

PHILLIPS, HAGER & NORTH FUNDS

# 2016 Annual Management Report of Fund Performance

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## MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN MONEY MARKET FUND***December 31, 2016***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 8, 2017.

**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 fell to \$1.3 billion as of December 31, 2016, from \$1.6 billion at the end of 2015. The decrease was due to net redemptions.

As of December 31, 2016, the current yields were 0.4% for Series A units, 0.4% for Advisor Series units, 0.4% for Series D units, 0.5% for Series F units and 0.9% for Series O units.

Over the past year, the Fund's Series O units returned 0.91%. 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.

The Bank of Canada (the "BOC") held its overnight target rate at 0.50% throughout 2016, after lowering it to this level in 2015. During 2016, 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 to short-term floating-rate notes, whose payments change with interest rates.

The extra yields available on longer-term securities were relatively attractive, prompting the portfolio manager to keep the average maturity of the Fund close to the 60-day maximum. This decision was helpful for relative performance during the period.

**Recent Developments**

Several years of slow global economic growth, accompanied by central banks dedicated to countering this trend, has led to historically low global interest rates, and in Japan and parts of Europe, investors are actually paying in some cases to hold bonds. The portfolio manager believes, however, that the rise in U.S. interest rates following the U.S. presidential election and the U.S. Federal Reserve's decision to boost its benchmark rate at year-end may signify a broad trend toward higher rates. With Canada's outlook less robust, the BOC appears to be on hold for the foreseeable future.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.09</b>	<b>(0.05)</b>	–	–	<b>0.04</b>	<b>(0.04)</b>	–	–	–	<b>(0.04)</b>	<b>10.00</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.09</b>	<b>(0.05)</b>	–	–	<b>0.04</b>	<b>(0.04)</b>	–	–	–	<b>(0.04)</b>	<b>10.00</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.09</b>	<b>(0.05)</b>	–	–	<b>0.04</b>	<b>(0.04)</b>	–	–	–	<b>(0.04)</b>	<b>10.00</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.09</b>	<b>(0.05)</b>	–	–	<b>0.04</b>	<b>(0.04)</b>	–	–	–	<b>(0.04)</b>	<b>10.00</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.09</b>	–	–	–	<b>0.09</b>	<b>(0.09)</b>	–	–	–	<b>(0.09)</b>	<b>10.00</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>5 216</b>	<b>522</b>	<b>0.53</b>	<b>0.53</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	6 575	658	0.54	0.54	n/a	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>1 433</b>	<b>143</b>	<b>0.53</b>	<b>0.53</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	3 576	358	0.54	0.54	n/a	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>248 646</b>	<b>24 865</b>	<b>0.55</b>	<b>0.55</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	519 426	51 943	0.55	0.55	n/a	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>2 706</b>	<b>271</b>	<b>0.48</b>	<b>0.48</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	3 806	381	0.48	0.48	n/a	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>1 002 984</b>	<b>100 298</b>	<b>0.02</b>	<b>0.02</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	1 022 721	102 272	0.03	0.03	n/a	—
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	—

<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 A	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.

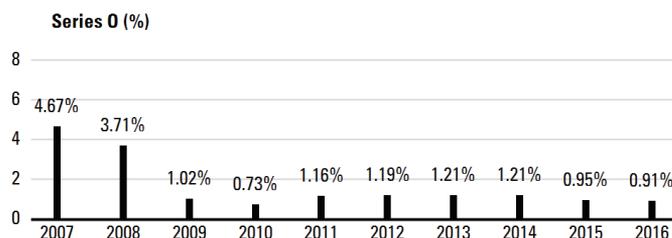
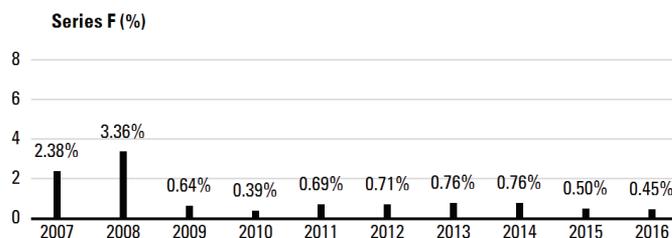
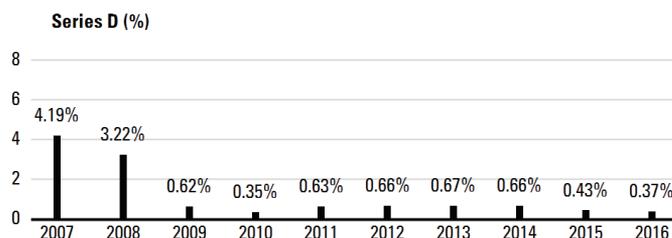
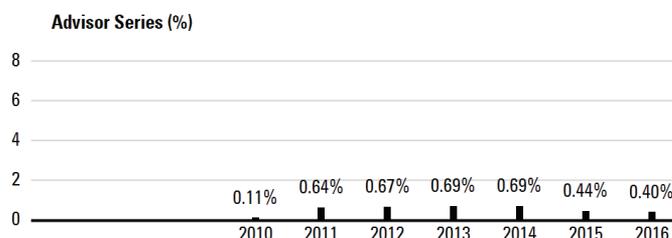
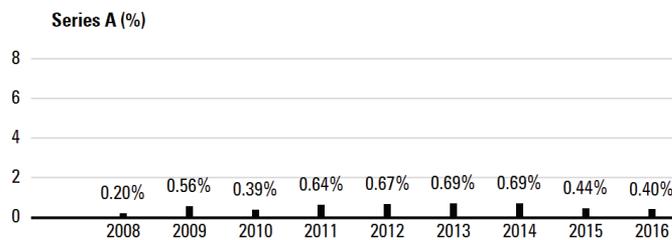
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Corporate Notes	98.9
Cash/Other	1.1

**Top 25 Holdings**

	% of Net Asset Value
Bank of Montreal 0.818% Jan 25 2017	3.7
Husky Energy Inc. 0.932% Jan 25 2017	2.5
SURE Trust 0.961% Jan 20 2017	2.3
HSBC Bank Canada 0.841% Jan 5 2017	2.2
Bank of Nova Scotia 0.970% Mar 3 2017	2.1
Bank of Montreal 0.970% Mar 6 2017	2.1
Canadian Master Trust - Series A 1.029% Feb 2 2017	2.0
Ridge Trust 1.050% Jun 13 2017	1.8
SAFE Trust - Series 1996-1 1.030% May 23 2017	1.8
Canadian Imperial Bank of Commerce 0.822% Jan 19 2017	1.7
Bank of Nova Scotia 0.971% Mar 2 2017	1.7
King Street Funding Trust 0.959% Mar 8 2017	1.7
SOUND Trust 0.959% Jan 5 2017	1.7
SURE Trust 0.961% Jan 11 2017	1.6
Inter Pipeline Corridor Inc. 0.901% Mar 3 2017	1.6
SOUND Trust 0.961% Feb 10 2017	1.6
Ridge Trust 1.031% Feb 14 2017	1.6
King Street Funding Trust 0.961% Feb 23 2017	1.5
Prime Trust - Senior Notes 1.030% Apr 7 2017	1.5
Merit Trust - Senior Notes 1.030% Mar 1 2017	1.5
Toronto-Dominion Bank 0.835% Jan 25 2017	1.4
Banner Trust 1.001% Jan 4 2017	1.3
Zeus Receivables Trust - Senior Notes 0.961% Feb 1 2017	1.3
Bank of Montreal 0.999% Mar 22 2017	1.3
Bank of Nova Scotia 0.976% Jun 8 2017	1.3
<b>Top 25 Holdings</b>	<b>44.8</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).

## MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH  
\$U.S. MONEY MARKET FUND***December 31, 2016***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 8, 2017.

**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 (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 was \$52 million as of December 31, 2016, unchanged from the end of 2015.

As of December 31, 2016, the current yields were 0.7% for Series A units, 0.7% for Advisor Series units, 0.7% for Series D units, 0.7% for Series F units and 0.9% for Series O units.

Over the past year, the Fund's Series O units returned 0.68%. 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.

The U.S. Federal Reserve (the "Fed") held the federal funds rate at 0.25%-0.50% for most of 2016, and then raised it to 0.50%-0.75% in December. During the period, the portfolio manager allocated all of the Fund's 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 in corporate short-term floating-rate notes, whose payments change with interest rates, and U.S.-dollar-denominated fixed- and floating-rate notes issued by Canadian provinces.

The portfolio manager lengthened the average maturity of the Fund to take advantage of the higher yields available on corporate notes with longer maturities. This strategy was helpful for relative performance in the period.

**Recent Developments**

Several years of slow global economic growth, accompanied by central banks dedicated to countering this trend, has led to historically low global interest rates, and in Japan and parts of Europe, investors are actually paying in some cases to hold bonds. The portfolio manager believes, however, that the rise in U.S. interest rates following the U.S. presidential election and the Fed's decision to boost its benchmark rate at year-end may signify a broad trend toward higher rates. Barring an unexpected market or economic shock, the portfolio manager expects further rate increases by the Fed in 2017. With Canada's outlook less robust, the Bank of Canada appears to be on hold for the foreseeable future.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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 (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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.07</b>	<b>(0.02)</b>	–	–	<b>0.05</b>	<b>(0.05)</b>	–	–	–	<b>(0.05)</b>	<b>10.00</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.07</b>	<b>(0.02)</b>	–	–	<b>0.05</b>	<b>(0.05)</b>	–	–	–	<b>(0.05)</b>	<b>10.00</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.07</b>	<b>(0.02)</b>	–	–	<b>0.05</b>	<b>(0.05)</b>	–	–	–	<b>(0.05)</b>	<b>10.00</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.07</b>	<b>(0.02)</b>	–	–	<b>0.05</b>	<b>(0.05)</b>	–	–	–	<b>(0.05)</b>	<b>10.00</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.08</b>	<b>(0.01)</b>	–	–	<b>0.07</b>	<b>(0.07)</b>	–	–	–	<b>(0.07)</b>	<b>10.00</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>1 089</b>	<b>109</b>	<b>0.25</b>	<b>0.25</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	1 469	147	0.12	0.12	n/a	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>54</b>	<b>5</b>	<b>0.24</b>	<b>0.24</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	69	7	0.11	0.11	n/a	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>15 180</b>	<b>1 518</b>	<b>0.25</b>	<b>0.25</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	13 985	1 399	0.11	0.11	n/a	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>819</b>	<b>82</b>	<b>0.19</b>	<b>0.19</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	2 735	273	0.12	0.12	n/a	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>34 364</b>	<b>3 436</b>	<b>0.06</b>	<b>0.06</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2015	10.00	33 533	3 353	0.06	0.06	n/a	—
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	—

<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 A	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.

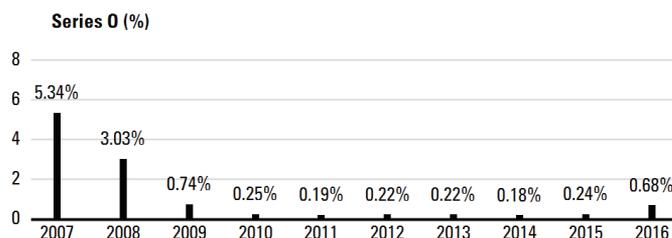
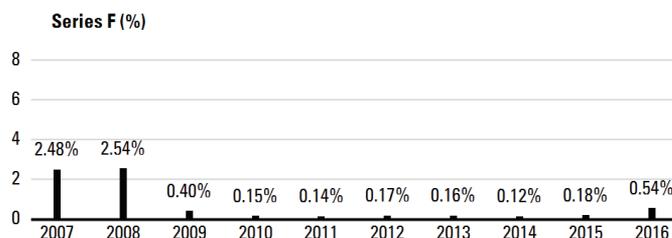
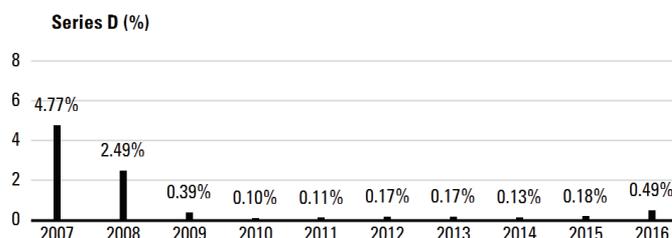
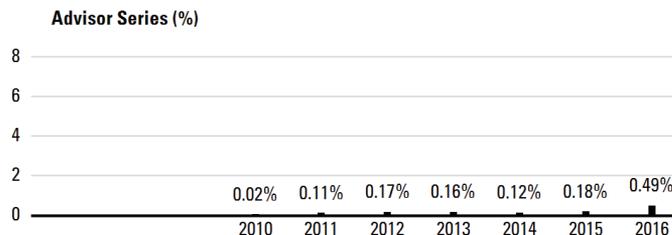
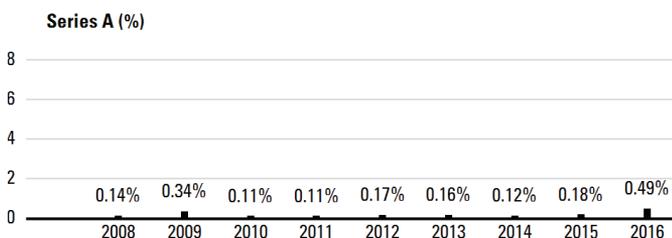
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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 units have been available for sale to unitholders since October 2010, Series A 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.

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

	% of Net Asset Value
Corporate Notes	83.4
Government Notes	14.8
Cash/Other	1.8

**Top 25 Holdings**

	% of Net Asset Value
Toronto-Dominion Bank 0.648% Jan 17 2017	8.5
Canadian Imperial Bank of Commerce 0.707% Jan 18 2017	7.5
Province of British Columbia 0.686% Feb 22 2017	5.1
HSBC Bank Canada 0.648% Jan 19 2017	4.5
Ridge Trust 1.152% Feb 7 2017	4.3
Fusion Trust 1.269% May 3 2017	4.2
OMERS Realty Corp. 0.862% Jan 10 2017	4.0
Banner Trust 1.222% Mar 10 2017	3.9
SAFE Trust - Series 1996-1 1.322% Mar 9 2017	3.9
Export Development Canada Corp. 0.723% Jan 12 2017	3.9
Caisse Centrale Desjardins 0.922% Mar 10 2017	3.9
Canadian Master Trust - Series A 1.200% Mar 24 2017	3.8
Clarity Trust 1.330% May 19 2017	3.8
Province of British Columbia 0.713% Feb 22 2017	3.6
Bank of Nova Scotia 0.702% Jan 18 2017	3.2
Province of British Columbia 0.709% Feb 23 2017	3.2
Merit Trust - Senior Notes 1.162% Mar 2 2017	3.1
SOUND Trust 1.302% Mar 3 2017	2.9
Enbridge Pipelines Inc. 0.796% Feb 3 2017	2.5
Prime Trust - Senior Notes 1.162% Mar 2 2017	2.5
Zeus Receivables Trust - Senior Notes 1.331% Mar 21 2017	2.3
Gaz Metro Inc. 0.810% Jan 12 2017	2.2
Bank of Montreal 0.949% Mar 13 2017	2.2
Province of British Columbia 0.831% Mar 13 2017	1.5
Prime Trust - Senior Notes 1.325% Jan 23 2017	1.4
<b>Top 25 Holdings</b>	<b>91.9</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).

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
SHORT TERM BOND & MORTGAGE FUND***December 31, 2016***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 8, 2017.

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**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 \$5.7 billion as of December 31, 2016, from \$5.1 billion at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 1.8%, which outperformed the 1.0% 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.

Bond markets experienced a volatile year in 2016, buffeted by fluctuations in oil prices, political uncertainty and extended efforts by many central banks to hold down global interest rates. Against this backdrop, the portfolio manager kept the average maturity of the Fund at a level that ensured interest-rate changes would not have too large an impact on relative returns. However, the portfolio manager extended the average maturity after the November election of Donald Trump as U.S. president sent rates higher, to levels that the portfolio manager viewed as excessive. These strategies added modestly to relative performance.

A more meaningful contribution to relative performance came from allocation decisions involving corporate bonds and securities issued by government-backed institutions such as Canada Mortgage & Housing Corp ("CMHC"), as well as commercial mortgages. The extra yields offered by corporate bonds relative to government fixed income were volatile in 2016, particularly in the period leading up to and just after the U.K. voted to leave the EU, and the Fund's modest overweight in corporate bonds aided relative performance. Also helpful was security selection in corporate bonds. The mortgage allocation was kept to between 10% and 15% of the Fund's assets, and the extra yield offered by these mortgages added to returns.

Quasi-government strategies included shifting assets between CMHC bonds and provincial bonds depending on the relative attractiveness of each, and on a combined basis these sectors were generally underweight the benchmark, thereby freeing up room for higher-yielding corporate bonds.

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**

Several years of slow global economic growth, accompanied by central banks dedicated to countering this trend, has led to historically low global interest rates, and in Japan and parts of Europe, investors are actually paying in some cases to hold bonds. The portfolio manager believes, however, that the rise in U.S. interest rates following the U.S. presidential election and the U.S. Federal Reserve's decision to boost its benchmark rate at year-end may signify a broad trend toward higher rates. With Canada's outlook less robust, the Bank of Canada appears to be on hold for the foreseeable future. The portfolio manager will attempt to use any further interest-rate fluctuations to find investments that offer opportunities for higher returns.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 4, 2016, units of the Fund are no longer available for purchase by new investors. Investors who held units of the Fund on July 4, 2016 can continue to make additional investments into the Fund. In addition, RBC GAM may also maintain capacity for certain investors, including investment funds managed by RBC GAM or its affiliates, that may invest in the Fund.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.00% to 0.90% for Series C and Advisor Series units; and from 0.50% to 0.40% for Series F units. Also effective June 30, 2016, Series H units were re-designated to Series C units, followed by all Series C units being renamed Series A units, and Series I units were re-designated to Series F units.

### **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 A, 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 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>10.49</b>	<b>0.27</b>	<b>(0.12)</b>	<b>(0.03)</b>	<b>(0.07)</b>	<b>0.05</b>	<b>(0.15)</b>	–	–	–	<b>(0.15)</b>	<b>10.42</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>10.49</b>	<b>0.27</b>	<b>(0.12)</b>	<b>(0.03)</b>	<b>(0.04)</b>	<b>0.08</b>	<b>(0.15)</b>	–	–	–	<b>(0.15)</b>	<b>10.42</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>10.45</b>	<b>0.27</b>	<b>(0.06)</b>	<b>(0.03)</b>	<b>(0.05)</b>	<b>0.13</b>	<b>(0.20)</b>	–	–	–	<b>(0.20)</b>	<b>10.38</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>10.43</b>	<b>0.26</b>	<b>(0.06)</b>	<b>(0.03)</b>	<b>(0.06)</b>	<b>0.11</b>	<b>(0.20)</b>	–	–	–	<b>(0.20)</b>	<b>10.36</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>10.16</b>	<b>0.26</b>	<b>(0.01)</b>	<b>(0.03)</b>	<b>(0.04)</b>	<b>0.18</b>	<b>(0.25)</b>	–	–	–	<b>(0.25)</b>	<b>10.09</b>
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

<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 SHORT TERM BOND & MORTGAGE 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 A</b>							
<b>Dec. 31, 2016</b>	<b>10.42</b>	<b>172 864</b>	<b>16 593</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>185.85</b>	—
Dec. 31, 2015	10.49	144 831	13 808	1.16	1.16	200.13	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>10.42</b>	<b>20 873</b>	<b>2 003</b>	<b>1.11<sup>4</sup></b>	<b>1.11</b>	<b>185.85</b>	—
Dec. 31, 2015	10.49	27 136	2 586	1.16	1.16	200.13	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>10.38</b>	<b>214 040</b>	<b>20 621</b>	<b>0.60</b>	<b>0.60</b>	<b>185.85</b>	—
Dec. 31, 2015	10.45	220 901	21 137	0.60	0.60	200.13	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>10.36</b>	<b>145 710</b>	<b>14 067</b>	<b>0.54<sup>4</sup></b>	<b>0.54</b>	<b>185.85</b>	—
Dec. 31, 2015	10.43	101 384	9 720	0.61	0.61	200.13	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>10.09</b>	<b>5 186 690</b>	<b>514 114</b>	<b>0.06</b>	<b>0.06</b>	<b>185.85</b>	—
Dec. 31, 2015	10.16	4 507 824	443 659	0.06	0.06	200.13	—
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	—

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.05%, Advisor Series – 1.05% and Series F – 0.49%.

