup> 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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<sup>4</sup> From January 2011.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>12.59</b>	<b>4 379</b>	<b>348</b>	<b>1.25</b>	<b>1.26</b>	<b>37.28</b>	<b>0.10</b>
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 <sup>4</sup>	9.74	122	13	1.33	2.10	17.32	0.31
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>12.51</b>	<b>45 335</b>	<b>3 625</b>	<b>0.11</b>	<b>0.11</b>	<b>37.28</b>	<b>0.10</b>
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 <sup>5</sup>	9.69	537	55	0.10	0.87	17.32	0.31

<sup>1</sup> 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.

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<sup>4</sup> From June 2011.

<sup>5</sup> From January 2011.

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Series D	1.05%	23%	77%

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

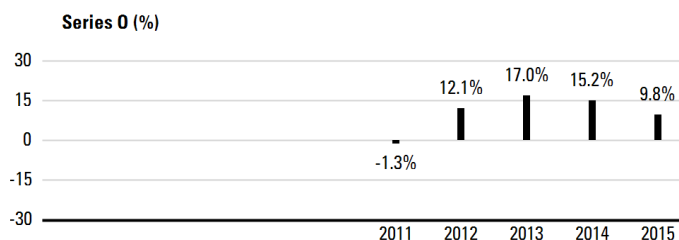
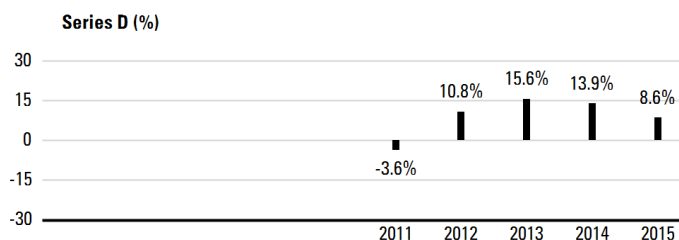


## PAST PERFORMANCE

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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.



## 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, 2015, 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	8.6	12.6	—	—	9.9
Benchmark 1	3.5	3.6	—	—	4.8
Benchmark 2	-8.3	4.6	—	—	2.5
Series O	9.8	14.0	—	—	10.6
Benchmark 1	3.5	3.6	—	—	5.0
Benchmark 2	-8.3	4.6	—	—	2.1

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.

Series D units have been available for sale to unitholders since June 2011, and Series O units since January 2011.

Inception dates are not provided for series that have been in existence for more than 10 years.

## 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, 2015*

### Investment Mix

	% of Net Asset Value
Global Equities	43.1
Bonds	26.2
Canadian Equities	17.5
United States Equities	12.1
Cash/Other	1.1

### Top 25 Holdings\*

	% of Net Asset Value
RBC Global Equity Focus Fund	24.7
Phillips, Hager & North Long Inflation-Linked Bond Fund	21.2
RBC Emerging Markets Equity Fund	10.2
Phillips, Hager & North Canadian Equity Underlying Fund	8.8
Phillips, Hager & North Canadian Equity Value Fund	8.8
RBC QUBE Global Equity Fund	8.2
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	7.3
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.8
Cash & Cash Equivalents	0.5
Phillips, Hager & North Canadian Money Market Fund	0.5
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2050 FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value rose to \$4 million as of December 31, 2015, from \$192,000 at the end of 2014. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 10.3%, which outperformed the 3.5% rise in the FTSE TMX Canada Universe Bond Index and the 8.3% decline in the S&P/TSX Capped Composite Total Return Index. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2015, the global economy was characterized by faster U.S. economic growth, contrasted with slower expansions in most of Europe, Japan and emerging markets. As a result, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate in December for the first time in almost a decade, while central banks in the Eurozone and Japan extended the use of large-scale bond purchases in an effort to boost economic growth, and China took significant steps to loosen monetary policy. Economic weakness extended to emerging markets dependent

on commodity exports, including Russia and Brazil, while Canada's economy, itself highly reliant on oil, stumbled as the year wore on. The Bank of Canada lowered interest rates twice to avert a more severe slowdown.