**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 A	0.90%	50%	50%
Advisor Series	0.90%	50%	50%
Series D	0.50%	30%	70%
Series F	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.

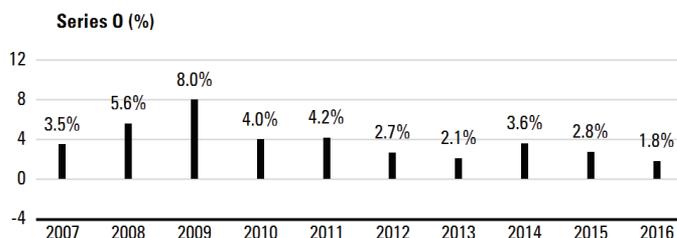
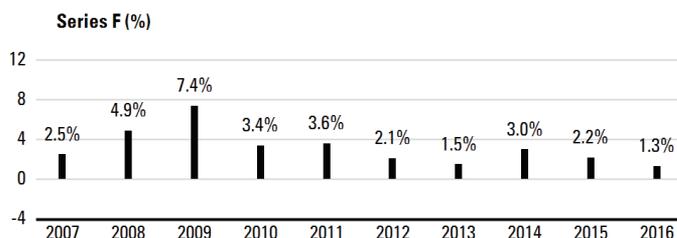
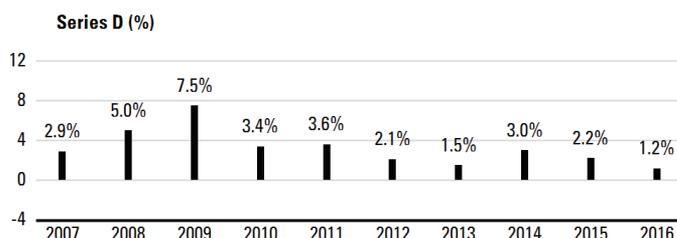
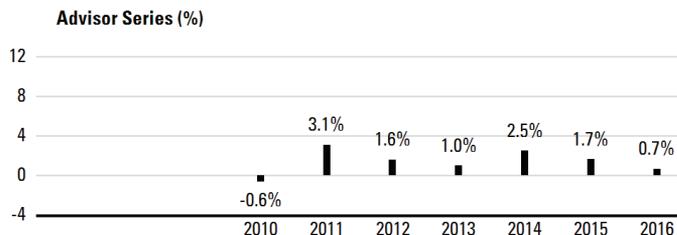
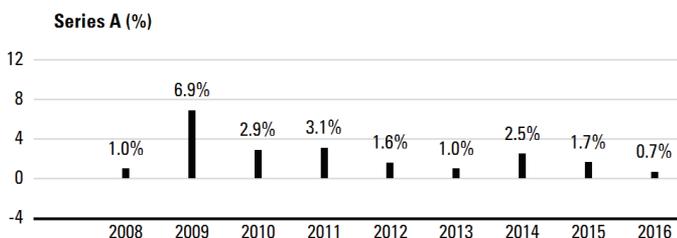
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**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, 2016, 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 A	0.7	1.6	1.5	–	2.6
Benchmark	1.0	2.2	2.1	–	3.1
Advisor Series	0.7	1.6	1.5	–	1.6
Benchmark	1.0	2.2	2.1	–	2.4
Series D	1.2	2.2	2.0	3.2	–
Benchmark	1.0	2.2	2.1	3.6	–
Series F	1.3	2.2	2.0	–	3.4
Benchmark	1.0	2.2	2.1	–	3.7
Series O	1.8	2.7	2.6	3.8	–
Benchmark	1.0	2.2	2.1	3.6	–

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

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016. 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.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	41.1
Federal Bonds	25.8
Provincial Bonds	13.0
Mortgages	10.2
Mortgage-Backed Bonds	9.0
Cash/Other	0.9

**Top 25 Holdings**

	% of Net Asset Value
Province of Ontario 4.400% Jun 2 2019	4.3
Government of Canada 0.500% Nov 1 2018	4.2
Government of Canada 0.500% Feb 1 2019	3.7
Province of Ontario 4.200% Jun 2 2020	3.2
Government of Canada 0.500% Mar 1 2022	2.8
Toronto-Dominion Bank 1.680% Jun 8 2021	2.5
Canada Housing Trust No. 1 1.250% Jun 15 2021	2.4
Canada Housing Trust No. 1 1.950% Jun 15 2019	2.4
Canada Housing Trust No. 1 1.150% Dec 15 2021	2.3
Canada Housing Trust No. 1 1.250% Dec 15 2020	2.1
Canada Housing Trust No. 1 1.200% Jun 15 2020	1.8
Canadian Mortgage Pools 1.300% Aug 1 2021	1.7
Royal Bank of Canada 1.400% Apr 26 2019	1.5
Royal Bank of Canada 2.030% Mar 15 2021	1.3
Province of Ontario 3.150% Jun 2 2022	1.2
Province of Alberta 1.250% Jun 1 2020	1.2
Province of Alberta 4.000% Dec 1 2019	1.2
Canada Housing Trust No. 1 1.450% Jun 15 2020	1.2
Bank of Nova Scotia 1.330% May 1 2018	1.2
Canadian Imperial Bank of Commerce 1.700% Oct 9 2018	1.1
Canadian Mortgage Pools 1.370% Nov 1 2021	1.0
Wells Fargo & Co. CAD 2.509% Oct 27 2023	1.0
Province of Newfoundland and Labrador 1.950% Jun 2 2022	1.0
Enbridge Pipelines Inc. 6.620% Nov 19 2018	1.0
Government of Canada 0.750% Sep 1 2021	1.0
<b>Top 25 Holdings</b>	<b>48.3</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).

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH BOND FUND***December 31, 2016***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 8, 2017.

**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 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 \$10.4 billion as of December 31, 2016, from \$8.9 billion at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 2.4%, which outperformed the 1.7% 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.

Bond markets experienced a volatile year in 2016, buffeted by fluctuations in oil prices, political uncertainty and extended efforts by many central banks to hold down global interest rates. Against this backdrop, the portfolio manager kept the average maturity of the Fund at a level that ensured interest-rate changes would not have too large an impact on relative returns. However, the portfolio manager extended the average maturity after the November election of Donald Trump as U.S. President sent rates higher, to levels that the portfolio manager viewed as excessive. These strategies were neutral for relative performance.

A more meaningful contribution to relative performance came from allocation decisions involving corporate bonds and securities issued by government-backed institutions such as Canada Mortgage & Housing Corp ("CMHC"). The extra yields offered by corporate bonds relative to government fixed income were volatile in 2016,

particularly in the period leading up to and just after the U.K. voted to leave the EU, and the Fund's modest overweight in corporate bonds aided relative performance. Also helpful was security selection in corporate bonds. The Fund's largest overweight position over the year was in provincial bonds, aiding returns as they outperformed fixed-income securities issued by the Government of Canada. Returns also benefited from shifting assets between CMHC and provincial bonds depending on the relative attractiveness of each.

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**

Several years of slow global economic growth, accompanied by central banks dedicated to countering this trend, has led to historically low global interest rates, and in Japan and parts of Europe, investors are actually paying in some cases to hold bonds. The portfolio manager believes, however, that the rise in U.S. interest rates following the U.S. presidential election and the U.S. Federal Reserve's decision to boost its benchmark rate at year-end may signify a broad trend toward higher rates. With Canada's outlook less robust, the Bank of Canada appears to be on hold for the foreseeable future. The portfolio manager will attempt to use any further interest-rate fluctuations to find investments that offer opportunities for higher returns.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 4, 2016, units of the Fund are no longer available for purchase by new investors. Investors who held units of the Fund on July 4, 2016, can continue to make additional investments into the Fund. In addition, RBC GAM may also maintain capacity for certain investors, including investment funds managed by RBC GAM or its affiliates, that may invest in the Fund.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.00% to 0.90% for Series C and Advisor Series units; and from 0.50% to 0.40% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>10.51</b>	<b>0.34</b>	<b>(0.12)</b>	<b>0.11</b>	<b>(0.18)</b>	<b>0.15</b>	<b>(0.22)</b>	–	<b>(0.12)</b>	–	<b>(0.34)</b>	<b>10.32</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>10.52</b>	<b>0.34</b>	<b>(0.12)</b>	<b>0.11</b>	<b>(0.19)</b>	<b>0.14</b>	<b>(0.22)</b>	–	<b>(0.12)</b>	–	<b>(0.34)</b>	<b>10.32</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>10.43</b>	<b>0.34</b>	<b>(0.06)</b>	<b>0.11</b>	<b>(0.19)</b>	<b>0.20</b>	<b>(0.27)</b>	–	<b>(0.12)</b>	–	<b>(0.39)</b>	<b>10.23</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>10.48</b>	<b>0.34</b>	<b>(0.06)</b>	<b>0.11</b>	<b>(0.21)</b>	<b>0.18</b>	<b>(0.28)</b>	–	<b>(0.12)</b>	–	<b>(0.40)</b>	<b>10.28</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>10.44</b>	<b>0.34</b>	–	<b>0.11</b>	<b>(0.23)</b>	<b>0.22</b>	<b>(0.34)</b>	–	<b>(0.12)</b>	–	<b>(0.46)</b>	<b>10.24</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>10.32</b>	<b>101 217</b>	<b>9 809</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>133.52</b>	—
Dec. 31, 2015	10.51	112 560	10 707	1.16	1.16	243.23	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>10.32</b>	<b>46 859</b>	<b>4 539</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>133.52</b>	—
Dec. 31, 2015	10.52	44 408	4 222	1.16	1.16	243.23	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>10.23</b>	<b>600 761</b>	<b>58 716</b>	<b>0.60</b>	<b>0.60</b>	<b>133.52</b>	—
Dec. 31, 2015	10.43	616 099	59 095	0.60	0.60	243.23	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>10.28</b>	<b>104 591</b>	<b>10 172</b>	<b>0.54<sup>4</sup></b>	<b>0.54</b>	<b>133.52</b>	—
Dec. 31, 2015	10.48	94 082	8 981	0.60	0.60	243.23	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>10.24</b>	<b>9 531 479</b>	<b>930 497</b>	<b>0.02</b>	<b>0.02</b>	<b>133.52</b>	—
Dec. 31, 2015	10.44	8 009 643	767 022	0.02	0.02	243.23	—
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	—

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.05%, Advisor Series – 1.05% and Series F – 0.49%.

**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 A	0.90%	50%	50%
Advisor Series	0.90%	50%	50%
Series D	0.50% <sup>†</sup>	30%	70%
Series F	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.

<sup>†</sup> Management fees are calculated at the annual rate of 0.50% of the Series D net asset value, provided that the aggregate of all fees and other expenses (excluding the taxes included therein and commissions incurred in connection with portfolio transactions) paid or payable by Series D does not exceed an amount computed with reference to the following percentages of the net asset value of Series D.

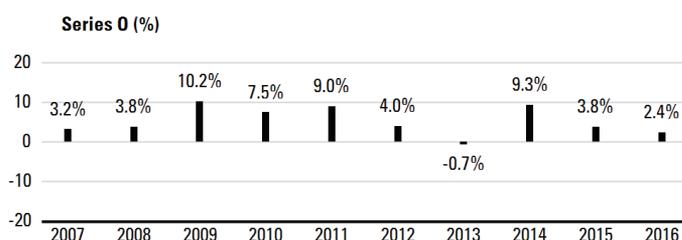
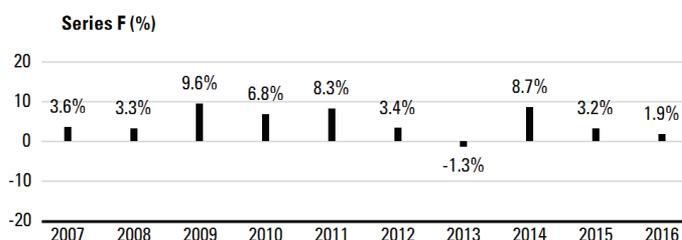
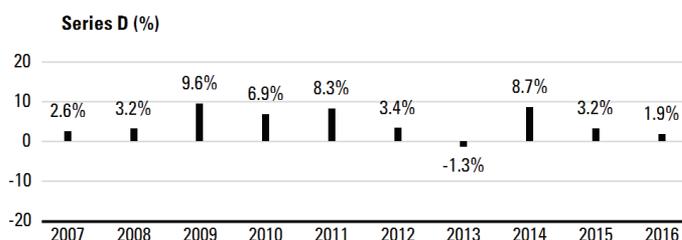
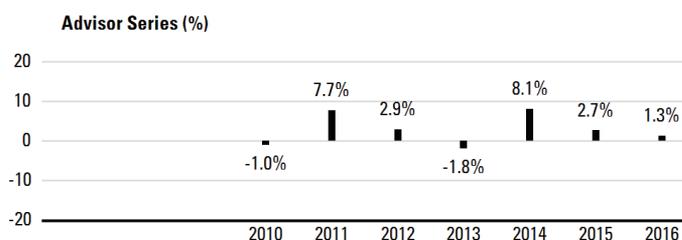
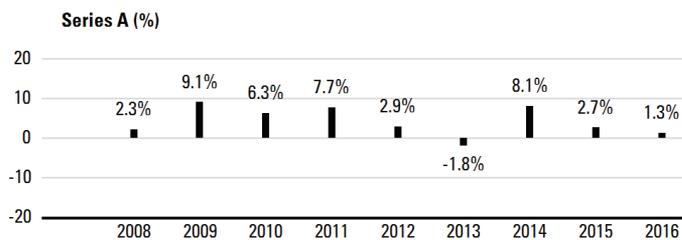
Net Asset Value of Series D	Percentage
Up to \$1 000 000	2.00
From \$1 000 001 up to \$3 000 000	1.75
From \$3 000 001 up to \$5 000 000	1.50
From \$5 000 001 up to \$10 000 000	1.25
From \$10 000 001 up to \$100 000 000	1.00
Over \$100 000 000	0.75

**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, 2016, 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 A	1.3	4.0	2.6	–	4.7
Benchmark	1.7	4.6	3.2	–	5.0
Advisor Series	1.3	4.0	2.6	–	3.2
Benchmark	1.7	4.6	3.2	–	4.0
Series D	1.9	4.5	3.1	4.6	–
Benchmark	1.7	4.6	3.2	4.8	–
Series F	1.9	4.6	3.1	–	5.0
Benchmark	1.7	4.6	3.2	–	5.1
Series O	2.4	5.1	3.7	5.2	–
Benchmark	1.7	4.6	3.2	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 A 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.

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

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	34.3
Provincial Bonds	33.8
Federal Bonds	26.4
Municipal Bonds	0.7
Mortgages	0.5
Mortgage-Backed Bonds	0.1
Cash/Other	4.2

**Top 25 Holdings**

	% of Net Asset Value
Province of Ontario 7.600% Jun 2 2027	5.1
Government of Canada 0.750% Sep 1 2021	4.4
Government of Canada 0.500% Mar 1 2022	4.2
Cash & Cash Equivalents	3.8
Canada Housing Trust No. 1 1.250% Jun 15 2021	2.5
Province of Ontario 3.500% Jun 2 2043	2.5
Royal Bank of Canada 1.400% Apr 26 2019	2.2
Province of Ontario 6.200% Jun 2 2031	2.1
Province of Ontario 4.600% Jun 2 2039	2.0
Province of Ontario 2.900% Dec 2 2046	1.9
Government of Canada 2.750% Dec 1 2048	1.8
Government of Canada 0.750% Mar 1 2021	1.6
Government of Canada 0.750% Sep 1 2020	1.6
Province of Ontario 5.600% Jun 2 2035	1.5
Province of Ontario 8.100% Sep 8 2023	1.5
Province of Quebec 8.500% Apr 1 2026	1.5
Toronto-Dominion Bank 1.680% Jun 8 2021	1.5
Province of Ontario 8.500% Dec 2 2025	1.5
Canada Housing Trust No. 1 3.350% Dec 15 2020	1.3
Province of Ontario 3.500% Jun 2 2024	1.3
Province of Ontario 2.850% Jun 2 2023	1.3
Canada Housing Trust No. 1 1.250% Dec 15 2020	1.1
Province of Alberta 2.350% Jun 1 2025	1.1
Canada Housing Trust No. 1 2.650% Mar 15 2022	0.9
Government of Canada 2.750% Jun 1 2022	0.9
<b>Top 25 Holdings</b>	<b>51.1</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).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
COMMUNITY VALUES BOND FUND***December 31, 2016***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 8, 2017.

**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 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 \$191 million as of December 31, 2016, from \$162 million at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 2.3%, which outperformed the 1.7% 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.

Bond markets experienced a volatile year in 2016, buffeted by fluctuations in oil prices, political uncertainty and extended efforts by many central banks to hold down global interest rates. Against this backdrop, the portfolio manager kept the average maturity of the Fund at a level that ensured interest-rate changes would not have too large an impact on relative returns. However, the portfolio manager extended the average maturity after the November election of Donald Trump as U.S. president sent rates higher, to levels that the portfolio manager viewed as excessive. These strategies were neutral for relative performance.

A more meaningful contribution to relative performance came from allocation decisions involving corporate bonds and securities issued by government-backed institutions such as Canada Mortgage & Housing Corp ("CMHC"). The extra yields offered by corporate bonds relative to government fixed income were volatile in 2016, particularly in the period leading up to and just after the U.K. voted to leave the EU, and the Fund's modest overweight in corporate bonds aided relative performance. Also helpful was security selection in corporate bonds. The Fund's largest overweight position over the year was in provincial bonds, aiding returns as they outperformed fixed-income securities issued by the Government of Canada. Returns also benefited from shifting assets between CMHC bonds and provincial bonds depending on the relative attractiveness of each.

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**

Several years of slow global economic growth, accompanied by central banks dedicated to countering this trend, has led to historically low global interest rates, and in Japan and parts of Europe, investors are actually paying in some cases to hold bonds. The portfolio manager believes, however, that the rise in U.S. interest rates following the U.S. presidential election and the U.S. Federal Reserve's decision to boost its benchmark rate at year-end may signify a broad trend toward higher rates. With Canada's outlook less robust, the Bank of Canada appears to be on hold for the foreseeable future. The portfolio manager will attempt to use any further interest-rate fluctuations to find investments that offer opportunities for higher returns.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 4, 2016, units of the Fund are no longer available for purchase by new investors. Investors who held units of the Fund on July 4, 2016 can continue to make additional investments into the Fund. In addition, RBC GAM may also maintain capacity for certain investors, including investment funds managed by RBC GAM or its affiliates, that may invest in the Fund.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.00% to 0.90% for Series C and Advisor Series units; and from 0.50% to 0.40% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>11.06</b>	<b>0.34</b>	<b>(0.12)</b>	<b>0.13</b>	<b>(0.21)</b>	<b>0.14</b>	<b>(0.21)</b>	–	<b>(0.14)</b>	–	<b>(0.35)</b>	<b>10.85</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>11.06</b>	<b>0.34</b>	<b>(0.12)</b>	<b>0.13</b>	<b>(0.25)</b>	<b>0.10</b>	<b>(0.21)</b>	–	<b>(0.14)</b>	–	<b>(0.35)</b>	<b>10.85</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>10.97</b>	<b>0.34</b>	<b>(0.07)</b>	<b>0.13</b>	<b>(0.20)</b>	<b>0.20</b>	<b>(0.26)</b>	–	<b>(0.14)</b>	–	<b>(0.40)</b>	<b>10.76</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>11.02</b>	<b>0.34</b>	<b>(0.06)</b>	<b>0.13</b>	<b>(0.33)</b>	<b>0.08</b>	<b>(0.27)</b>	–	<b>(0.14)</b>	–	<b>(0.41)</b>	<b>10.81</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>10.84</b>	<b>0.34</b>	<b>(0.01)</b>	<b>0.13</b>	<b>(0.23)</b>	<b>0.23</b>	<b>(0.32)</b>	–	<b>(0.14)</b>	–	<b>(0.46)</b>	<b>10.63</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>10.85</b>	<b>7 707</b>	<b>711</b>	<b>1.09<sup>4</sup></b>	<b>1.09</b>	<b>152.83</b>	—
Dec. 31, 2015	11.06	7 551	683	1.15	1.15	217.41	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>10.85</b>	<b>6 296</b>	<b>581</b>	<b>1.09<sup>4</sup></b>	<b>1.09</b>	<b>152.83</b>	—
Dec. 31, 2015	11.06	5 392	488	1.15	1.15	217.41	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>10.76</b>	<b>20 010</b>	<b>1 859</b>	<b>0.60</b>	<b>0.60</b>	<b>152.83</b>	—
Dec. 31, 2015	10.97	20 695	1 886	0.60	0.60	217.41	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>10.81</b>	<b>9 855</b>	<b>912</b>	<b>0.55<sup>4</sup></b>	<b>0.55</b>	<b>152.83</b>	—
Dec. 31, 2015	11.02	7 246	658	0.60	0.60	217.41	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>10.63</b>	<b>147 357</b>	<b>13 858</b>	<b>0.06</b>	<b>0.06</b>	<b>152.83</b>	—
Dec. 31, 2015	10.84	121 361	11 192	0.06	0.06	217.41	—
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	—

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.03%, Advisor Series – 1.03% and Series F – 0.50%.