Bonds issued by governments in the U.S., Japan and Western Europe posted modest returns in 2015 as investors weighed the impact of stronger economic growth, which generally boosts fixed-income yields, against massive central-bank bond purchases, which tend to push yields down. Returns on non-government bonds declined for the first time since 2011. Concern mounted that issuers were using debt to finance transactions such as stock buybacks rather than investing in products and services that generate revenues to service debt. Canadian federal-government bonds outperformed U.S. treasuries as weak Canadian growth pulled down domestic yields. The Fund's fixed-income holdings had a positive overall impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global equity markets were driven by concerns including the timing of the first rate rise by the Fed, extraordinarily loose monetary policies and political conflict in Europe, as well as China coming to terms with slowing growth and its transition to a service economy. In addition, broad strength in the U.S. dollar, continued commodity-price weakness and a resurgence of Middle East geopolitical concerns that triggered a wave of migration into Europe resulted in higher equity-market volatility. Against this backdrop, market returns were somewhat muted. The Fund's equity holdings had a positive overall impact on returns, led by the RBC Global Equity Focus Fund.

### Recent Developments

While the portfolio manager recognizes both the erosion in fundamentals and increase in risks since early 2015, the portfolio manager continues to believe 2016 will see mild but sustained growth in GDP globally, the beginning of a recovery in inflation and enough strength in corporate profits to support modest returns from equities. Key indications of this progress – or lack thereof – will come from credit spreads, earnings, stock-market breadth and leading economic indicators as 2016 unfolds. The portfolio manager will continue to closely monitor these signals.

## **Related-Party Transactions**

### ***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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 Independent Review Committee with respect to one or more of the following transactions:

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

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

#### ***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
<b>Series D</b>												
<b>Dec. 31, 2015</b>	<b>9.88</b>	<b>0.48</b>	<b>(0.16)</b>	<b>0.68</b>	<b>(0.51)</b>	<b>0.49</b>	<b>(0.02)</b>	<b>(0.07)</b>	<b>(0.33)</b>	—	<b>(0.42)</b>	<b>10.34</b>
Dec. 31, 2014 <sup>3</sup>	10.00 <sup>†</sup>	0.22	(0.25)	0.49	(0.24)	0.22	(0.45)	(0.13)	—	—	(0.58)	9.88
<b>Series O</b>												
<b>Dec. 31, 2015</b>	<b>9.79</b>	<b>0.48</b>	<b>(0.03)</b>	<b>0.68</b>	<b>(0.50)</b>	<b>0.63</b>	<b>(0.05)</b>	<b>(0.18)</b>	<b>(0.33)</b>	—	<b>(0.56)</b>	<b>10.25</b>
Dec. 31, 2014 <sup>3</sup>	10.00 <sup>†</sup>	0.24	(0.20)	0.52	(0.25)	0.31	(0.55)	(0.16)	—	—	(0.71)	9.79

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

<sup>3</sup> From June 2014.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>10.34</b>	<b>417</b>	<b>40</b>	<b>1.36</b>	<b>1.55</b>	<b>34.42</b>	<b>0.11</b>
<b>Dec. 31, 2014<sup>4</sup></b>	<b>9.88</b>	<b>35</b>	<b>4</b>	<b>1.30</b>	<b>3.20</b>	<b>1.15</b>	<b>—</b>
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>10.25</b>	<b>3 140</b>	<b>306</b>	<b>0.11</b>	<b>0.30</b>	<b>34.42</b>	<b>0.11</b>
<b>Dec. 31, 2014<sup>4</sup></b>	<b>9.79</b>	<b>157</b>	<b>16</b>	<b>0.06</b>	<b>1.96</b>	<b>1.15</b>	<b>—</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From June 2014.

### Management Fees

RBC GAM is the manager and portfolio manager 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, 2015, 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	9.0	–	–	–	9.8
Benchmark 1	3.5	–	–	–	4.9
Benchmark 2	-8.3	–	–	–	-6.9
Series O	10.3	–	–	–	11.2
Benchmark 1	3.5	–	–	–	4.9
Benchmark 2	-8.3	–	–	–	-6.9

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.