**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 A	0.90%	50%	50%
Advisor Series	0.90%	50%	50%
Series D	0.50%	30%	70%
Series F	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.

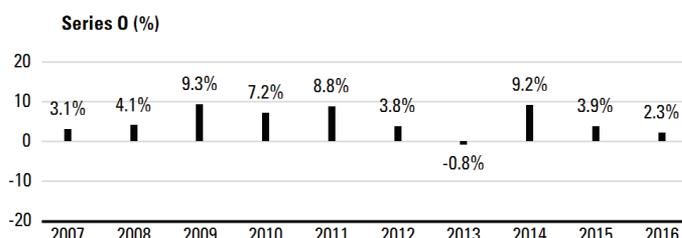
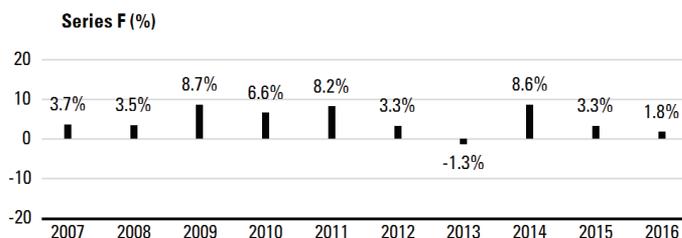
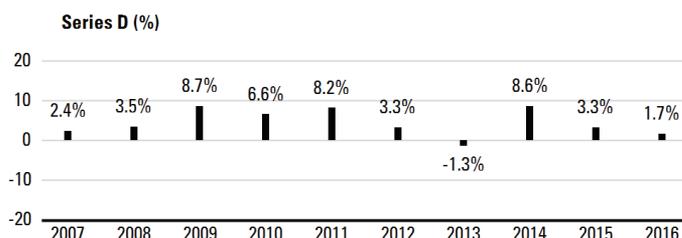
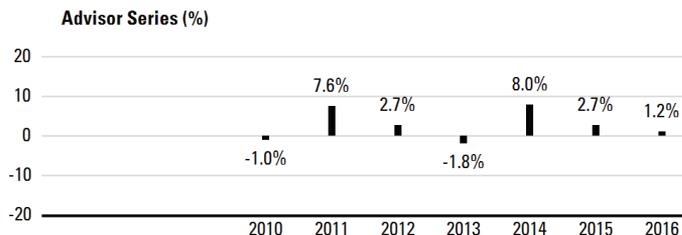
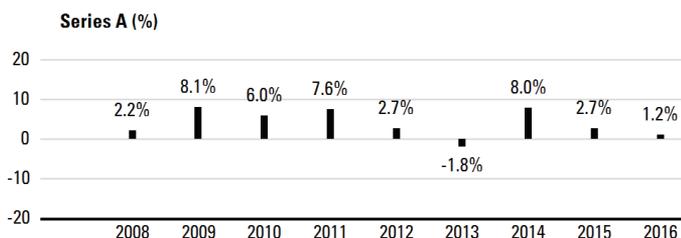
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	1.2	4.0	2.5	—	4.5
Benchmark	1.7	4.6	3.2	—	5.0
Advisor Series	1.2	4.0	2.5	—	3.1
Benchmark	1.7	4.6	3.2	—	4.0
Series D	1.7	4.5	3.1	4.4	—
Benchmark	1.7	4.6	3.2	4.8	—
Series F	1.8	4.5	3.1	—	4.8
Benchmark	1.7	4.6	3.2	—	5.1
Series O	2.3	5.1	3.6	5.0	—
Benchmark	1.7	4.6	3.2	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 A 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.

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

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Provincial Bonds	34.7
Corporate Bonds	33.4
Federal Bonds	26.7
Municipal Bonds	0.6
Mortgage-Backed Bonds	0.2
Cash/Other	4.4

**Top 25 Holdings**

	% of Net Asset Value
Province of Ontario 7.600% Jun 2 2027	5.4
Government of Canada 0.750% Sep 1 2021	5.0
Government of Canada 0.500% Mar 1 2022	4.7
Cash & Cash Equivalents	3.9
Royal Bank of Canada 1.400% Apr 26 2019	3.2
Canada Housing Trust No. 1 1.250% Jun 15 2021	2.7
Province of Ontario 3.500% Jun 2 2043	2.6
Province of Ontario 6.200% Jun 2 2031	2.4
Enbridge Pipelines Inc. 3.000% Aug 10 2026	2.0
Province of Ontario 2.850% Jun 2 2023	1.9
Province of Ontario 3.500% Jun 2 2024	1.9
Province of Quebec 8.500% Apr 1 2026	1.8
Province of Ontario 2.900% Dec 2 2046	1.7
Government of Canada 0.750% Sep 1 2020	1.7
Government of Canada 0.750% Mar 1 2021	1.7
Province of Ontario 5.600% Jun 2 2035	1.6
Government of Canada 2.750% Dec 1 2048	1.6
Province of Ontario 4.600% Jun 2 2039	1.6
Province of Ontario 8.100% Sep 8 2023	1.5
Toronto-Dominion Bank 1.680% Jun 8 2021	1.5
National Grid Electricity Transmission Plc. CAD 2.730% Sep 20 2017	1.5
Province of Ontario 8.500% Dec 2 2025	1.3
Canada Housing Trust No. 1 2.900% Jun 15 2024	1.3
Bank of Nova Scotia 1.330% May 1 2018	1.2
Government of Canada 3.500% Dec 1 2045	1.1
<b>Top 25 Holdings</b>	<b>56.8</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).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
TOTAL RETURN BOND FUND***December 31, 2016***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 8, 2017.

**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 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 increased to \$8.0 billion as of December 31, 2016, from \$7.5 billion at the end of 2015. The increase was due to a combination of net inflows and investment returns.

Over the past year, the Fund's Series O units gained 2.9%, which outperformed the 1.7% 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.

Bond markets experienced a volatile year in 2016, buffeted by fluctuations in oil prices, political uncertainty and extended efforts by many central banks to hold down global interest rates. Against this backdrop, the portfolio manager kept the average maturity of the Fund at a level that ensured interest-rate changes would not have too large an impact on relative returns. However, the portfolio manager extended the average maturity after the November election of Donald Trump as U.S. president sent rates higher, to levels that the portfolio manager viewed as excessive. These strategies were neutral for relative performance.

A more meaningful contribution to relative performance came from allocation decisions involving corporate bonds and securities issued by government-backed institutions such as Canada Mortgage & Housing Corp ("CMHC"). The extra yields offered by corporate bonds relative to government fixed income were volatile in 2016, particularly in the period leading up to and just after the U.K. voted to leave the EU, and the Fund's modest overweight in corporate bonds aided relative performance. Also helpful on a relative basis was security selection in corporate bonds and the Fund's high-yield-bond allocation, the latter of which rebounded from losses in 2015. The Fund's largest overweight position over the year was in provincial bonds, aiding returns as they outperformed fixed-income securities issued by the Government of Canada. Returns also benefited from shifting assets between CMHC and provincial bonds depending on the relative attractiveness of each.

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**

Several years of slow global economic growth, accompanied by central banks dedicated to countering this trend, has led to historically low global interest rates, and in Japan and parts of Europe, investors are actually paying in some cases to hold bonds. The portfolio manager believes, however, that the rise in U.S. interest rates following the U.S. presidential election and the U.S. Federal Reserve's decision to boost its benchmark rate at year-end may signify a broad trend toward higher rates. With Canada's outlook less robust, the Bank of Canada appears to be on hold for the foreseeable future. The portfolio manager will attempt to use any further interest-rate fluctuations to find investments that offer opportunities for higher returns.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloepfer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.00% to 0.90% for Series C and Advisor Series units; and from 0.50% to 0.40% for Series F units. Also effective June 30, 2016, Series H units were re-designated to Series C units, followed by all Series C units being renamed Series A units, and Series I units were re-designated to Series F units.

**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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>11.52</b>	<b>0.38</b>	<b>(0.13)</b>	<b>0.12</b>	<b>(0.22)</b>	<b>0.15</b>	<b>(0.24)</b>	–	<b>(0.14)</b>	–	<b>(0.38)</b>	<b>11.34</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>11.53</b>	<b>0.38</b>	<b>(0.13)</b>	<b>0.12</b>	<b>(0.22)</b>	<b>0.15</b>	<b>(0.24)</b>	–	<b>(0.14)</b>	–	<b>(0.38)</b>	<b>11.35</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>11.52</b>	<b>0.38</b>	<b>(0.07)</b>	<b>0.12</b>	<b>(0.19)</b>	<b>0.24</b>	<b>(0.30)</b>	–	<b>(0.14)</b>	–	<b>(0.44)</b>	<b>11.34</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>11.53</b>	<b>0.37</b>	<b>(0.06)</b>	<b>0.12</b>	<b>(0.32)</b>	<b>0.11</b>	<b>(0.31)</b>	–	<b>(0.14)</b>	–	<b>(0.45)</b>	<b>11.36</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>11.47</b>	<b>0.37</b>	–	<b>0.12</b>	<b>(0.17)</b>	<b>0.32</b>	<b>(0.37)</b>	–	<b>(0.15)</b>	–	<b>(0.52)</b>	<b>11.29</b>
Dec. 31, 2015	11.63	0.40	–	0.16	(0.17)	0.39	(0.39)	–	(0.20)	–	(0.59)	11.47
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>11.34</b>	<b>169 245</b>	<b>14 922</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>132.94</b>	—
Dec. 31, 2015	11.52	153 976	13 367	1.16	1.16	218.83	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>11.35</b>	<b>111 224</b>	<b>9 796</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>132.94</b>	—
Dec. 31, 2015	11.53	94 165	8 167	1.16	1.16	218.83	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>11.34</b>	<b>583 467</b>	<b>51 440</b>	<b>0.58</b>	<b>0.58</b>	<b>132.94</b>	—
Dec. 31, 2015	11.52	543 855	47 207	0.58	0.58	218.83	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>11.36</b>	<b>801 893</b>	<b>70 615</b>	<b>0.55<sup>4</sup></b>	<b>0.55</b>	<b>132.94</b>	—
Dec. 31, 2015	11.53	462 345	40 085	0.61	0.61	218.83	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>11.29</b>	<b>6 316 953</b>	<b>559 740</b>	<b>0.02</b>	<b>0.02</b>	<b>132.94</b>	—
Dec. 31, 2015	11.47	6 103 380	532 024	0.02	0.02	218.83	—
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	—

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.05%, Advisor Series – 1.05% and Series F – 0.50%.

**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 A	0.90%	50%	50%
Advisor Series	0.90%	50%	50%
Series D	0.50%	30%	70%
Series F	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.

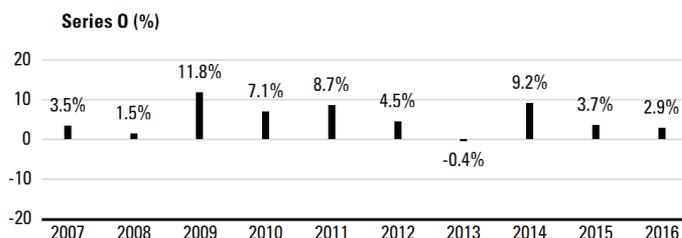
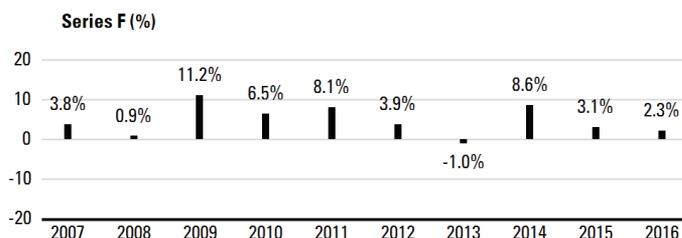
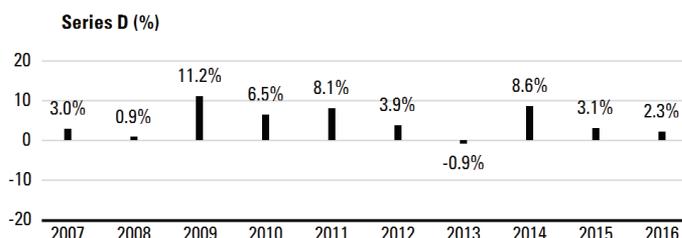
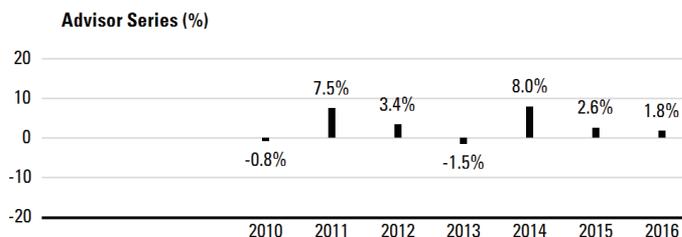
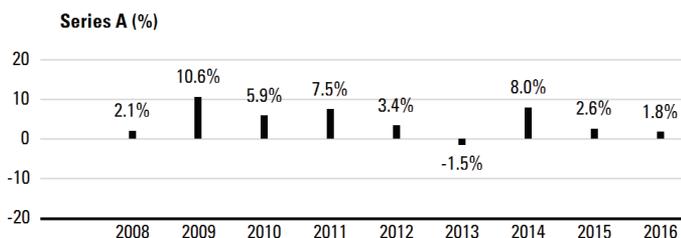
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	1.8	4.1	2.8	—	4.9
Benchmark	1.7	4.6	3.2	—	5.0
Advisor Series	1.8	4.1	2.8	—	3.3
Benchmark	1.7	4.6	3.2	—	—
Series D	2.3	4.6	3.4	4.6	—
Benchmark	1.7	4.6	3.2	4.8	—
Series F	2.3	4.6	3.3	—	4.9
Benchmark	1.7	4.6	3.2	—	5.1
Series O	2.9	5.2	3.9	5.2	—
Benchmark	1.7	4.6	3.2	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 A 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.

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016. 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.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	35.9
Provincial Bonds	34.2
Federal Bonds	26.3
Municipal Bonds	0.6
Mortgages	0.1
Mortgage-Backed Bonds	0.1
Cash/Other	2.8

**Top 25 Holdings**

	% of Net Asset Value
Province of Ontario 7.600% Jun 2 2027	5.1
Government of Canada 0.500% Mar 1 2022	4.1
Government of Canada 0.750% Sep 1 2021	3.2
Province of Ontario 3.500% Jun 2 2043	2.8
Province of Ontario 6.200% Jun 2 2031	2.5
Cash & Cash Equivalents	2.3
Government of Canada 3.500% Jun 1 2020	2.0
Canada Housing Trust No. 1 1.250% Jun 15 2021	2.0
Province of Ontario 4.600% Jun 2 2039	1.9
Province of Quebec 8.500% Apr 1 2026	1.8
Government of Canada 0.750% Sep 1 2020	1.8
Government of Canada 0.750% Mar 1 2021	1.7
Province of Ontario 2.900% Dec 2 2046	1.7
Province of Ontario 8.100% Sep 8 2023	1.6
Province of Ontario 5.600% Jun 2 2035	1.6
Province of Ontario 2.850% Jun 2 2023	1.5
Toronto-Dominion Bank 1.680% Jun 8 2021	1.4
Government of Canada 2.750% Dec 1 2048	1.4
Royal Bank of Canada 1.400% Apr 26 2019	1.3
Canada Housing Trust No. 1 2.900% Jun 15 2024	1.2
Government of Canada 2.750% Jun 1 2022	1.2
Province of Ontario 8.500% Dec 2 2025	1.2
Province of Ontario 3.500% Jun 2 2024	1.1
Canada Housing Trust No. 1 2.650% Mar 15 2022	1.1
Canada Housing Trust No. 1 1.250% Dec 15 2020	1.1
<b>Top 25 Holdings</b>	<b>48.6</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).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
INFLATION-LINKED BOND FUND***December 31, 2016***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 8, 2017.

**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 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 \$83 million as of December 31, 2016, from \$75 million at the end of 2015. The increase was due to a combination of net inflows and investment returns.

Over the past year, the Fund's Series O units gained 3.5%, which outperformed the 2.9% 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.

Bond markets experienced a volatile year in 2016, buffeted by fluctuations in oil prices, political uncertainty and extended efforts by many central banks to hold down global interest rates. Against this backdrop, the portfolio manager kept the average maturity of the Fund at a level that ensured interest-rate changes would not have too large an impact on relative returns. However, the Fund was able to boost relative returns by purchasing inflation-linked bonds when they were deemed by the portfolio manager to be underpriced and to sell such bonds when they were considered expensive. The Fund also held small allocations in provincial and corporate inflation-linked bonds, whose higher yields helped them outperform Government of Canada bonds. Opportunities in provincial and corporate inflation-linked bonds are limited by their scarcity.

The Fund was very active in attempting to capitalize on market volatility.