Series D and Series O units have been available for sale to unitholders since August 2014.

Inception dates are not provided for series that have been in existence for more than 10 years.

## 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, 2015*

### Investment Mix

	% of Net Asset Value
Global Equities	47.3
Bonds	20.2
Canadian Equities	19.4
United States Equities	12.1
Cash/Other	1.0

### Top 25 Holdings\*

	% of Net Asset Value
RBC Global Equity Focus Fund	26.9
Phillips, Hager & North Long Inflation-Linked Bond Fund	15.2
RBC Emerging Markets Equity Fund	11.3
Phillips, Hager & North Canadian Equity Underlying Fund	9.7
Phillips, Hager & North Canadian Equity Value Fund	9.7
RBC QUBE Global Equity Fund	9.0
Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	7.6
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.5
Cash & Cash Equivalents	0.6
Phillips, Hager & North Canadian Money Market Fund	0.5
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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

## BALANCED FUND

## BONAVISTA GLOBAL BALANCED FUND

December 31, 2015

**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 4, 2016.

### 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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value fell to \$3.9 million as of December 31, 2015, from \$4.2 million at the end of 2014. The decrease was due to net redemptions.

Over the past year, the Fund's Series O units gained 2.7%, which outperformed the 2.4% rise in the benchmark. The broad-based index rose 3.5%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Asset mix hurt relative performance as holdings of Canadian equities, the largest allocation in the portfolio, was the worst-performing portion in the Fund in 2015. Canadian equities performed significantly worse than the Fund's international and U.S. equity allocations. However, the Fund's Canadian equity, international equity and fixed-income allocations outperformed their benchmarks, while the U.S. equity allocation lagged its benchmark.

The Fund's Canadian equity portfolio benefited from significant exposure to the Consumer Staples and Information Technology sectors, while performance was held back by exposure to the Industrials sector.

Global bond markets were more volatile than usual during 2015, making it more difficult for the fixed-income allocation to benefit from strategies aimed at taking advantage of interest-rate shifts.

A change in fixed-income portfolio-management duties resulted in higher-than-usual portfolio turnover.

### Recent Developments

The portfolio is positioned to benefit from the portfolio manager's expected outlook for higher interest rates in the medium term. The Fund continues to be positioned with an overweight in equities and an underweight in bonds.

In December, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate for the first time in nearly a decade. The portfolio manager expects that the Fed will gradually increase rates over 2016, and the market consensus is for three hikes over the next year. Yields on longer-dated U.S. Treasury bonds have risen less than many investors anticipated on expectations that the pace of rate hikes will be slow. Investors do not expect the Bank of Canada (the "BOC") to raise rates during the year, and the BOC may push benchmark rates even lower if the price of oil keeps falling and/or the economy continues to weaken.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	13.46	0.37	(0.33)	1.12	(1.09)	0.07	(0.02)	(0.06)	(0.72)	—	(0.80)	12.72
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
Advisor Series												
Dec. 31, 2015	13.46	0.37	(0.35)	1.12	(1.09)	0.05	(0.02)	(0.06)	(0.72)	—	(0.80)	12.72
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
Series D												
Dec. 31, 2015	13.39	0.37	(0.18)	1.11	(1.08)	0.22	(0.04)	(0.19)	(0.72)	—	(0.95)	12.66
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
Series F												
Dec. 31, 2015	13.66	0.38	(0.15)	1.13	(1.10)	0.26	(0.05)	(0.21)	(0.73)	—	(0.99)	12.91
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
Series O												
Dec. 31, 2015	13.13	0.36	(0.03)	1.09	(1.06)	0.36	(0.07)	(0.30)	(0.71)	—	(1.08)	12.40
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>12.72</b>	<b>220</b>	<b>17</b>	<b>2.36</b>	<b>2.44</b>	<b>133.09</b>	<b>0.01</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>12.72</b>	<b>19</b>	<b>1</b>	<b>2.36</b>	<b>2.44</b>	<b>133.09</b>	<b>0.01</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>12.66</b>	<b>3 320</b>	<b>262</b>	<b>1.23</b>	<b>1.30</b>	<b>133.09</b>	<b>0.01</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>12.91</b>	<b>18</b>	<b>1</b>	<b>0.99</b>	<b>1.07</b>	<b>133.09</b>	<b>0.01</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>12.40</b>	<b>277</b>	<b>22</b>	<b>0.13</b>	<b>0.21</b>	<b>133.09</b>	<b>0.01</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

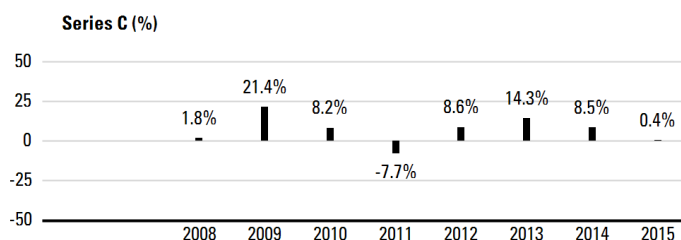
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

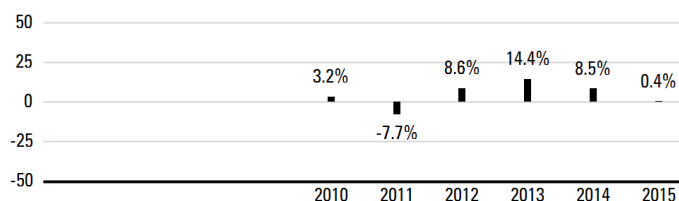
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

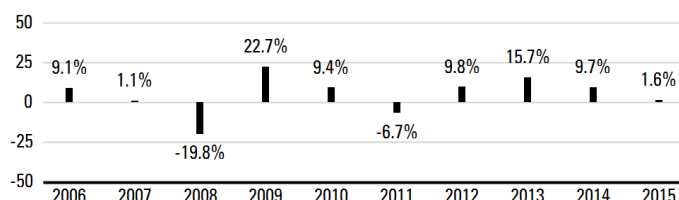
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



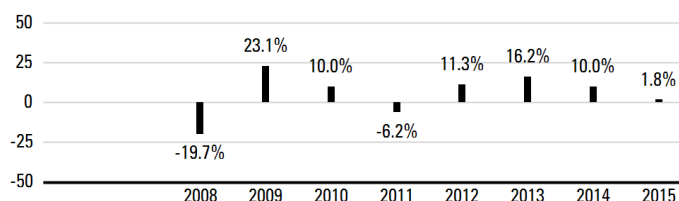
**Advisor Series (%)**



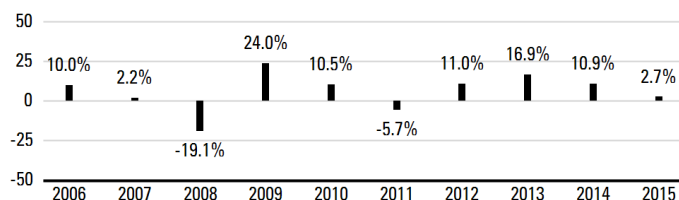
**Series D (%)**



**Series F (%)**



**Series O (%)**



## 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, 2015, 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	0.4	7.6	4.6	—	7.5
Benchmark	2.4	7.7	6.1	—	8.2
Broad-based index	3.5	3.6	4.8	—	5.5
Advisor Series	0.4	7.6	4.6	—	5.1
Benchmark	2.4	7.7	6.1	—	6.4
Broad-based index	3.5	3.6	4.8	—	4.5
Series D	1.6	8.8	5.7	—	4.8
Benchmark	2.4	7.7	6.1	—	5.7
Broad-based index	3.5	3.6	4.8	—	5.5
Series F	1.8	9.2	6.3	—	5.0
Benchmark	2.4	7.7	6.1	—	5.0
Broad-based index	3.5	3.6	4.8	—	5.3
Series O	2.7	10.0	6.9	—	6.0
Benchmark	2.4	7.7	6.1	—	5.7
Broad-based index	3.5	3.6	4.8	—	5.5