**Recent Developments**

Several years of slow global economic growth, accompanied by central banks dedicated to countering this trend, has led to historically low global interest rates, and in Japan and parts of Europe, investors are actually paying in some cases to hold bonds. The portfolio manager believes, however, that the rise in U.S. interest rates following the U.S. presidential election and the U.S. Federal Reserve's decision to boost its benchmark rate at year-end may signify a broad trend toward higher rates. With Canada's outlook less robust, the Bank of Canada appears to be on hold for the foreseeable future. The portfolio manager will attempt to use any further interest-rate fluctuations to find investments that offer opportunities for higher returns.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>11.13</b>	<b>0.25</b>	<b>(0.11)</b>	<b>0.23</b>	<b>(0.07)</b>	<b>0.30</b>	<b>(0.15)</b>	–	–	–	<b>(0.15)</b>	<b>11.27</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>11.13</b>	<b>0.25</b>	<b>(0.11)</b>	<b>0.23</b>	<b>(0.10)</b>	<b>0.27</b>	<b>(0.15)</b>	–	–	–	<b>(0.15)</b>	<b>11.28</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>11.17</b>	<b>0.25</b>	<b>(0.06)</b>	<b>0.23</b>	<b>(0.12)</b>	<b>0.30</b>	<b>(0.18)</b>	–	–	–	<b>(0.18)</b>	<b>11.33</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>11.15</b>	<b>0.25</b>	<b>(0.04)</b>	<b>0.23</b>	<b>(0.17)</b>	<b>0.27</b>	<b>(0.20)</b>	–	–	–	<b>(0.20)</b>	<b>11.31</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>11.25</b>	<b>0.25</b>	–	<b>0.23</b>	<b>(0.13)</b>	<b>0.35</b>	<b>(0.24)</b>	–	–	–	<b>(0.24)</b>	<b>11.41</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>11.27</b>	<b>13 503</b>	<b>1 198</b>	<b>0.93</b>	<b>0.93</b>	<b>7 750.88</b>	—
Dec. 31, 2015	11.13	14 992	1 347	0.93	0.93	1 690.92	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>11.28</b>	<b>2 043</b>	<b>181</b>	<b>0.93</b>	<b>0.93</b>	<b>7 750.88</b>	—
Dec. 31, 2015	11.13	1 927	173	0.93	0.93	1 690.92	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>11.33</b>	<b>15 645</b>	<b>1 381</b>	<b>0.55</b>	<b>0.55</b>	<b>7 750.88</b>	—
Dec. 31, 2015	11.17	14 665	1 312	0.55	0.55	1 690.92	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>11.31</b>	<b>8 423</b>	<b>745</b>	<b>0.38</b>	<b>0.38</b>	<b>7 750.88</b>	—
Dec. 31, 2015	11.15	8 174	733	0.38	0.38	1 690.92	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>11.41</b>	<b>43 870</b>	<b>3 846</b>	<b>0.03</b>	<b>0.03</b>	<b>7 750.88</b>	—
Dec. 31, 2015	11.25	35 289	3 139	0.03	0.03	1 690.92	—
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	—

<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 A	0.80%	62%	38%
Advisor Series	0.80%	62%	38%
Series D	0.45%	33%	67%
Series F	0.30%	—	100%

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

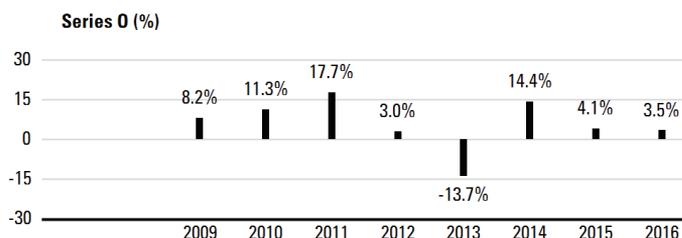
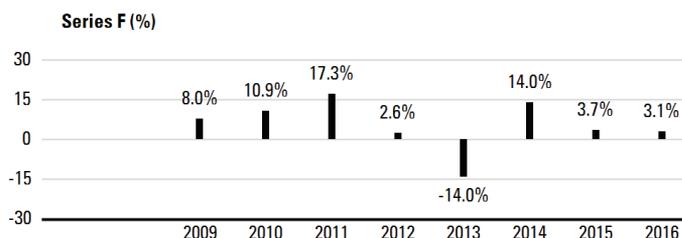
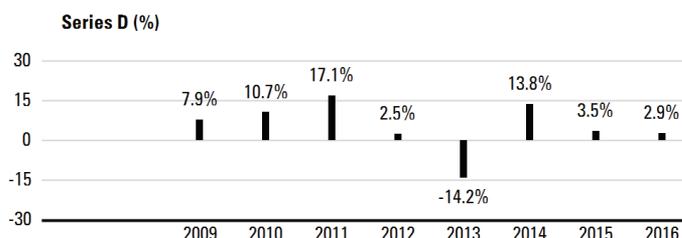
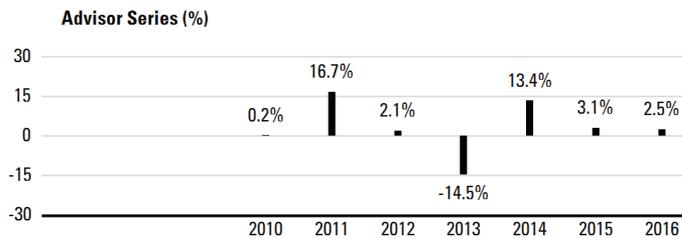
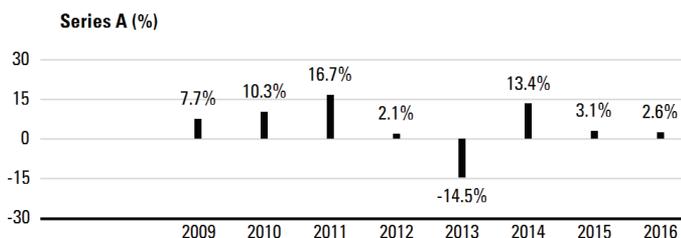
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



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

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	2.6	6.2	0.9	–	5.1
Benchmark	2.9	6.2	1.4	–	5.7
Advisor Series	2.5	6.2	0.9	–	3.3
Benchmark	2.9	6.2	1.4	–	3.9
Series D	2.9	6.6	1.3	–	5.5
Benchmark	2.9	6.2	1.4	–	5.7
Series F	3.1	6.8	1.5	–	5.7
Benchmark	2.9	6.2	1.4	–	5.7
Series O	3.5	7.2	1.8	–	6.0
Benchmark	2.9	6.2	1.4	–	5.7

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

Advisor Series units have been available for sale to unitholders since October 2010, and Series A, 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.

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

**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.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Federal Bonds	87.9
Provincial Bonds	10.9
Corporate Bonds	0.7
Cash/Other	0.5

**Top 25 Holdings\***

	% of Net Asset Value
Government of Canada 3.000% Dec 1 2036	15.1
Government of Canada 4.250% Dec 1 2026	13.8
Government of Canada 4.000% Dec 1 2031	13.0
Government of Canada 1.250% Dec 1 2047	12.4
Government of Canada 1.500% Dec 1 2044	11.4
Government of Canada 2.000% Dec 1 2041	11.4
Government of Canada 4.250% Dec 1 2021	11.0
Province of Ontario 2.000% Dec 1 2036	4.5
Province of Quebec 4.250% Dec 1 2031	3.0
Province of Quebec 4.500% Dec 1 2026	2.5
Province of Quebec 4.500% Dec 1 2021	0.9
Teranet Holdings LP 3.270% Dec 1 2031	0.7
Cash & Cash Equivalents	0.3
Government of Canada 3.500% Dec 1 2045	–
Government of Canada 2.750% Dec 1 2048	–
Government of Canada 2.250% Jun 1 2025	–
Government of Canada 1.500% Jun 1 2026	–
<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**

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*December 31, 2016***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 8, 2017.

**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 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 rose to \$4.1 billion as of December 31, 2016, from \$3.2 billion at the end of 2015. The increase was due to a combination of investment returns and net inflows.

Over the past year, the Fund's Series O units gained 18.5%, which outperformed the 1.7% 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.

Prices of energy bonds, which in recent years have made up a significant portion of the Fund's assets, plunged in early 2016 as oil prices touched multi-year lows. Prices rebounded, however, as energy prices recovered for much of the rest of the year. In response to the challenging environment, the Fund adopted a "barbell" structure in which a healthy part of the Fund was dedicated to cash and investment-grade corporate bonds to provide stability and liquidity.

The higher-risk portion of the Fund was placed in shorter-dated securities offering yields of 6% to 8%, with little extra risk of default or exposure to interest-rate changes. Between these two ends, the Fund maintained a core position of Canadian high-yield issues in non-resource industries that provide stability and yields of 5% to 6%. This portfolio structure was designed to provide a balance of low-interest-rate sensitivity, manageable credit risk and liquidity.

### Recent Developments

Several years of slow global economic growth, accompanied by central banks dedicated to countering this trend, has led to historically low global interest rates, and in Japan and parts of Europe, investors are actually paying in some cases to hold bonds. The portfolio manager believes, however, that the rise in U.S. interest rates following the Presidential election and the U.S. Federal Reserve's decision to boost its benchmark rate at year-end, may signify a broad trend toward higher rates. With Canada's outlook less robust, the Bank of Canada appears to be on hold for the foreseeable future. The portfolio manager will attempt to use any further interest-rate fluctuations to find investments that offer opportunities for higher returns.

The recovery in oil prices resulted in yields in the high-quality, high-yield bond market falling to between 3.5% and 4.5%, a level that seems to the portfolio manager to be inadequate given default, interest-rate and liquidity risks. The portfolio manager believes that mid-to-lower rated securities – particularly in the Energy sector where the outlook has vastly improved – offer more attractive yields.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloepfer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series C units were renamed Series A units.

Effective April 7, 2016, units of the Fund are no longer available for purchase by new investors. Investors who held units of the Fund on April 7, 2016 can continue to make additional investments into the Fund. In addition, RBC GAM may also maintain capacity for certain investors, including investment funds managed by RBC GAM or its affiliates, that may invest in the 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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>10.97</b>	<b>0.72</b>	<b>(0.17)</b>	<b>0.25</b>	<b>0.99</b>	<b>1.79</b>	<b>(0.53)</b>	–	<b>(0.09)</b>	–	<b>(0.62)</b>	<b>12.16</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>10.97</b>	<b>0.71</b>	<b>(0.17)</b>	<b>0.25</b>	<b>1.10</b>	<b>1.89</b>	<b>(0.53)</b>	–	<b>(0.09)</b>	–	<b>(0.62)</b>	<b>12.16</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>10.85</b>	<b>0.71</b>	<b>(0.10)</b>	<b>0.25</b>	<b>0.98</b>	<b>1.84</b>	<b>(0.59)</b>	–	<b>(0.09)</b>	–	<b>(0.68)</b>	<b>12.02</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>10.91</b>	<b>0.71</b>	<b>(0.10)</b>	<b>0.25</b>	<b>1.09</b>	<b>1.95</b>	<b>(0.60)</b>	–	<b>(0.09)</b>	–	<b>(0.69)</b>	<b>12.09</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>10.47</b>	<b>0.68</b>	–	<b>0.24</b>	<b>1.06</b>	<b>1.98</b>	<b>(0.67)</b>	–	<b>(0.09)</b>	–	<b>(0.76)</b>	<b>11.59</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>12.16</b>	<b>276 968</b>	<b>22 771</b>	<b>1.44</b>	<b>1.44</b>	<b>65.06</b>	—
Dec. 31, 2015	10.97	281 732	25 678	1.44	1.44	108.96	—
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	—
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>12.16</b>	<b>86 418</b>	<b>7 106</b>	<b>1.43</b>	<b>1.43</b>	<b>65.06</b>	—
Dec. 31, 2015	10.97	56 717	5 169	1.44	1.44	108.96	—
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	—
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>12.02</b>	<b>666 947</b>	<b>55 478</b>	<b>0.87</b>	<b>0.87</b>	<b>65.06</b>	—
Dec. 31, 2015	10.85	610 061	56 237	0.87	0.87	108.96	—
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	—
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>12.09</b>	<b>584 954</b>	<b>48 394</b>	<b>0.88</b>	<b>0.88</b>	<b>65.06</b>	—
Dec. 31, 2015	10.91	385 236	35 317	0.89	0.89	108.96	—
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>11.59</b>	<b>2 527 124</b>	<b>217 973</b>	<b>0.03</b>	<b>0.03</b>	<b>65.06</b>	—
Dec. 31, 2015	10.47	1 864 376	178 093	0.03	0.03	108.96	—
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	—

<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 A	1.25%	40%	60%
Advisor Series	1.25%	40%	60%
Series D	0.75%	20%	80%
Series F	0.75%	—	100%

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

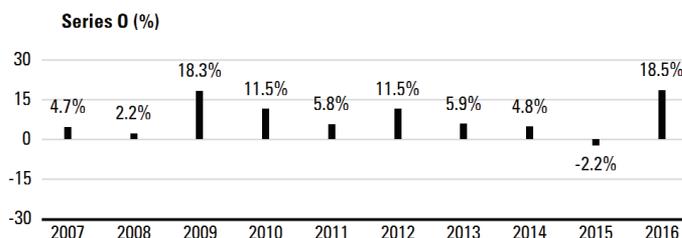
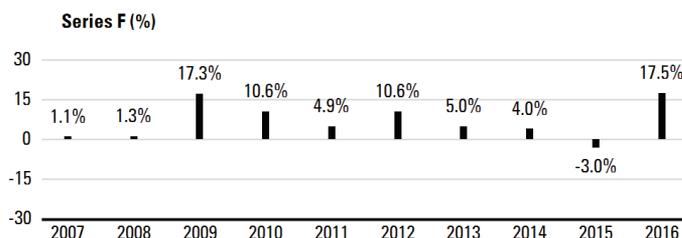
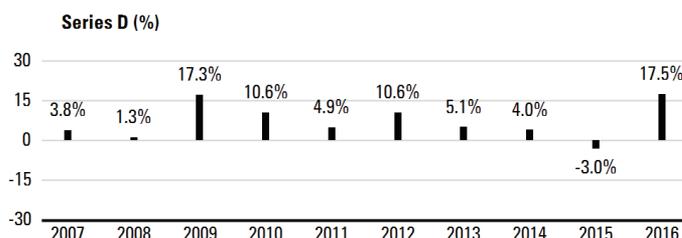
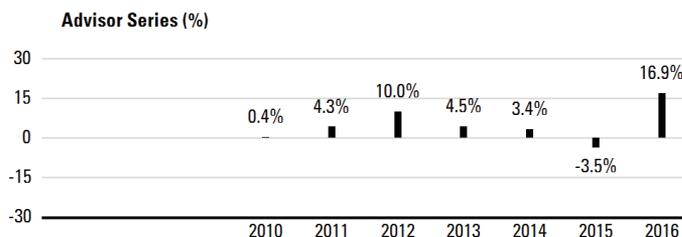
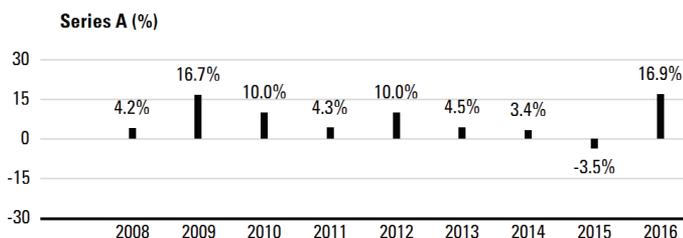
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	16.9	5.2	6.0	—	8.0
Benchmark	1.7	4.6	3.2	—	5.0
Advisor Series	16.9	5.2	6.0	—	5.6
Benchmark	1.7	4.6	3.2	—	4.0
Series D	17.5	5.8	6.6	7.0	—
Benchmark	1.7	4.6	3.2	4.8	—
Series F	17.5	5.8	6.6	—	7.1
Benchmark	1.7	4.6	3.2	—	5.1
Series O	18.5	6.7	7.5	7.9	—
Benchmark	1.7	4.6	3.2	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 A 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.

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

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	91.3
Federal Bonds	4.8
Cash/Other	3.9

**Top 25 Holdings**

	% of Net Asset Value
Seven Generations Energy Ltd. USD 8.250% May 15 2020	9.0
Quebecor Media Inc. 6.625% Jan 15 2023	5.5
Government of Canada 0.750% Sep 1 2021	4.8
Baytex Energy Corp. 6.625% Jul 19 2022	4.0
Trinidad Drilling Ltd. USD 7.875% Jan 15 2019	3.8
Trilogy Energy Corp. 7.250% Dec 13 2019	3.8
Northern Blizzard Resources Inc. USD 7.250% Feb 1 2022	3.3
Canadian Imperial Bank of Commerce 3.420% Jan 26 2026	3.1
Cash & Cash Equivalents	2.9
Bank of Nova Scotia 3.367% Dec 8 2025	2.9
Baytex Energy Corp. USD 6.750% Feb 17 2021	2.5
Canadian Energy Services & Technology Corp. 7.375% Apr 17 2020	2.5
Newalta Corp. 7.750% Nov 14 2019	2.3
Bank of Montreal 3.120% Sep 19 2024	2.2
Western Energy Services Corp. 7.875% Jan 30 2019	2.2
Videotron Ltd. 6.875% Jul 15 2021	1.9
Superior Plus LP 6.500% Dec 9 2021	1.9
Quebecor Media Inc. 7.375% Jan 15 2021	1.8
Bank of Montreal 3.320% Jun 1 2026	1.7
Gibson Energy Inc. 7.000% Jul 15 2020	1.7
Bank of Montreal 3.340% Dec 8 2025	1.6
Fairfax Financial Holdings Ltd. 4.700% Dec 16 2026	1.6
Precision Drilling Corp. USD 6.625% Nov 15 2020	1.6
Atlantic Power LP 5.950% Jun 23 2036	1.6
Granite Real Estate Investment Trust Holdings LP 3.873% Nov 30 2023	1.5
<b>Top 25 Holdings</b>	<b>71.7</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).

## FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH LONG  
INFLATION-LINKED BOND FUND***December 31, 2016***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 8, 2017.

**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**  
**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 \$71 million as of December 31, 2016, from \$49 million at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund's Series O units gained 6.0%, which outperformed the 2.9% 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.

Inflation-adjusted ("real") interest rates fluctuated over 2016 in line with highly volatile oil prices and uncertainty leading up to and after the June vote in which the U.K. decided to leave the EU. Rates rebounded in the second half of the year as uncertainty receded somewhat, and Donald Trump's election as U.S. president led to speculation that inflation would accelerate.

By the end of the year, the Fund performed in line with its target of a modest real yield plus inflation. The Fund invested in the two longest-term Government of Canada real-return bonds, which mature in 2044 and 2047. The security maturing in 2044 was removed from the portfolio during the period. The 2047 bond began 2016 with a real yield of 0.7% and ended the year with a real yield of 0.5%.

**Recent Developments**

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 increase could lead to significant investor losses.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

**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;

**PHILLIPS, HAGER & NORTH**  
**LONG INFLATION-LINKED BOND 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**  
**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		
<b>Series 0</b>												
<b>Dec. 31, 2016</b>	<b>11.35</b>	<b>0.32</b>	–	<b>0.07</b>	<b>0.19</b>	<b>0.58</b>	<b>(0.26)</b>	–	<b>(0.02)</b>	–	<b>(0.28)</b>	<b>11.75</b>
Dec. 31, 2015	11.63	0.24	–	0.31	(0.42)	0.13	(0.20)	–	(0.27)	–	(0.47)	11.35
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

<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.

**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 0</b>							
<b>Dec. 31, 2016</b>	<b>11.75</b>	<b>70 635</b>	<b>6 007</b>	<b>0.03</b>	<b>0.03</b>	<b>37.57</b>	–
Dec. 31, 2015	11.35	49 142	4 330	0.02	0.03	57.72	–
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	–

<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.

**Management Fees**

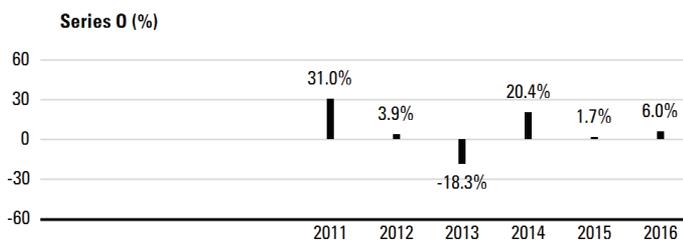
RBC GAM is the manager, portfolio manager and registrar of the Fund. No management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

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

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

**Year-by-Year Returns (%)**

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


**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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	6.0	9.1	2.0	—	6.4
Benchmark	2.9	6.2	1.4	—	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 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.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Federal Bonds	99.7
Cash/Other	0.3

**Top 25 Holdings\***

	% of Net Asset Value
Government of Canada 1.250% Dec 1 2047	99.8
Cash & Cash Equivalents	0.2
Total	100.0

\* The Fund holds fewer than 25 holdings.

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

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*December 31, 2016***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 8, 2017.

**A Note on Forward-looking Statements**

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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 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 \$2.4 billion as of December 31, 2016, from \$2.6 billion at the end of 2015. The decrease was due to net redemptions.

Over the past year, the Fund's Series O units gained 14.4%, which outperformed the 12.9% rise in the benchmark. The broad-based index rose 1.7%. 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.

For 2016, the Fund made total distributions of approximately 46 cents per Series A unit, consisting of 8 cents per unit of capital gains, 13 cents per unit of return of capital, 7 cents per unit of interest and 18 cents per unit of dividends. In January 2017, monthly distributions for the Fund were raised to 4.05 cents per Series A unit.

The S&P/TSX Composite Index ended 2016 as one of the best-performing global equity markets and, at times, flirted with the all-time highs recorded in 2014. The year culminated with the surprise U.S. election win for Donald Trump as president, OPEC's agreement to cut oil production and the first interest-rate increase by the U.S. Federal Reserve in 12 months. Bond yields moved higher overall, while interest-sensitive and cyclical stocks surged.

In equities, the Fund's overweight position in the Energy sector was among the leading contributors to relative performance in 2016. Key contributions came from positions in exploration and production companies. The Materials sector was among the Fund's weakest in relative terms. An underweight position in the surging mining industry held back returns when metals prices surged.

In the fixed-income allocation of the portfolio, contributions to relative performance came from strategies involving corporate bonds and provincial treasuries. The Fund began 2016 modestly overweight corporate bonds, and increased this allocation as they underperformed early in the year. The largest strategic position over the year was an overweight in provincial bonds, which appreciated as the yield gap with federal bonds narrowed.

Portfolio turnover was high for this Fund, as the portfolio manager attempted to generate better returns through active sector and security selection.

**Recent Developments**

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. This is a welcome change compared with the investing environment that was in place at the beginning of 2016, when fears about China, U.S. rate hikes and weak economic figures led to a sharp correction in financial markets. Contrary to popular perceptions, this new market direction began before the populist victories in the U.K. referendum and U.S. election. A number of trends that pre-date those events suggest that the outlook for the economy and markets has been improving since earlier in 2016 and were further punctuated by Trump's victory.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series H and Series I units of the Fund are no longer available for purchase by new investors. Investors who held Series H and Series I units of the Fund on June 30, 2016 can continue to make additional investments into the Fund. Also effective June 30, 2016, Series C units were renamed Series A units.

#### **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 A, 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.

##### ***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$318,000 (2015 – \$359,000), or 8% (2015 – 5%) 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 A</b>												
<b>Dec. 31, 2016</b>	<b>9.08</b>	<b>0.34</b>	<b>(0.18)</b>	<b>0.13</b>	<b>0.81</b>	<b>1.10</b>	<b>(0.07)</b>	<b>(0.18)</b>	<b>(0.08)</b>	<b>(0.13)</b>	<b>(0.46)</b>	<b>9.72</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>9.08</b>	<b>0.34</b>	<b>(0.18)</b>	<b>0.13</b>	<b>0.83</b>	<b>1.12</b>	<b>(0.07)</b>	<b>(0.18)</b>	<b>(0.08)</b>	<b>(0.13)</b>	<b>(0.46)</b>	<b>9.72</b>
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
<b>Series H</b>												
<b>Dec. 31, 2016</b>	<b>9.15</b>	<b>0.34</b>	<b>(0.15)</b>	<b>0.14</b>	<b>0.70</b>	<b>1.03</b>	<b>(0.07)</b>	<b>(0.18)</b>	<b>(0.08)</b>	<b>(0.13)</b>	<b>(0.46)</b>	<b>9.81</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>9.58</b>	<b>0.36</b>	<b>(0.11)</b>	<b>0.14</b>	<b>0.86</b>	<b>1.25</b>	<b>(0.08)</b>	<b>(0.18)</b>	<b>(0.08)</b>	<b>(0.14)</b>	<b>(0.48)</b>	<b>10.35</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>9.74</b>	<b>0.37</b>	<b>(0.08)</b>	<b>0.15</b>	<b>0.76</b>	<b>1.20</b>	<b>(0.08)</b>	<b>(0.19)</b>	<b>(0.08)</b>	<b>(0.14)</b>	<b>(0.49)</b>	<b>10.55</b>
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
<b>Series I</b>												
<b>Dec. 31, 2016</b>	<b>9.81</b>	<b>0.37</b>	<b>(0.06)</b>	<b>0.15</b>	<b>0.83</b>	<b>1.29</b>	<b>(0.08)</b>	<b>(0.19)</b>	<b>(0.08)</b>	<b>(0.14)</b>	<b>(0.49)</b>	<b>10.64</b>
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		
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>10.21</b>	<b>0.38</b>	<b>(0.01)</b>	<b>0.15</b>	<b>0.93</b>	<b>1.45</b>	<b>(0.08)</b>	<b>(0.19)</b>	<b>(0.09)</b>	<b>(0.15)</b>	<b>(0.51)</b>	<b>11.14</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>9.72</b>	<b>1 790 651</b>	<b>184 156</b>	<b>1.92</b>	<b>1.92</b>	<b>183.99</b>	<b>0.17</b>
Dec. 31, 2015	9.08	2 048 442	225 496	1.92	1.92	206.03	0.24
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>9.72</b>	<b>81 979</b>	<b>8 431</b>	<b>1.92</b>	<b>1.92</b>	<b>183.99</b>	<b>0.17</b>
Dec. 31, 2015	9.08	94 677	10 422	1.92	1.92	206.03	0.24
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
<b>Series H</b>							
<b>Dec. 31, 2016</b>	<b>9.81</b>	<b>59 545</b>	<b>6 067</b>	<b>1.75</b>	<b>1.75</b>	<b>183.99</b>	<b>0.17</b>
Dec. 31, 2015	9.15	40 118	4 385	1.74	1.74	206.03	0.24
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, 2016</b>	<b>10.35</b>	<b>135 614</b>	<b>13 107</b>	<b>1.09</b>	<b>1.09</b>	<b>183.99</b>	<b>0.17</b>
Dec. 31, 2015	9.58	130 065	13 571	1.09	1.09	206.03	0.24
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>10.55</b>	<b>117 816</b>	<b>11 171</b>	<b>0.83</b>	<b>0.83</b>	<b>183.99</b>	<b>0.17</b>
Dec. 31, 2015	9.74	66 943	6 872	0.83	0.83	206.03	0.24
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

**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, 2016</b>	<b>10.64</b>	<b>9 571</b>	<b>900</b>	<b>0.64</b>	<b>0.64</b>	<b>183.99</b>	<b>0.17</b>
Dec. 31, 2015	9.81	8 160	832	0.65	0.65	206.03	0.24
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, 2016</b>	<b>11.14</b>	<b>169 414</b>	<b>15 206</b>	<b>0.06</b>	<b>0.06</b>	<b>183.99</b>	<b>0.17</b>
Dec. 31, 2015	10.21	195 642	19 159	0.06	0.06	206.03	0.24
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

<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 A	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.

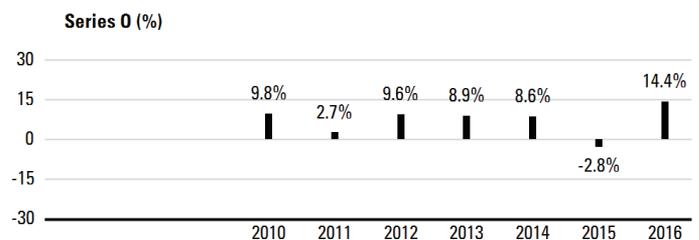
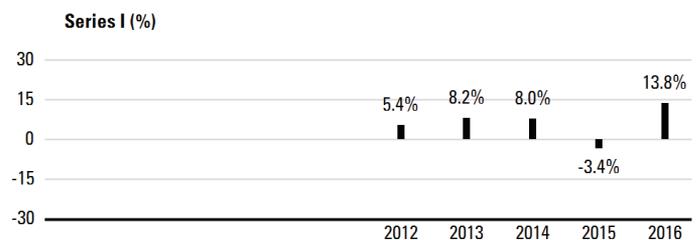
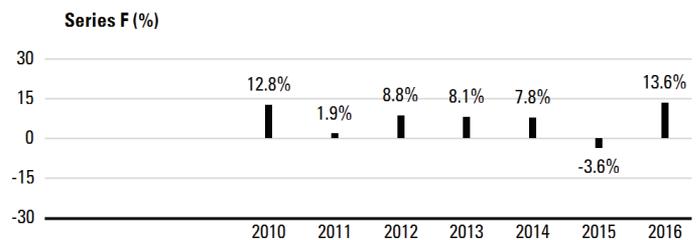
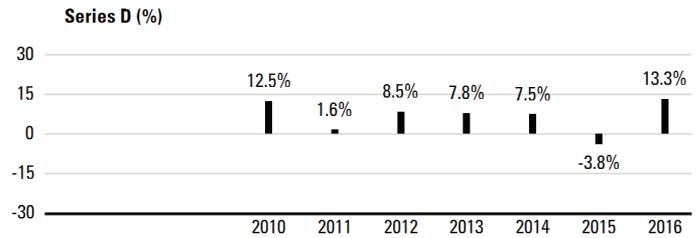
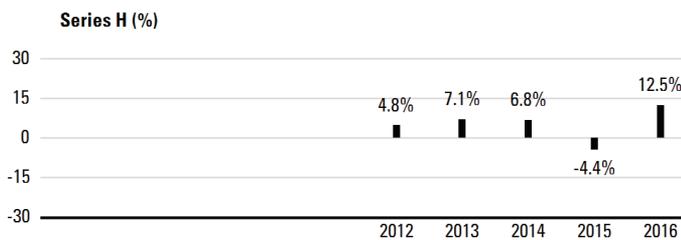
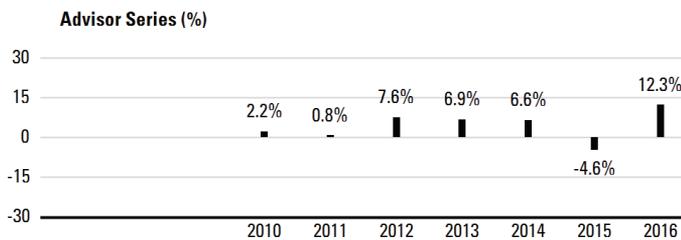
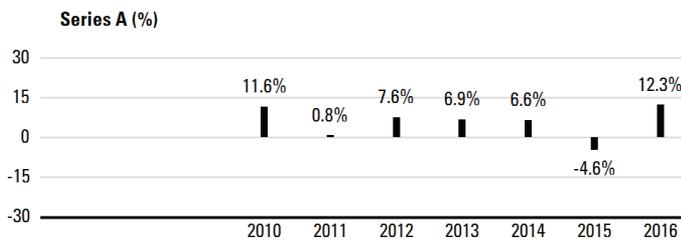
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	12.3	4.6	5.6	–	5.7
Benchmark	12.9	5.7	6.0	–	6.2
Broad-based index	1.7	4.6	3.2	–	4.6
Advisor Series	12.3	4.6	5.6	–	5.0
Benchmark	12.9	5.7	6.0	–	5.3
Broad-based index	1.7	4.6	3.2	–	4.0
Series H	12.5	4.7	–	–	5.8
Benchmark	12.9	5.7	–	–	6.5
Broad-based index	1.7	4.6	–	–	3.0
Series D	13.3	5.4	6.5	–	6.6
Benchmark	12.9	5.7	6.0	–	6.2
Broad-based index	1.7	4.6	3.2	–	4.6
Series F	13.6	5.7	6.8	–	6.9
Benchmark	12.9	5.7	6.0	–	6.2
Broad-based index	1.7	4.6	3.2	–	4.6
Series I	13.8	5.9	–	–	7.0
Benchmark	12.9	5.7	–	–	6.5
Broad-based index	1.7	4.6	–	–	3.0
Series O	14.4	6.5	7.6	–	7.4
Benchmark	12.9	5.7	6.0	–	5.8
Broad-based index	1.7	4.6	3.2	–	4.7

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

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 A, 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.

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

**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.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Canadian Equities	50.3
Bonds	42.8
Preferred Equities	5.1
Cash/Other	1.8

**Top 25 Holdings**

	% of Net Asset Value
RBC High Yield Bond Fund	5.6
Phillips, Hager & North High Yield Bond Fund	4.2
Royal Bank of Canada	4.2
Toronto-Dominion Bank	4.0
Enbridge Inc.	2.5
Brookfield Asset Management Inc., Class A	2.0
Canadian Imperial Bank of Commerce	1.9
Province of Ontario 7.600% Jun 2 2027	1.7
Bank of Nova Scotia	1.6
Cash & Cash Equivalents	1.6
Crescent Point Energy Corp.	1.6
Cenovus Energy Inc.	1.5
Alimentation Couche-Tard Inc.	1.5
Manulife Financial Corporation	1.5
Government of Canada 0.500% Mar 1 2022	1.4
Sun Life Financial Inc.	1.3
Waste Connections Inc.	1.2
Brookfield Property Partners LP	1.2
Goldcorp Inc.	1.1
Rogers Communications Inc., Class B	1.1
Canada Housing Trust No. 1 1.250% Jun 15 2021	1.1
Quebecor Inc., Class B	1.1
Brookfield Infrastructure Partners LP	1.1
Stantec Inc.	1.0
CCL Industries, Class B	0.9
<b>Top 25 Holdings</b>	<b>47.9</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).

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, 2016***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 8, 2017.

**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

The Fund has multiple risks associated with investing in various asset classes. These risks are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment 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 \$862 million as of December 31, 2016, from \$791 million at the end of 2015. The increase was due mainly to investment returns.

Over the past year, the Fund's Series O units gained 8.5%, which outperformed the 8.1% rise in the benchmark. The broad-based index rose 1.7%. 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.

Investors witnessed an abundance of political and macroeconomic headlines in 2016. Early in the year, the European Central Bank announced a series of measures aimed at bolstering economic growth, followed by the decision in June by U.K. voters to leave the EU ("Brexit") and, in November, Donald Trump's election as U.S. president. In December, the U.S. Federal Reserve raised short-term rates for the first time in 12 months and hinted that more hikes were coming.

Growth in the Canadian economy remained soft for much of 2016, weighed down by weak oil prices at the beginning of the year and the consequent drop in exports.

The Fund's overweight position in equities and underweight position in fixed income had a neutral impact on performance. Global sovereign bonds ended 2016 with gains, as a rally fueled by central-bank purchases and economic concerns present for much of the year was offset by big price drops after the U.S. presidential election in November. Government-bond yields, which move in the opposite direction as prices, touched their lows during the summer following Brexit but rose steadily after mid-year. Yields then surged after Trump's surprise win led to speculation that increased fiscal spending and other measures would lead to faster economic growth and inflation. Canadian federal-government bonds underperformed U.S. Treasury securities, due in part to expectations that higher oil prices might lead to faster domestic inflation. Both of the Fund's fixed-income holdings contributed positively to returns, led by the Phillips, Hager & North Bond Fund.

Global stocks rose in 2016, with Canada's market being one of the strongest after oil prices rebounded beginning in the first quarter. U.S. markets also gained while European equities generally fell, adjusted for the Canadian dollar. Stocks declined immediately after Brexit, but quickly recovered to end the year above pre-Brexit levels. The Canadian dollar rose modestly against the U.S. dollar amid higher oil prices. The Fund's equity segment had a positive impact on returns, led by the Phillips, Hager & North Canadian Equity Underlying Fund.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed income remains unimpressive, in the view of the portfolio manager. The possibility that a Trump administration could lead to a significant increase in earnings, and therefore equity prices, shouldn't be ignored. In the portfolio manager's view, the total-return prospects for equities are much more compelling than for bonds, so the Fund's asset mix remains overweight stocks.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series C units were renamed Series A units.

## **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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>18.63</b>	<b>0.53</b>	<b>(0.38)</b>	<b>0.51</b>	<b>0.51</b>	<b>1.17</b>	<b>(0.06)</b>	<b>(0.20)</b>	<b>(0.25)</b>	–	<b>(0.51)</b>	<b>19.31</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>18.64</b>	<b>0.53</b>	<b>(0.38)</b>	<b>0.51</b>	<b>0.55</b>	<b>1.21</b>	<b>(0.06)</b>	<b>(0.19)</b>	<b>(0.22)</b>	–	<b>(0.47)</b>	<b>19.36</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>18.47</b>	<b>0.53</b>	<b>(0.16)</b>	<b>0.51</b>	<b>0.53</b>	<b>1.41</b>	<b>(0.08)</b>	<b>(0.28)</b>	<b>(0.26)</b>	–	<b>(0.62)</b>	<b>19.26</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>18.46</b>	<b>0.53</b>	<b>(0.17)</b>	<b>0.51</b>	<b>0.50</b>	<b>1.37</b>	<b>(0.08)</b>	<b>(0.27)</b>	<b>(0.26)</b>	–	<b>(0.61)</b>	<b>19.24</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>18.26</b>	<b>0.53</b>	–	<b>0.51</b>	<b>0.49</b>	<b>1.53</b>	<b>(0.11)</b>	<b>(0.40)</b>	<b>(0.25)</b>	–	<b>(0.76)</b>	<b>19.05</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>19.31</b>	<b>24 070</b>	<b>1 246</b>	<b>2.01</b>	<b>2.01</b>	<b>14.33</b>	<b>0.08</b>
Dec. 31, 2015	18.63	24 677	1 325	2.00	2.00	17.64	0.08
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>19.36</b>	<b>12 629</b>	<b>652</b>	<b>2.02</b>	<b>2.02</b>	<b>14.33</b>	<b>0.08</b>
Dec. 31, 2015	18.64	5 881	316	2.00	2.00	17.64	0.08
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>19.26</b>	<b>775 562</b>	<b>40 274</b>	<b>0.88</b>	<b>0.88</b>	<b>14.33</b>	<b>0.08</b>
Dec. 31, 2015	18.47	713 802	38 649	0.88	0.88	17.64	0.08
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>19.24</b>	<b>11 697</b>	<b>608</b>	<b>0.92</b>	<b>0.92</b>	<b>14.33</b>	<b>0.08</b>
Dec. 31, 2015	18.46	7 085	384	0.92	0.92	17.64	0.08
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>19.05</b>	<b>38 263</b>	<b>2 009</b>	<b>0.04</b>	<b>0.04</b>	<b>14.33</b>	<b>0.08</b>
Dec. 31, 2015	18.26	39 081	2 140	0.04	0.04	17.64	0.08
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

<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 A	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	0.75%	33%	67%
Series F	0.75%	—	100%

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

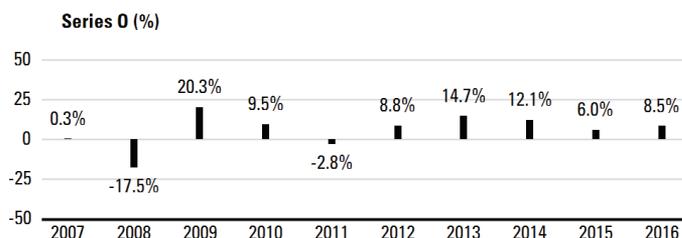
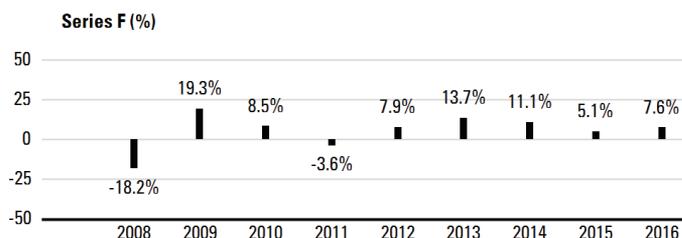
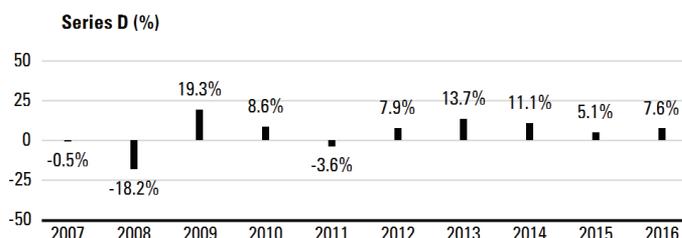
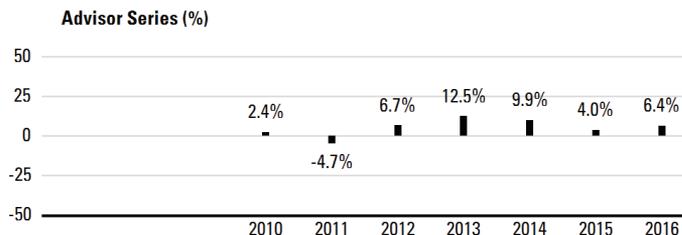
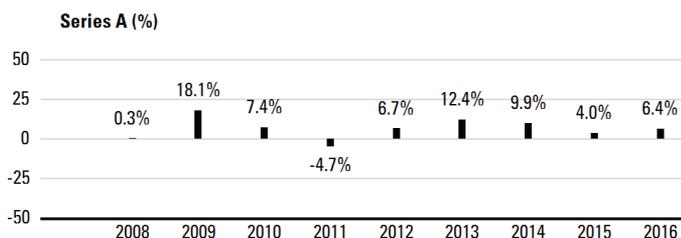
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	6.4	6.7	7.8	—	7.3
Benchmark	8.1	7.4	8.4	—	8.5
Broad-based index	1.7	4.6	3.2	—	5.0
Advisor Series	6.4	6.7	7.9	—	5.9
Benchmark	8.1	7.4	8.4	—	7.0
Broad-based index	1.7	4.6	3.2	—	4.0
Series D	7.6	7.9	9.1	4.6	—
Benchmark	8.1	7.4	8.4	5.1	—
Broad-based index	1.7	4.6	3.2	4.8	—
Series F	7.6	7.9	9.0	—	5.2
Benchmark	8.1	7.4	8.4	—	5.3
Broad-based index	1.7	4.6	3.2	—	4.9
Series O	8.5	8.8	10.0	5.5	—
Benchmark	8.1	7.4	8.4	5.1	—
Broad-based index	1.7	4.6	3.2	4.8	—

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 A 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.