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, Series F units since December 2007, and Series D and Series O units since June 2006.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Canadian Equities	34.1
Bonds	25.3
Overseas Equities	17.2
United States Equities	16.4
Cash/Other	7.0

### Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Bond Fund	26.8
Phillips, Hager & North Overseas Equity Fund	17.4
Phillips, Hager & North U.S. Equity Fund	16.7
Phillips, Hager & North Canadian Money Market Fund	2.7
Toronto-Dominion Bank	2.5
Cash & Cash Equivalents	2.3
Bank of Nova Scotia	1.9
Canadian Imperial Bank of Commerce	1.8
Royal Bank of Canada	1.7
Canadian National Railway Co.	1.6
Suncor Energy Inc.	1.6
Bank of Montreal	1.6
Canadian Natural Resources Ltd.	1.1
Alimentation Couche-Tard Inc.	1.1
Manulife Financial Corporation	1.0
Open Text Corp.	1.0
Magna International Inc., Class A	0.9
Agrium Inc.	0.9
Gildan Activewear Inc., Class A	0.8
Canadian Pacific Railway Ltd.	0.8
Sun Life Financial Inc.	0.8
Valeant Pharmaceuticals International Inc.	0.8
National Bank of Canada	0.7
Canadian Tire Corp. Ltd., Class A	0.7
Quebecor Inc., Class B	0.7
Top 25 Holdings	89.9

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).



## CANADIAN EQUITY FUND

**BONAVISTA CANADIAN EQUITY  
VALUE FUND**
*December 31, 2015*
**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 4, 2016.

**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](http://www.rbcgam.com/reports) or SEDAR at [www.sedar.com](http://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, the portfolio manager invests in companies that they 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 investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value fell to \$17 million as of December 31, 2015, from \$19 million at the end of 2014. The decrease was due to a combination of investment losses and net redemptions.

Over the past year, the Fund's Series O units lost 7.6%, which outperformed the 8.3% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The price of oil declined significantly during 2015, marking a tough year for the Energy sector and businesses with exposure to the sector or the province of Alberta. This weakness was a significant factor in the poor results for the S&P/TSX Composite Index during the year. Moreover, a lacklustre Canadian economy and falling interest rates pushed down the Canadian dollar, and the weak currency reduced demand for Canadian securities.

The Fund's significant exposure to the Information Technology and Consumer Staples sectors had a positive impact on performance, while a significant allocation to the Industrials sector had a negative impact. The Fund's relatively small exposure to gold-related companies was positive for performance, as gold stocks performed poorly during the year. Individual holdings that contributed to performance included Alimentation Couche-Tard, CGI Group, Gildan Activewear and Agrium. Holdings that negatively impacted performance included Home Capital Group, Magna and Husky Energy.

During the year, the Fund initiated a position in Restaurant Brands, a company formed by the recent merger of Tim Hortons and Burger King. The management team at Burger King has an excellent track

record and the portfolio manager believes that they will improve operating performance at Tim Hortons and develop a successful international expansion plan. During the year, the portfolio manager eliminated small positions including Baytex Energy, Trilogy Energy, Barrick Gold, Bombardier and BlackBerry. Aside from the transactions described above, the structure of the portfolio did not materially change over the year.

### Recent Developments

The portfolio manager does not foresee a significant change in strategy for 2016, and believes that oil prices will stabilize sometime during the year and eventually move higher. The portfolio manager continues to focus on financially strong companies with rising earnings and dividends, and which trade at reasonable valuations.

In December, the U.S. Federal Reserve (the "Fed") raised its benchmark interest rate for the first time in nearly a decade. The portfolio manager expects that the Fed will gradually increase rates over 2016, and the market consensus is for three hikes over the next year. The portfolio manager believes the Fund is positioned to withstand a rise in U.S. interest rates given its low exposure to real estate investment trusts, pipelines and utilities – areas that tend to lag when rates rise.