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

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Bonds	37.3
Canadian Equities	31.1
Global Equities	30.8
Cash/Other	0.8

**Top 25 Holdings\***

	% of Net Asset Value
Phillips, Hager & North Bond Fund	35.6
Phillips, Hager & North Canadian Equity Underlying Fund	31.1
RBC Global Equity Focus Fund	20.2
RBC QUBE Global Equity Fund	6.8
RBC Emerging Markets Equity Fund	3.8
RBC High Yield Bond Fund	1.5
Phillips, Hager & North Canadian Money Market Fund	0.5
Cash & Cash Equivalents	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

**PHILLIPS, HAGER & NORTH  
COMMUNITY VALUES BALANCED FUND***December 31, 2016***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 8, 2017.

**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 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

The Fund has multiple risks associated with investing in various asset classes. These risks are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment 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 \$76 million as of December 31, 2016, from \$61 million at the end of 2015. The increase was due to a mix of net inflows and investment returns.

Over the past year, the Fund's Series O units gained 8.4%, which outperformed the 8.0% rise in the benchmark. The broad-based index rose 1.7%. 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.

Investors witnessed an abundance of political and macroeconomic headlines in 2016. Early in the year, the European Central Bank announced a series of measures aimed at bolstering economic growth, followed by the decision in June by U.K. voters to leave the EU ("Brexit") and, in November, Donald Trump's election as U.S. president. In December, the U.S. Federal Reserve raised short-term rates for the first time in 12 months and hinted that more hikes were coming.

Growth in the Canadian economy remained soft for much of 2016, weighed down by weak oil prices at the beginning of the year and the consequent drop in exports.

The Fund's overweight position in equities and underweight position in fixed income had a neutral impact on performance. Global sovereign bonds ended 2016 with gains, as a rally fueled by central-bank purchases and economic concerns present for much of the year was offset by big price drops after the U.S. presidential election in November. Government-bond yields, which move in the opposite direction as prices, touched their lows during the summer following Brexit but rose steadily after mid-year. Yields then surged after Trump's surprise win led to speculation that increased fiscal spending and other measures would lead to faster economic growth and inflation. Canadian federal-government bonds underperformed U.S. Treasury securities, due in part to expectations that higher oil prices might lead to faster domestic inflation. The Fund's sole fixed-income holding, the Phillips, Hager & North Community Values Bond Fund, positively impacted performance.

Global stocks rose in 2016, with Canada's market being one of the strongest after oil prices rebounded beginning in the first quarter. U.S. markets also gained while European equities generally fell, adjusted for the Canadian dollar. Stocks declined immediately after Brexit, but quickly recovered to end the year above pre-Brexit levels. The Canadian dollar rose modestly against the U.S. dollar amid higher oil prices. The Fund's equity segment had a positive impact on returns, led by the Phillips, Hager & North Community Values Canadian Equity Fund.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed income remains unimpressive, in the view of the portfolio manager. The possibility that a Trump administration could lead to a significant increase in earnings, and therefore equity prices, shouldn't be ignored. In the portfolio manager's view, the total-return prospects for equities are much more compelling than for bonds, so the Fund's asset mix remains overweight stocks.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>14.55</b>	<b>0.38</b>	<b>(0.30)</b>	<b>0.35</b>	<b>0.50</b>	<b>0.93</b>	<b>(0.01)</b>	<b>(0.04)</b>	<b>(0.24)</b>	–	<b>(0.29)</b>	<b>15.19</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>14.56</b>	<b>0.38</b>	<b>(0.30)</b>	<b>0.35</b>	<b>0.59</b>	<b>1.02</b>	<b>(0.01)</b>	<b>(0.05)</b>	<b>(0.23)</b>	–	<b>(0.29)</b>	<b>15.20</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>14.35</b>	<b>0.38</b>	<b>(0.14)</b>	<b>0.35</b>	<b>0.52</b>	<b>1.11</b>	<b>(0.04)</b>	<b>(0.19)</b>	<b>(0.23)</b>	–	<b>(0.46)</b>	<b>14.97</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>14.55</b>	<b>0.38</b>	<b>(0.14)</b>	<b>0.35</b>	<b>0.57</b>	<b>1.16</b>	<b>(0.04)</b>	<b>(0.19)</b>	<b>(0.23)</b>	–	<b>(0.46)</b>	<b>15.18</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>14.39</b>	<b>0.38</b>	<b>(0.02)</b>	<b>0.35</b>	<b>0.50</b>	<b>1.21</b>	<b>(0.06)</b>	<b>(0.30)</b>	<b>(0.23)</b>	–	<b>(0.59)</b>	<b>15.01</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>15.19</b>	<b>10 057</b>	<b>662</b>	<b>2.14</b>	<b>2.14</b>	<b>14.06</b>	<b>0.08</b>
Dec. 31, 2015	14.55	8 395	577	2.15	2.16	16.27	0.07
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>15.20</b>	<b>8 012</b>	<b>527</b>	<b>2.14</b>	<b>2.14</b>	<b>14.06</b>	<b>0.08</b>
Dec. 31, 2015	14.56	4 500	309	2.15	2.16	16.27	0.07
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>14.97</b>	<b>22 819</b>	<b>1 525</b>	<b>1.03</b>	<b>1.03</b>	<b>14.06</b>	<b>0.08</b>
Dec. 31, 2015	14.35	19 596	1 366	1.03	1.04	16.27	0.07
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>15.18</b>	<b>6 469</b>	<b>426</b>	<b>1.04</b>	<b>1.04</b>	<b>14.06</b>	<b>0.08</b>
Dec. 31, 2015	14.55	2 153	148	1.02	1.03	16.27	0.07
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>15.01</b>	<b>28 577</b>	<b>1 904</b>	<b>0.22</b>	<b>0.22</b>	<b>14.06</b>	<b>0.08</b>
Dec. 31, 2015	14.39	25 897	1 799	0.22	0.23	16.27	0.07
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

<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 A	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	0.75%	33%	67%
Series F	0.75%	—	100%

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

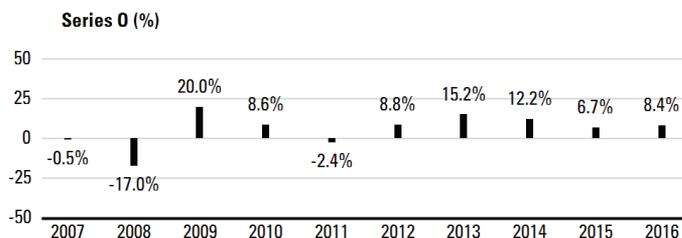
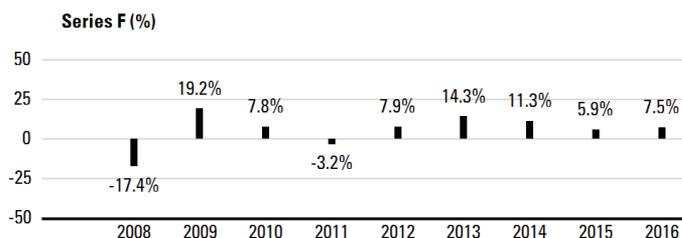
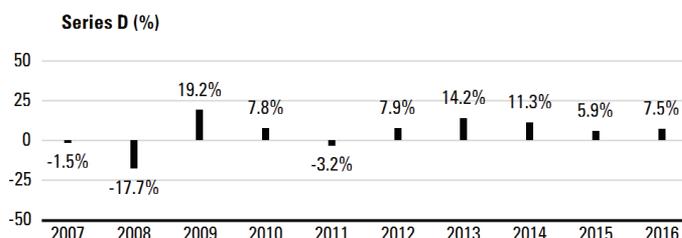
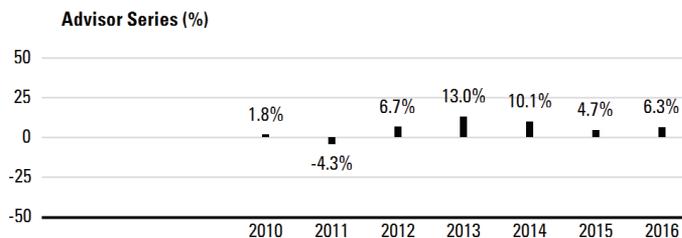
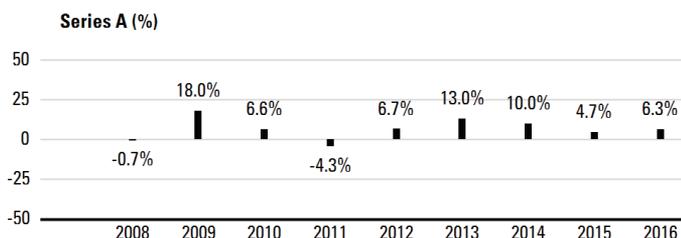
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



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

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	6.3	7.0	8.1	—	7.3
Benchmark	8.0	7.6	8.7	—	8.6
Broad-based index	1.7	4.6	3.2	—	5.0
Advisor Series	6.3	7.0	8.1	—	6.1
Benchmark	8.0	7.6	8.7	—	7.4
Broad-based index	1.7	4.6	3.2	—	4.0
Series D	7.5	8.2	9.3	4.6	—
Benchmark	8.0	7.6	8.7	5.1	—
Broad-based index	1.7	4.6	3.2	4.8	—
Series F	7.5	8.2	9.3	—	5.4
Benchmark	8.0	7.6	8.7	—	5.5
Broad-based index	1.7	4.6	3.2	—	4.9
Series O	8.4	9.1	10.2	5.5	—
Benchmark	8.0	7.6	8.7	5.1	—
Broad-based index	1.7	4.6	3.2	4.8	—

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 A 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.

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

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Bonds	37.0
Canadian Equities	31.1
Global Equities	30.8
Cash/Other	1.1

**Top 25 Holdings\***

	% of Net Asset Value
Phillips, Hager & North Community Values Bond Fund	37.0
Phillips, Hager & North Community Values Canadian Equity Fund	31.1
Phillips, Hager & North Community Values Global Equity Fund	30.8
Cash & Cash Equivalents	1.1
Total	100.0

\* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.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, 2016***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 8, 2017.

**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 rose to \$2.6 billion as of December 31, 2016, from \$2.3 billion at the end of 2015. The increase was due to investment returns.

Over the past year, the Fund's Series O units gained 23.5%, which outperformed the 21.1% 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 equity markets fluctuated considerably in 2016, though a majority of indexes ultimately finished higher. The S&P/TSX Composite Index outperformed most markets, buoyed by a recovery in commodities prices. The S&P 500 Index ended the year strong, surging to all-time highs following the U.S. presidential election. The strength in equity markets reflected a shift that began earlier in the year as investors began to favour economically sensitive sectors such as Materials, Industrials and Financials. This rotation suggested that the U.S. economic outlook was improving, given expected tax cuts and increased infrastructure spending under President-elect Trump, while fiscal stimulus is likely to be a global trend.

The best relative-performing sectors in the Fund were Health Care, Information Technology and Utilities. Industrials, Materials and Real Estate underperformed relative to the benchmark.

The Fund's performance for the year was driven by investments including Bank of Nova Scotia, PrairieSky Royalty and Russel Metals.

Bank of Nova Scotia, one of Canada's five big financial institutions, benefited from strong momentum in its Canadian banking business and improvements in international banking. PrairieSky Royalty performed well due to its strong balance sheet and diversified energy assets, and was further buoyed by increasing oil prices. Russel Metals, one of the largest metals-distribution companies in North America, performed well on the back of rising steel prices, as well as from the potential for higher U.S. infrastructure spending and a tightening global market.

Holdings that negatively affected the Fund's returns included Brookfield Asset Management, CI Financial and Cott.

During the first half of the year, the portfolio manager was active in adding positions or increasing the weights in several existing holdings, while eliminating or trimming other positions. New investments in the portfolio included Enercare, OpenText and Waste Connections. Positions in Great-West Lifeco, Husky Energy and Veresen were eliminated.

### Recent Developments

Equity markets have continued to march higher on the back of improved economic data and investor sentiment. While the investment environment has improved, the populist victories in the U.K. referendum and U.S. election add uncertainty. In the U.S., the U.S. Federal Reserve raised interest rates in December for the first time in a year, and has indicated its intention to continue raising them at a gradual pace, as long as economic data is strong enough. However, interest rates globally continue to remain at historically low levels.

The Trump victory produces the potential for a significant shift in U.S. public policy. Fiscal stimulus in the form of tax cuts and infrastructure spending should provide a boost to short-term growth, while fewer government regulations could further enhance it. On the other hand, protectionist trade policies, higher interest rates and a stronger U.S. dollar could offset some of the potential positives. Financial markets have, for now, decided to focus on the positive potential, responding to the election with renewed optimism as seen by the surge in stock prices.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

### **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 A, 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.

#### ***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$44,000 (2015 – \$34,000), or 7% (2015 – 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.

**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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>87.03</b>	<b>3.39</b>	<b>(1.84)</b>	<b>1.66</b>	<b>14.96</b>	<b>18.17</b>	—	<b>(1.44)</b>	—	—	<b>(1.44)</b>	<b>103.90</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>87.06</b>	<b>3.40</b>	<b>(1.84)</b>	<b>1.66</b>	<b>14.69</b>	<b>17.91</b>	—	<b>(1.44)</b>	—	—	<b>(1.44)</b>	<b>103.91</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>86.24</b>	<b>3.36</b>	<b>(1.00)</b>	<b>1.64</b>	<b>14.84</b>	<b>18.84</b>	—	<b>(2.29)</b>	—	—	<b>(2.29)</b>	<b>102.91</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>86.92</b>	<b>3.39</b>	<b>(0.79)</b>	<b>1.66</b>	<b>15.17</b>	<b>19.43</b>	—	<b>(2.52)</b>	—	—	<b>(2.52)</b>	<b>103.73</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>84.92</b>	<b>3.31</b>	<b>(0.02)</b>	<b>1.62</b>	<b>14.68</b>	<b>19.59</b>	—	<b>(3.26)</b>	—	—	<b>(3.26)</b>	<b>101.31</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>103.90</b>	<b>74 417</b>	<b>716</b>	<b>1.94<sup>4</sup></b>	<b>1.94</b>	<b>11.19</b>	<b>0.03</b>
Dec. 31, 2015	87.03	59 220	680	2.03	2.03	5.28	0.01
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>103.91</b>	<b>10 934</b>	<b>105</b>	<b>1.94<sup>4</sup></b>	<b>1.94</b>	<b>11.19</b>	<b>0.03</b>
Dec. 31, 2015	87.06	6 470	74	2.03	2.03	5.28	0.01
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>102.91</b>	<b>1 681 957</b>	<b>16 344</b>	<b>1.07<sup>4</sup></b>	<b>1.07</b>	<b>11.19</b>	<b>0.03</b>
Dec. 31, 2015	86.24	1 498 563	17 377	1.16	1.16	5.28	0.01
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>103.73</b>	<b>46 199</b>	<b>445</b>	<b>0.84<sup>4</sup></b>	<b>0.84</b>	<b>11.19</b>	<b>0.03</b>
Dec. 31, 2015	86.92	32 131	370	0.93	0.93	5.28	0.01
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>101.31</b>	<b>773 160</b>	<b>7 632</b>	<b>0.02</b>	<b>0.02</b>	<b>11.19</b>	<b>0.03</b>
Dec. 31, 2015	84.92	667 635	7 862	0.02	0.02	5.28	0.01
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.87%, Advisor Series – 1.87%, Series D – 0.99% and Series F – 0.76%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

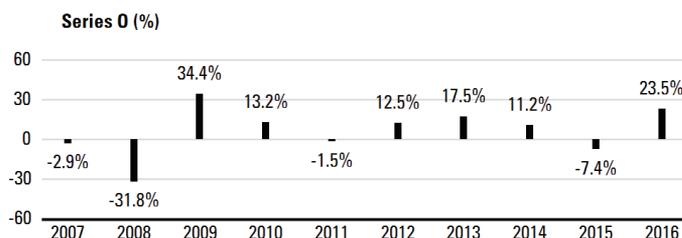
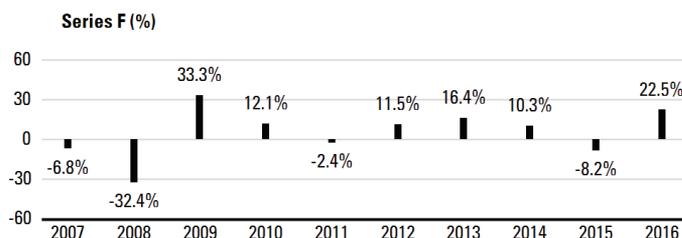
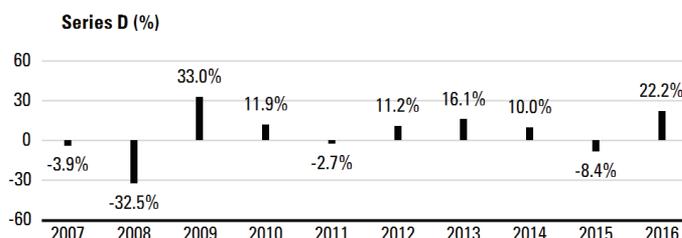
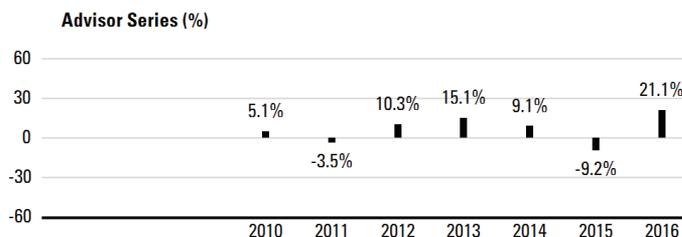
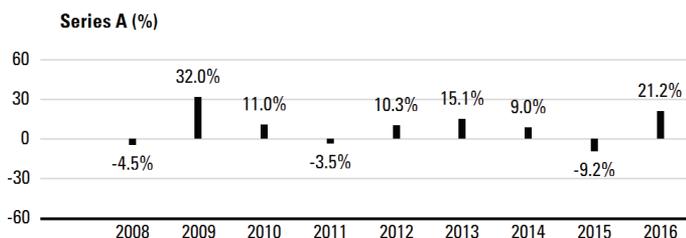
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	21.2	6.3	8.8	—	9.3
Benchmark	21.1	7.1	8.2	—	9.6
Advisor Series	21.1	6.2	8.8	—	7.3
Benchmark	21.1	7.1	8.2	—	6.2
Series D	22.2	7.2	9.7	4.1	—
Benchmark	21.1	7.1	8.2	4.7	—
Series F	22.5	7.4	10.0	—	4.2
Benchmark	21.1	7.1	8.2	—	4.0
Series O	23.5	8.4	11.0	5.3	—
Benchmark	21.1	7.1	8.2	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.

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Financials	43.2
Energy	19.1
Industrials	7.7
Utilities	5.6
Telecommunication Services	5.1
Materials	4.3
Consumer Discretionary	4.1
Consumer Staples	3.7
Real Estate	3.5
Information Technology	0.6
Health Care	0.3
Cash/Other	2.8

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	8.5
Toronto-Dominion Bank	8.0
Bank of Nova Scotia	5.6
Canadian National Railway Co.	4.6
Bank of Montreal	4.0
Brookfield Asset Management Inc., Class A	3.6
Suncor Energy Inc.	3.4
Enbridge Inc.	3.4
Manulife Financial Corporation	3.0
TransCanada Corp.	3.0
Canadian Imperial Bank of Commerce	2.7
BCE Inc.	2.4
Cash & Cash Equivalents	2.4
Sun Life Financial Inc.	2.1
Canadian Natural Resources Ltd.	1.9
Loblaw Companies Ltd.	1.8
Magna International Inc., Class A	1.7
TELUS Corp.	1.6
Intact Financial Corp.	1.4
Canadian Pacific Railway Ltd.	1.3
Thomson Corp.	1.2
Power Corporation of Canada	1.2
Rogers Communications Inc., Class B	1.1
Brookfield Infrastructure Partners LP	1.1
Waste Connections Inc.	1.1
Top 25 Holdings	72.1

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 EQUITY FUND***December 31, 2016***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 8, 2017.

**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 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 rose to \$1.2 billion as of December 31, 2016, from \$1.0 billion at the end of 2015. The increase was due to investment returns, partially offset by net redemptions.

Over the past year, the Fund's Series O units gained 23.7%, which outperformed the 21.1% 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/TSX Composite Index ended 2016 as one of the best-performing global equity markets and, at times, flirted with the all-time highs recorded in 2014. In a year where macroeconomic events were difficult to predict, let alone investors' reaction to them, the final months of the year did not disappoint, with Donald Trump's surprise U.S. election win and OPEC's agreement to cut supply sending oil prices significantly higher. With bond yields increasing and the focus moving toward a better economy, interest-sensitive and cyclical stocks surged, while those with more visible cash flows and higher valuations stalled.

The Fund's overweight position in the Energy sector was among the leading contributors to relative performance in 2016. Key positions in exploration and production companies such as Seven Generations Energy, ARC Resources and PrairieSky Royalty contributed to performance, as these companies benefited from the price of oil nearly doubling after hitting a low of US\$26 in February. Oil rallied from the February lows, and the Energy sector finished the year as one of the best-performing sectors. The Financials sector was also a leading contributor to relative performance during the period. Rising

interest rates drove the Financials sector, with the biggest gains coming from bank and insurance stocks. The Fund's positioning in both industries contributed to relative performance.

The Materials sector had a negative impact on the Fund's relative returns, as an underweight position in the surging mining industry held back returns when metals prices surged. An underweight position in Barrick Gold was negative for the Fund's relative returns. The Consumer Staples sector also had a negative impact on relative performance. The Fund's position in Empire Co. dropped significantly in the final quarter of 2016 as the company's Sobeys grocery chain failed to integrate the acquisition of Safeway.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. This is a welcome change compared with the investing environment that was in place at the beginning of 2016, when fears about China, U.S. rate hikes and weak economic figures led to a sharp correction in financial markets. Contrary to popular perceptions, this new market direction began before the populist victories in the U.K. referendum and U.S. election. A number of trends that pre-date those events suggest that the outlook for the economy and markets has been improving since earlier in 2016 and were further punctuated by Trump's victory.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

## **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 A, 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.

### ***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$78,000 (2015 – \$41,000), or 10% (2015 – 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;
- (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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>84.33</b>	<b>2.53</b>	<b>(1.78)</b>	<b>2.64</b>	<b>14.23</b>	<b>17.62</b>	—	<b>(0.67)</b>	—	—	<b>(0.67)</b>	<b>101.67</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>84.36</b>	<b>2.53</b>	<b>(1.78)</b>	<b>2.64</b>	<b>14.53</b>	<b>17.92</b>	—	<b>(0.67)</b>	—	—	<b>(0.67)</b>	<b>101.71</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>81.84</b>	<b>2.46</b>	<b>(0.95)</b>	<b>2.57</b>	<b>14.18</b>	<b>18.26</b>	—	<b>(1.56)</b>	—	—	<b>(1.56)</b>	<b>98.61</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>83.52</b>	<b>2.52</b>	<b>(0.76)</b>	<b>2.63</b>	<b>14.69</b>	<b>19.08</b>	—	<b>(1.79)</b>	—	—	<b>(1.79)</b>	<b>100.68</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>81.34</b>	<b>2.46</b>	<b>(0.02)</b>	<b>2.57</b>	<b>14.08</b>	<b>19.09</b>	—	<b>(2.56)</b>	—	—	<b>(2.56)</b>	<b>98.04</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>101.67</b>	<b>22 124</b>	<b>218</b>	<b>1.93<sup>4</sup></b>	<b>1.93</b>	<b>35.41</b>	<b>0.08</b>
Dec. 31, 2015	84.33	18 743	222	2.02	2.02	26.84	0.07
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>101.71</b>	<b>1 412</b>	<b>14</b>	<b>1.93<sup>4</sup></b>	<b>1.93</b>	<b>35.41</b>	<b>0.08</b>
Dec. 31, 2015	84.36	1 087	13	2.02	2.02	26.84	0.07
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>98.61</b>	<b>509 894</b>	<b>5 171</b>	<b>1.06<sup>4</sup></b>	<b>1.06</b>	<b>35.41</b>	<b>0.08</b>
Dec. 31, 2015	81.84	448 506	5 480	1.15	1.15	26.84	0.07
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>100.68</b>	<b>10 109</b>	<b>100</b>	<b>0.83<sup>4</sup></b>	<b>0.83</b>	<b>35.41</b>	<b>0.08</b>
Dec. 31, 2015	83.52	7 583	91	0.92	0.92	26.84	0.07
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>98.04</b>	<b>613 835</b>	<b>6 261</b>	<b>0.02</b>	<b>0.02</b>	<b>35.41</b>	<b>0.08</b>
Dec. 31, 2015	81.34	565 810	6 956	0.02	0.02	26.84	0.07
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.86%, Advisor Series – 1.86%, Series D – 0.98% and Series F – 0.76%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

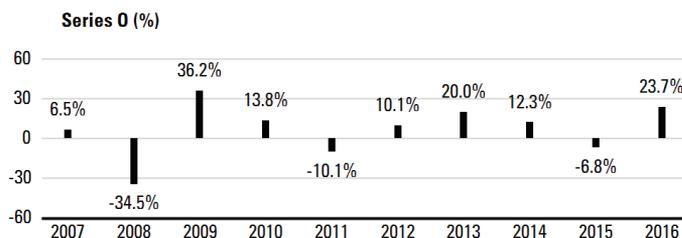
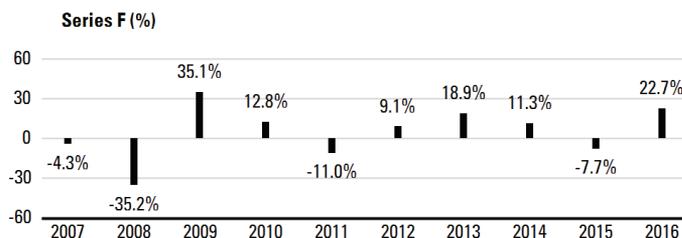
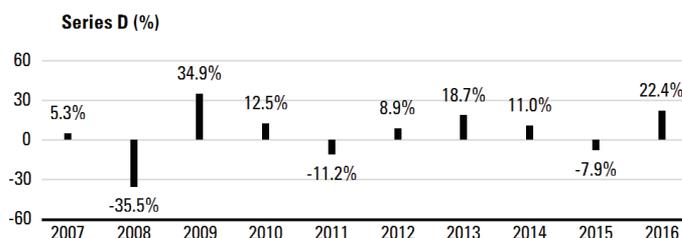
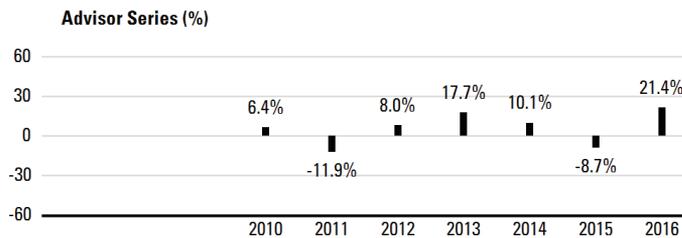
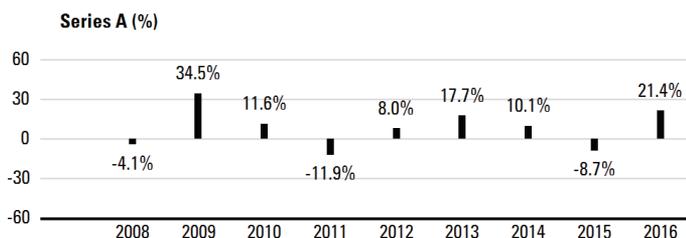
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	21.4	6.9	9.2	—	8.7
Benchmark	21.1	7.1	8.2	—	9.6
Advisor Series	21.4	6.9	9.2	—	6.2
Benchmark	21.1	7.1	8.2	—	6.2
Series D	22.4	7.8	10.1	4.0	—
Benchmark	21.1	7.1	8.2	4.7	—
Series F	22.7	8.0	10.4	—	3.4
Benchmark	21.1	7.1	8.2	—	4.0
Series O	23.7	9.0	11.3	5.2	—
Benchmark	21.1	7.1	8.2	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.

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Financials	38.1
Energy	23.2
Industrials	9.6
Materials	8.2
Consumer Discretionary	6.9
Information Technology	3.9
Consumer Staples	2.9
Utilities	2.6
Telecommunication Services	2.3
Real Estate	1.6
Cash/Other	0.7

**Top 25 Holdings**

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	12.3
Royal Bank of Canada	8.3
Toronto-Dominion Bank	7.7
Bank of Nova Scotia	5.1
Enbridge Inc.	4.7
Brookfield Asset Management Inc., Class A	3.6
Manulife Financial Corporation	3.6
Canadian National Railway Co.	2.9
Alimentation Couche-Tard Inc.	2.5
Canadian Natural Resources Ltd.	2.4
Crescent Point Energy Corp.	2.1
Sun Life Financial Inc.	2.0
Suncor Energy Inc.	2.0
Waste Connections Inc.	1.8
Pembina Pipeline Corp.	1.6
CGI Group Inc., Class A	1.5
Canadian Imperial Bank of Commerce	1.5
Cenovus Energy Inc.	1.4
TransCanada Corp.	1.4
Brookfield Property Partners LP	1.3
TELUS Corp.	1.2
Open Text Corp.	1.2
Tourmaline Oil Corp.	1.2
Seven Generations Energy Ltd.	1.1
National Bank of Canada	1.1
Top 25 Holdings	75.5

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).

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***December 31, 2016***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 8, 2017.

**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 rose to \$91 million as of December 31, 2016, from \$73 million at the end of 2015. The increase was due to investment returns.

Over the past year, the Fund's Series O units gained 24.9%, which outperformed the 21.1% 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/TSX Composite Index ended 2016 as one of the best-performing global equity markets and, at times, flirted with the all-time highs recorded in 2014. In a year where macroeconomic events were difficult to predict, let alone investors' reactions to them, the final months of the year did not disappoint, with Donald Trump's surprise U.S. election win and OPEC's agreement to cut supply sending oil prices significantly higher. With bond yields increasing and the focus moving toward a better economy, interest-sensitive and cyclical stocks surged, while those with more visible cash flows and higher valuations stalled.

The Fund's position in the Energy sector was among the leading contributors to relative performance in 2016. Key positions in exploration and production companies such as Seven Generations Energy, ARC Resources and PrairieSky Royalty contributed to performance, as these companies benefited from the price of oil nearly doubling after hitting a low of US\$26 in February. Oil rallied from the February lows, and the Energy sector finished the year as one of the best-performing sectors. The Fund's underweight

position in the Health Care sector contributed to performance, given a complete lack of holdings in poorly performing Valeant Pharmaceuticals.

The Materials sector had a negative impact on the Fund's relative performance returns, as an underweight position in the surging mining industry held back returns when metals prices surged. The Fund's complete lack of exposure to Barrick Gold was a big negative for the Fund's relative returns. The Consumer Staples sector also had a negative impact on relative performance. The Fund's position in Empire Co. dropped significantly in the final quarter of 2016 as the company's Sobeys grocery chain failed to integrate the acquisition of Safeway.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. This is a welcome change compared with the investing environment that was in place at the beginning of 2016, when fears about China, U.S. rate hikes and weak economic figures led to a sharp correction in financial markets. Contrary to popular perceptions, this new market direction began before the populist victories in the U.K. referendum and U.S. election. A number of trends that pre-date those events suggest that the outlook for the economy and markets has been improving since earlier in 2016 and were further punctuated by Trump's victory.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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.

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$7,000 (2015 – \$3,000), or 9% (2015 – 4%) 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>21.68</b>	<b>0.66</b>	<b>(0.47)</b>	<b>0.84</b>	<b>3.77</b>	<b>4.80</b>	–	<b>(0.15)</b>	–	–	<b>(0.15)</b>	<b>26.44</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>21.69</b>	<b>0.66</b>	<b>(0.47)</b>	<b>0.84</b>	<b>4.11</b>	<b>5.14</b>	–	<b>(0.15)</b>	–	–	<b>(0.15)</b>	<b>26.46</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>21.54</b>	<b>0.66</b>	<b>(0.26)</b>	<b>0.84</b>	<b>3.83</b>	<b>5.07</b>	–	<b>(0.38)</b>	–	–	<b>(0.38)</b>	<b>26.26</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>21.83</b>	<b>0.67</b>	<b>(0.20)</b>	<b>0.85</b>	<b>4.04</b>	<b>5.36</b>	–	<b>(0.45)</b>	–	–	<b>(0.45)</b>	<b>26.62</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>21.65</b>	<b>0.67</b>	<b>(0.03)</b>	<b>0.84</b>	<b>3.99</b>	<b>5.47</b>	–	<b>(0.64)</b>	–	–	<b>(0.64)</b>	<b>26.41</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>26.44</b>	<b>1 548</b>	<b>59</b>	<b>1.96<sup>4</sup></b>	<b>1.96</b>	<b>49.56</b>	<b>0.09</b>
Dec. 31, 2015	21.68	1 295	60	2.06	2.06	39.83	0.09
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>26.46</b>	<b>1 839</b>	<b>70</b>	<b>1.95<sup>4</sup></b>	<b>1.95</b>	<b>49.56</b>	<b>0.09</b>
Dec. 31, 2015	21.69	1 104	51	2.06	2.06	39.83	0.09
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>26.26</b>	<b>22 573</b>	<b>860</b>	<b>1.11<sup>4</sup></b>	<b>1.11</b>	<b>49.56</b>	<b>0.09</b>
Dec. 31, 2015	21.54	18 769	871	1.20	1.20	39.83	0.09
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>26.62</b>	<b>1 601</b>	<b>60</b>	<b>0.84<sup>4</sup></b>	<b>0.84</b>	<b>49.56</b>	<b>0.09</b>
Dec. 31, 2015	21.83	898	41	0.93	0.93	39.83	0.09
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>26.41</b>	<b>63 516</b>	<b>2 405</b>	<b>0.11</b>	<b>0.11</b>	<b>49.56</b>	<b>0.09</b>
Dec. 31, 2015	21.65	51 319	2 371	0.11	0.11	39.83	0.09
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.88%, Advisor Series – 1.88%, Series D – 1.03% and Series F – 0.77%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

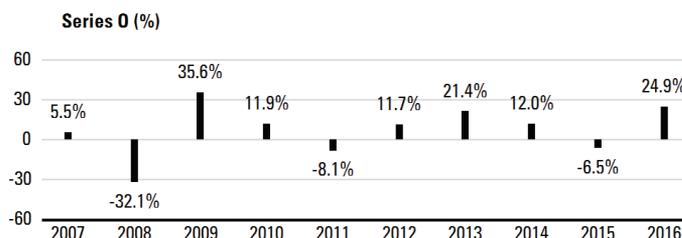
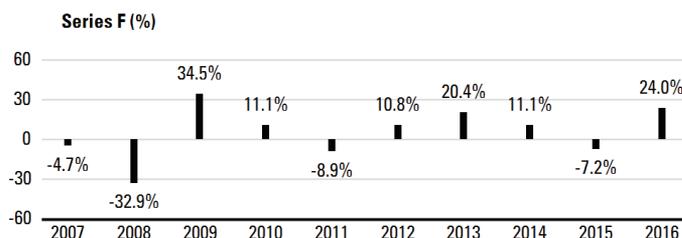
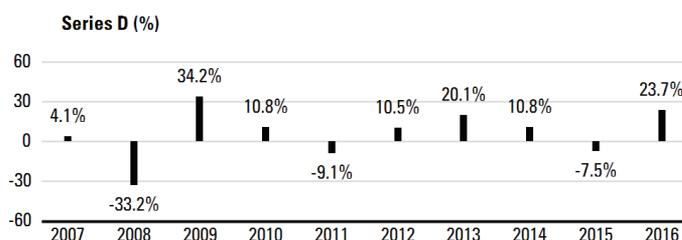
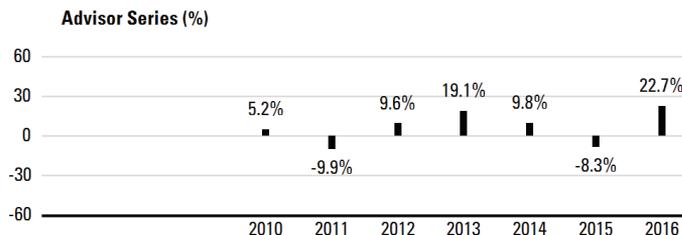
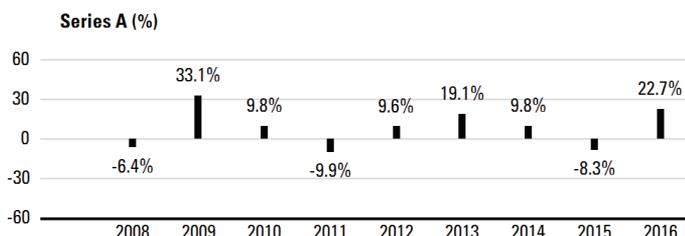
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**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, 2016, 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 A	22.7	7.3	10.0	–	8.9
Benchmark	21.1	7.1	8.2	–	9.6
Advisor Series	22.7	7.3	10.0	–	7.1
Benchmark	21.1	7.1	8.2	–	6.2
Series D	23.7	8.2	11.0	4.7	–
Benchmark	21.1	7.1	8.2	4.7	–
Series F	24.0	8.5	11.3	–	4.2
Benchmark	21.1	7.1	8.2	–	4.0
Series O	24.9	9.4	12.2	5.9	–
Benchmark	21.1	7.1	8.2	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.

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Financials	38.5
Energy	23.4
Industrials	10.5
Materials	7.8
Consumer Discretionary	6.8
Information Technology	3.8
Utilities	2.9
Telecommunication Services	2.3
Real Estate	1.9
Consumer Staples	0.4
Cash/Other	1.7

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	8.2
Toronto-Dominion Bank	7.6
Bank of Nova Scotia	5.0
Enbridge Inc.	4.7
Manulife Financial Corporation	3.8
Brookfield Asset Management Inc., Class A	3.7
Canadian National Railway Co.	2.9
Canadian Natural Resources Ltd.	2.4
Crescent Point Energy Corp.	2.2
Sun Life Financial Inc.	2.1
Waste Connections Inc.	2.0
Suncor Energy Inc.	1.9
CGI Group Inc., Class A	1.7
Pembina Pipeline Corp.	1.6
Cash & Cash Equivalents	1.6
Brookfield Property Partners LP	1.5
Element Fleet Management Corp.	1.5
Canadian Imperial Bank of Commerce	1.4
Cenovus Energy Inc.	1.4
Open Text Corp.	1.4
TransCanada Corp.	1.4
Fortis Inc.	1.3
Badger Daylighting Ltd.	1.3
Seven Generations Energy Ltd.	1.2
Quebecor Inc., Class B	1.2
Top 25 Holdings	65.0

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  
CANADIAN EQUITY VALUE FUND***December 31, 2016***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 8, 2017.

**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 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 \$1.2 billion as of December 31, 2016, from \$986 million at the end of 2015. The increase was due mainly to investment returns.

Over the past year, the Fund's Series O units gained 22.0%, which outperformed the 21.1% 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/TSX Composite Index, Canada's equity benchmark, outperformed most other global indexes during the year, as heavyweight sectors Financials, Energy and Materials all strengthened. Gold prices strengthened during the first half of the year, and then retrenched following Donald Trump's presidential victory in the U.S. His win saw the U.S. dollar surge due to the potential for a better economic environment. As well, bank stocks were positively impacted by Trump's win as his victory may have a meaningful impact on net interest margins and on bank regulations at a time when many Canadian banks have been spending on U.S. acquisitions.

During 2016, the Fund outperformed the index, primarily due to security selection in the Health Care sector. A lack of exposure to Valeant Pharmaceuticals and Concordia International proved beneficial as the companies' debt financed acquisition models came under scrutiny.