### Related-Party Transactions

#### *Manager and Portfolio Manager*

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager and principal portfolio manager 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.

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***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 (2014 – \$1,000), or 0% (2014 – 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 Independent Review Committee with respect to one or more of the following transactions:

***Related-Party Trading Activities***

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

***Inter-Fund Trading***

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

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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 CANADIAN EQUITY VALUE 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 <sup>1</sup>					Annual Distributions <sup>2</sup>					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, 2015	14.41	0.37	(0.28)	(0.60)	(0.82)	(1.33)	—	(0.08)	—	—	(0.08)	12.98
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
Advisor Series												
Dec. 31, 2015	14.44	0.37	(0.25)	(0.60)	(0.83)	(1.31)	—	(0.08)	—	—	(0.08)	13.01
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
Series D												
Dec. 31, 2015	14.49	0.38	(0.17)	(0.60)	(0.83)	(1.22)	—	(0.19)	—	—	(0.19)	13.06
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
Series F												
Dec. 31, 2015	14.52	0.38	(0.11)	(0.60)	(0.83)	(1.16)	—	(0.23)	—	—	(0.23)	13.08
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
Series O												
Dec. 31, 2015	14.68	0.38	(0.02)	(0.61)	(0.85)	(1.10)	—	(0.34)	—	—	(0.34)	13.22
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

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series C</b>							
<b>Dec. 31, 2015</b>	<b>12.98</b>	<b>163</b>	<b>13</b>	<b>2.00</b>	<b>2.02</b>	<b>12.30</b>	<b>0.02</b>
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
<b>Advisor Series</b>							
<b>Dec. 31, 2015</b>	<b>13.01</b>	<b>37</b>	<b>3</b>	<b>2.01</b>	<b>2.02</b>	<b>12.30</b>	<b>0.02</b>
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
<b>Series D</b>							
<b>Dec. 31, 2015</b>	<b>13.06</b>	<b>6 584</b>	<b>504</b>	<b>1.19</b>	<b>1.20</b>	<b>12.30</b>	<b>0.02</b>
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
<b>Series F</b>							
<b>Dec. 31, 2015</b>	<b>13.08</b>	<b>92</b>	<b>7</b>	<b>0.94</b>	<b>0.95</b>	<b>12.30</b>	<b>0.02</b>
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
<b>Series O</b>							
<b>Dec. 31, 2015</b>	<b>13.22</b>	<b>10 096</b>	<b>763</b>	<b>0.11</b>	<b>0.13</b>	<b>12.30</b>	<b>0.02</b>
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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

## FINANCIAL HIGHLIGHTS (cont.)

### Management Fees

RBC GAM is the manager and portfolio manager 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.

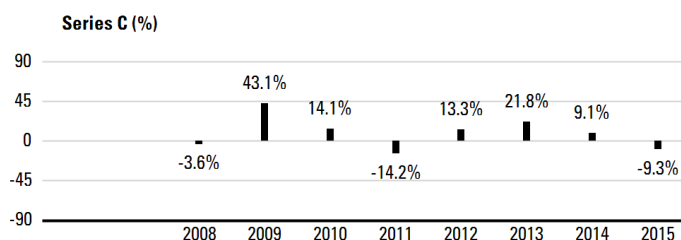
\* Includes all costs related to management, investment advisory services, general administration and profit.

## PAST PERFORMANCE

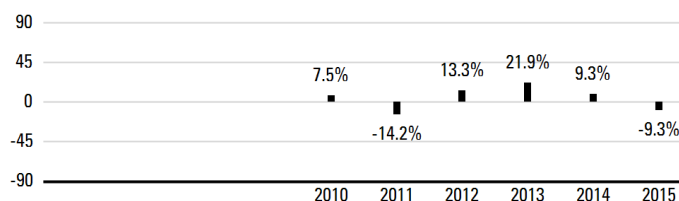
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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 (%)

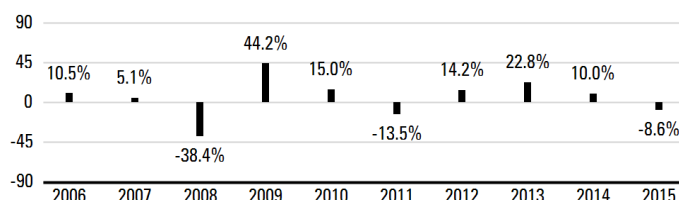
The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end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



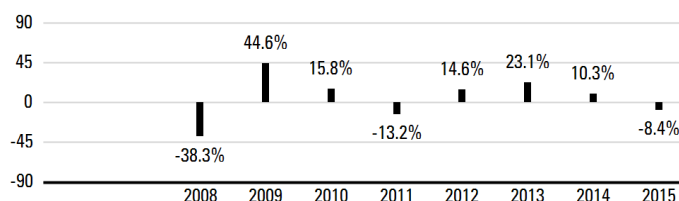
**Advisor Series (%)**



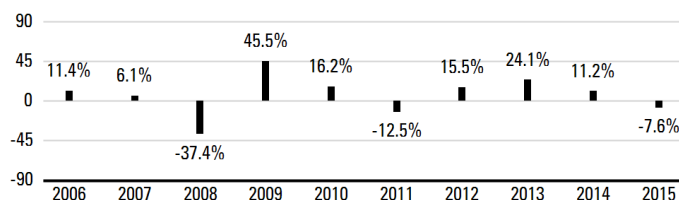
**Series D (%)**



**Series F (%)**



**Series O (%)**



## 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, 2015, 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	-9.3	6.4	3.2	—	9.0
Benchmark	-8.3	4.6	2.3	—	8.1
Advisor Series	-9.3	6.5	3.3	—	4.6
Benchmark	-8.3	4.6	2.3	—	3.5
Series D	-8.6	7.3	4.1	—	4.0
Benchmark	-8.3	4.6	2.3	—	4.2
Series F	-8.4	7.6	4.4	—	3.1
Benchmark	-8.3	4.6	2.3	—	2.2
Series O	-7.6	8.4	5.2	—	5.2
Benchmark	-8.3	4.6	2.3	—	4.2

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.

Advisor Series units have been available for sale to unitholders since October 2010, Series C units since November 2008, Series F units since December 2007, and Series D and Series O units since June 2006.

Inception dates are not provided for series that have been in existence for more than 10 years.

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, 2015

### Investment Mix

	% of Net Asset Value
Financials	39.1
Industrials	12.8
Consumer Discretionary	12.3
Energy	11.0
Information Technology	6.5
Consumer Staples	6.2
Materials	5.7
Telecommunication Services	2.4
Health Care	2.3
Cash/Other	1.7

### Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	7.5
Bank of Nova Scotia	5.5
Canadian Imperial Bank of Commerce	5.5
Suncor Energy Inc.	5.2
Royal Bank of Canada	4.8
Canadian National Railway Co.	4.5
Bank of Montreal	4.5
Alimentation Couche-Tard Inc.	3.2
Manulife Financial Corporation	3.1
Canadian Natural Resources Ltd.	3.0
Open Text Corp.	2.8
Magna International Inc., Class A	2.7
Agrium Inc.	2.6
Gildan Activewear Inc., Class A	2.5
Canadian Pacific Railway Ltd.	2.4
Valeant Pharmaceuticals International Inc.	2.3
Sun Life Financial Inc.	2.2
Canadian Tire Corp. Ltd., Class A	2.0
Quebecor Inc., Class B	1.9
CGI Group Inc., Class A	1.9
Mitel Networks Corp.	1.8
Saputo Group Inc.	1.8
National Bank of Canada	1.7
Home Capital Group Inc.	1.7
Thomson Corp.	1.5
Top 25 Holdings	78.6

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.rbcgam.com/funds](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).

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](http://www.rbcgam.com/funds)**  
Email us at: **[info@phn.com](mailto:info@phn.com)**

**By Mail**

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**M5V 3K7**

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