Offsetting this, the Fund underperformed in the Materials sector, primarily due to underweight positioning in the gold sector. Gold stocks as a whole have historically been difficult for value-oriented investors to own, as the price of gold is unpredictable and the companies in the sector have a poor track record of allocating capital.

In the Financials sector, an overweight position in Brookfield Asset Management hindered returns. During the year, investors rotated funds into more interest-rate sensitive names, at the expense of Brookfield Asset Management, whose real assets deteriorate in value in a rising interest rate environment.

In the Consumer Staples sector, a lack of exposure to Empire Company aided in performance. The company continued to struggle with executing and integrating their 2013 acquisition of Safeway, resulting in two significant write-downs of the asset, the CEO being removed and consultants hired to review cost savings opportunities.

**Recent Developments**

Market valuations, although elevated in absolute terms, are not inconsistent with a low-interest-rate, low-inflation environment. That said, the portfolio manager believes earnings acceleration will now be a key focus. In the Financials sector, the success of the banks' non-domestic businesses will likely be a key differentiator of performance. Concurrently, while OPEC's plan to cut output is a positive for the Energy sector, the portfolio manager will be watching the U.S. shale sector for signs of re-acceleration as the year progresses. The portfolio manager continues to believe that large companies with long-life reserves and strong balance sheets will deliver attractive levels of free cash as crude prices rally.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloepfer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series H units were re-designated to Series C units, followed by all Series C units being renamed Series A units, and Series I units were re-designated to Series F units.

**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 A, 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.

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$155,000 (2015 – \$69,000), or 16% (2015 – 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>11.75</b>	<b>0.37</b>	<b>(0.25)</b>	<b>0.26</b>	<b>1.96</b>	<b>2.34</b>	–	<b>(0.11)</b>	–	–	<b>(0.11)</b>	<b>13.96</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>11.74</b>	<b>0.37</b>	<b>(0.25)</b>	<b>0.27</b>	<b>1.90</b>	<b>2.29</b>	–	<b>(0.11)</b>	–	–	<b>(0.11)</b>	<b>13.95</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>11.89</b>	<b>0.38</b>	<b>(0.14)</b>	<b>0.27</b>	<b>1.95</b>	<b>2.46</b>	–	<b>(0.23)</b>	–	–	<b>(0.23)</b>	<b>14.13</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>11.91</b>	<b>0.38</b>	<b>(0.11)</b>	<b>0.27</b>	<b>2.02</b>	<b>2.56</b>	–	<b>(0.27)</b>	–	–	<b>(0.27)</b>	<b>14.15</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>11.80</b>	<b>0.38</b>	–	<b>0.27</b>	<b>1.96</b>	<b>2.61</b>	–	<b>(0.38)</b>	–	–	<b>(0.38)</b>	<b>14.02</b>
Dec. 31, 2015	13.38	0.39	–	0.47	(1.66)	(0.80)	–	(0.31)	(0.48)	–	(0.79)	11.80
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>13.96</b>	<b>15 014</b>	<b>1 076</b>	<b>1.93<sup>4</sup></b>	<b>1.93</b>	<b>42.91</b>	<b>0.08</b>
Dec. 31, 2015	11.75	9 252	787	2.03	2.03	43.12	0.09
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>13.95</b>	<b>223 263</b>	<b>16 004</b>	<b>1.95<sup>4</sup></b>	<b>1.95</b>	<b>42.91</b>	<b>0.08</b>
Dec. 31, 2015	11.74	216 457	18 432	2.03	2.03	43.12	0.09
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>14.13</b>	<b>80 409</b>	<b>5 691</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>42.91</b>	<b>0.08</b>
Dec. 31, 2015	11.89	64 665	5 437	1.19	1.19	43.12	0.09
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>14.15</b>	<b>136 240</b>	<b>9 630</b>	<b>0.85<sup>4</sup></b>	<b>0.85</b>	<b>42.91</b>	<b>0.08</b>
Dec. 31, 2015	11.91	91 336	7 667	0.94	0.94	43.12	0.09
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>14.02</b>	<b>727 850</b>	<b>51 899</b>	<b>0.02</b>	<b>0.02</b>	<b>42.91</b>	<b>0.08</b>
Dec. 31, 2015	11.80	591 951	50 166	0.04	0.04	43.12	0.09
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.87%, Advisor Series – 1.87%, Series D – 1.02% and Series F – 0.77%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

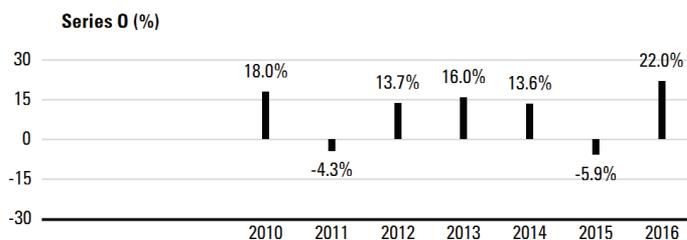
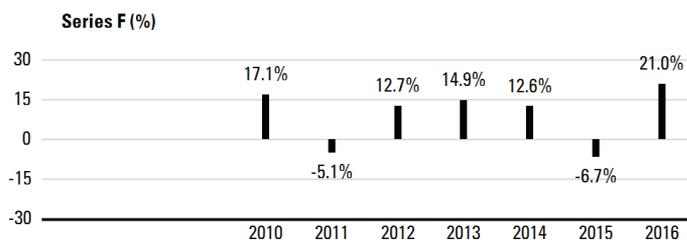
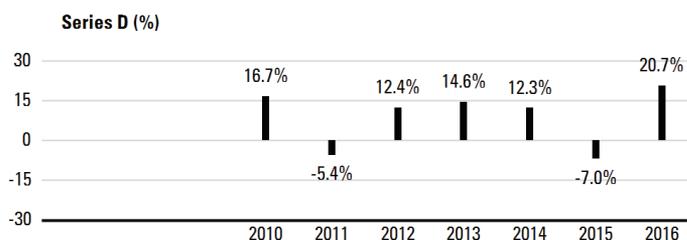
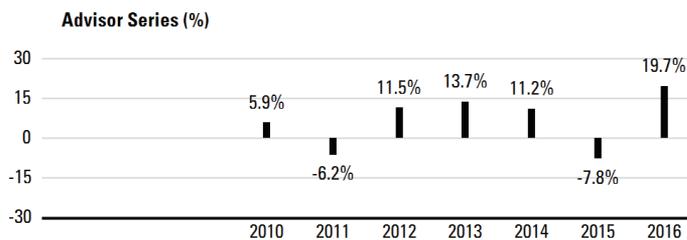
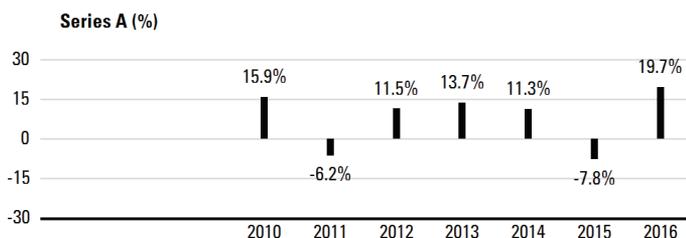
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	19.7	7.1	9.3	—	7.8
Benchmark	21.1	7.1	8.2	—	6.9
Advisor Series	19.7	7.1	9.2	—	7.3
Benchmark	21.1	7.1	8.2	—	6.2
Series D	20.7	8.1	10.2	—	8.7
Benchmark	21.1	7.1	8.2	—	6.9
Series F	21.0	8.3	10.5	—	9.0
Benchmark	21.1	7.1	8.2	—	6.9
Series O	22.0	9.3	11.5	—	10.0
Benchmark	21.1	7.1	8.2	—	6.9

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.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A, 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.

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016.

**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, 2016

**Investment Mix**

	% of Net Asset Value
Financials	38.4
Energy	21.6
Materials	8.4
Industrials	8.0
Consumer Discretionary	4.2
Consumer Staples	4.1
Utilities	3.2
Telecommunication Services	3.2
Information Technology	2.4
Real Estate	2.1
Health Care	0.5
Cash/Other	3.9

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	7.3
Toronto-Dominion Bank	6.4
Bank of Nova Scotia	4.9
Suncor Energy Inc.	4.1
Cash & Cash Equivalents	3.7
Bank of Montreal	3.7
Canadian National Railway Co.	3.6
Canadian Natural Resources Ltd.	3.1
Brookfield Asset Management Inc., Class A	3.0
Enbridge Inc.	3.0
TransCanada Corp.	2.7
Manulife Financial Corporation	2.7
Loblaw Companies Ltd.	1.9
BCE Inc.	1.9
Thomson Corp.	1.6
Barrick Gold Corp.	1.5
Canadian Imperial Bank of Commerce	1.4
Canadian Pacific Railway Ltd.	1.4
Waste Connections Inc.	1.4
Sun Life Financial Inc.	1.4
Power Corporation of Canada	1.4
Cenovus Energy Inc.	1.4
Fortis Inc.	1.3
Alimentation Couche-Tard Inc.	1.3
CGI Group Inc., Class A	1.2
Top 25 Holdings	67.3

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.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, 2016***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 8, 2017.

**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 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 rose to \$2.5 billion as of December 31, 2016, from \$2.4 billion at the end of 2015. The increase was due to investment returns.

Over the past year, the Fund's Series O units gained 23.9%, which outperformed the 21.1% 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/TSX Composite Index ended 2016 as one of the best-performing global equity markets and, at times, flirted with the all-time highs recorded in 2014. In a year where macroeconomic events were difficult to predict, let alone investors' reaction to them, the final months of the year did not disappoint, with Donald Trump's surprise U.S. election win and OPEC's agreement to cut supply sending oil prices significantly higher. With bond yields increasing and the focus moving toward a better economy, interest-sensitive and cyclical stocks surged, while those with more visible cash flows and higher valuations stalled.

The Fund's overweight position in the Energy sector was among the leading contributors to relative performance in 2016. Key positions in exploration and production companies such as Seven Generations Energy, ARC Resources and PrairieSky Royalty contributed to performance, as these companies benefited from the price of oil nearly doubling after hitting a low of US\$26 in February. Oil rallied from the February lows, and the Energy sector finished the year as

one of the best-performing sectors. The Fund's underweight position in the Health Care sector contributed to performance, given a relative lack of exposure to poorly performing Valeant Pharmaceuticals.

The Materials sector had a negative impact on the Fund's relative returns, as an underweight position in the surging mining industry held back returns when metals prices surged. An underweight position in Barrick Gold was negative for the Fund's relative returns. The Consumer Staples sector also had a negative impact on relative performance. The Fund's position in Empire Co. dropped significantly in the final quarter of 2016 as the company's Sobeys grocery chain failed to integrate the acquisition of Safeway.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. This is a welcome change compared with the investing environment that was in place at the beginning of 2016, when fears about China, U.S. rate hikes and weak economic figures led to a sharp correction in financial markets. Contrary to popular perceptions, this new market direction began before the populist victories in the U.K. referendum and U.S. election. A number of trends that pre-date those events suggest that the outlook for the economy and markets has been improving since earlier in 2016 and were further punctuated by Trump's victory.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

### 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.

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

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$194,000 (2015 – \$104,000), or 9% (2015 – 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;
- (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		
<b>Series 0</b>												
<b>Dec. 31, 2016</b>	<b>10.00</b>	<b>0.31</b>	–	<b>0.27</b>	<b>1.79</b>	<b>2.37</b>	<b>(0.02)</b>	<b>(0.32)</b>	<b>(0.28)</b>	–	<b>(0.62)</b>	<b>11.76</b>
Dec. 31, 2015	11.06	0.31	–	(0.05)	(1.00)	(0.74)	–	(0.31)	–	–	(0.31)	10.00
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

<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.

**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 0</b>							
<b>Dec. 31, 2016</b>	<b>11.76</b>	<b>2 507 856</b>	<b>213 190</b>	<b>0.02</b>	<b>0.02</b>	<b>40.13</b>	<b>0.09</b>
Dec. 31, 2015	10.00	2 387 979	238 883	0.02	0.02	29.58	0.07
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

<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.

**Management Fees**

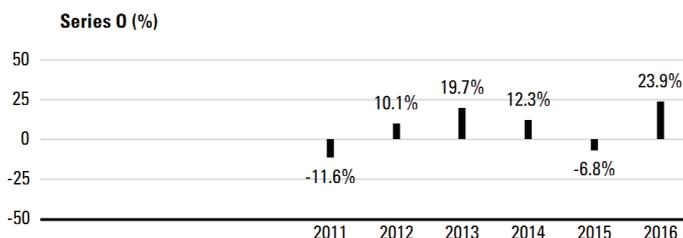
RBC GAM is the manager, portfolio manager and registrar of the Fund. No management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

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

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

**Year-by-Year Returns (%)**

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


**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0	23.9	9.0	11.3	—	7.2
Benchmark	21.1	7.1	8.2	—	5.1

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

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**

**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, 2016

**Investment Mix**

	% of Net Asset Value
Financials	38.0
Energy	22.8
Industrials	9.4
Materials	8.2
Consumer Discretionary	6.8
Information Technology	3.9
Consumer Staples	2.9
Utilities	2.6
Telecommunication Services	2.3
Real Estate	1.6
Cash/Other	1.5

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	8.3
Toronto-Dominion Bank	7.6
Bank of Nova Scotia	5.0
Enbridge Inc.	4.7
Manulife Financial Corporation	3.7
Brookfield Asset Management Inc., Class A	3.6
Canadian National Railway Co.	2.9
Alimentation Couche-Tard Inc.	2.5
Canadian Natural Resources Ltd.	2.3
Crescent Point Energy Corp.	2.1
Sun Life Financial Inc.	2.0
Suncor Energy Inc.	1.9
Waste Connections Inc.	1.8
Pembina Pipeline Corp.	1.6
CGI Group Inc., Class A	1.5
Canadian Imperial Bank of Commerce	1.5
Element Fleet Management Corp.	1.4
Cenovus Energy Inc.	1.4
TransCanada Corp.	1.3
Cash & Cash Equivalents	1.3
Brookfield Property Partners LP	1.3
TELUS Corp.	1.2
Seven Generations Energy Ltd.	1.2
Open Text Corp.	1.2
National Bank of Canada	1.1
<b>Top 25 Holdings</b>	<b>64.4</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, 2016***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 8, 2017.

**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 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 fell to \$1.3 billion as of December 31, 2016, from \$1.4 billion at the end of 2015. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 22.8%, which outperformed the 21.1% 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/TSX Composite Index ended 2016 as one of the best-performing global equity markets and, at times, flirted with the all-time highs recorded in 2014. In a year where macroeconomic events were difficult to predict, let alone investors' reaction to them, the final months of the year did not disappoint, with Donald Trump's surprise U.S. election win and OPEC's agreement to cut supply sending oil prices significantly higher. With bond yields increasing and the focus moving toward a better economy, interest-sensitive and cyclical stocks surged, while those with more visible cash flows and higher valuations stalled.

The Fund's overweight position in the Energy sector was among the leading contributors to relative performance in 2016. Key positions in exploration and production companies such as Seven Generations Energy, ARC Resources and PrairieSky Royalty contributed to performance, as these companies benefited from the price of oil nearly doubling after hitting a low of US\$26 in February. Oil rallied from the February lows, and the Energy sector finished the year as

one of the best-performing sectors. The Fund's underweight position in the Health Care sector contributed to performance, given a relative lack of exposure to poorly performing Valeant Pharmaceuticals.

The Materials sector had a negative impact on the Fund's relative returns, as an underweight position in the surging mining industry held back returns when metals prices surged. An underweight position in Barrick Gold was a big negative for the Fund's relative returns. The Consumer Staples sector also had a negative impact on relative performance. The Fund's position in Empire Co. dropped significantly in the final quarter of 2016 as the company's Sobeys grocery chain failed to integrate the acquisition of Safeway.

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**

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. This is a welcome change compared with the investing environment that was in place at the beginning of 2016, when fears about China, U.S. rate hikes and weak economic figures led to a sharp correction in financial markets. Contrary to popular perceptions, this new market direction began before the populist victories in the U.K. referendum and U.S. election. A number of trends that pre-date those events suggest that the outlook for the economy and markets has been improving since earlier in 2016 and were further punctuated by Trump's victory.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloepfer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

**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.

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$418,000 (2015 – \$159,000), or 8% (2015 – 4%) 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**  
**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		
<b>Series 0</b>												
<b>Dec. 31, 2016</b>	<b>8.52</b>	<b>0.27</b>	–	<b>0.33</b>	<b>1.42</b>	<b>2.02</b>	<b>(0.02)</b>	<b>(0.32)</b>	<b>(0.43)</b>	–	<b>(0.77)</b>	<b>9.70</b>
Dec. 31, 2015	9.64	0.29	–	(0.10)	(1.08)	(0.89)	–	(0.15)	(0.21)	–	(0.36)	8.52
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 0</b>							
<b>Dec. 31, 2016</b>	<b>9.70</b>	<b>1 339 928</b>	<b>138 170</b>	<b>0.02</b>	<b>0.02</b>	<b>172.58</b>	<b>0.37</b>
Dec. 31, 2015	8.52	1 399 198	164 149	0.02	0.02	171.02	0.47
Dec. 31, 2014 <sup>4</sup>	9.64	409 071	42 435	0.02	0.02	56.94	0.27

<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 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

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

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, 2016, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0	22.8	—	—	—	3.9
Benchmark	21.1	—	—	—	2.1

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

Series 0 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, 2016

**Investment Mix**

	% of Net Asset Value
Financials	35.6
Energy	23.0
Materials	8.8
Industrials	7.7
Consumer Discretionary	5.5
Information Technology	4.2
Utilities	4.2
Real Estate	3.3
Consumer Staples	3.2
Telecommunication Services	1.9
Cash/Other	2.6

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	7.8
Toronto-Dominion Bank	7.2
Enbridge Inc.	4.6
Canadian Imperial Bank of Commerce	4.3
Brookfield Asset Management Inc., Class A	4.0
Cenovus Energy Inc.	3.2
Manulife Financial Corporation	3.0
Alimentation Couche-Tard Inc.	3.0
Bank of Nova Scotia	2.5
Brookfield Property Partners LP	2.5
Cash & Cash Equivalents	2.4
Waste Connections Inc.	2.4
Crescent Point Energy Corp.	2.4
CGI Group Inc., Class A	2.4
Sun Life Financial Inc.	2.1
Pembina Pipeline Corp.	2.0
Seven Generations Energy Ltd.	1.9
CCL Industries, Class B	1.9
Rogers Communications Inc., Class B	1.9
Canadian Natural Resources Ltd.	1.9
Quebecor Inc., Class B	1.8
Canadian National Railway Co.	1.7
Stantec Inc.	1.6
Gildan Activewear Inc., Class A	1.5
Brookfield Infrastructure Partners LP	1.5
<b>Top 25 Holdings</b>	<b>71.5</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, 2016***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 8, 2017.

**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 \$576 million as of December 31, 2016, from \$510 million at the end of 2015. The increase was due to investment returns.

Over the past year, the Fund's Series O units gained 20.7%, which underperformed the 21.1% 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 equity markets fluctuated considerably in 2016, though a majority of indexes ultimately finished higher. The S&P/TSX Composite Index outperformed most markets, buoyed by a recovery in commodities prices. The S&P 500 Index ended the year strong, surging to all-time highs following the U.S. presidential election. The strength in equity markets reflected a shift that began earlier in the year as investors began to favour economically sensitive sectors such as Materials, Industrials and Financials. This rotation suggested that the U.S. economic outlook was improving, given expected tax cuts and increased infrastructure spending under President-elect Trump, while fiscal stimulus is likely to be a global trend.

The best relative-performing sectors in the Fund were Health Care, Materials and Utilities, while Consumer Discretionary, Consumer Staples and Information Technology underperformed the benchmark.

The Fund's performance during the year was driven by positions in Richmond Mines, Spin Master and StorageVault Canada.

Richmont Mines, a Canadian mining company, had an exceptional start to the year, buoyed by a rebound in gold prices. The portfolio manager sold the Fund's position after a strong run in the share price. Spin Master, a manufacturer and developer of toys and related products, has a robust product pipeline and the potential to both boost sales internationally and benefit from acquisitions. StorageVault Canada, the only publicly traded self-storage company in Canada, has the opportunity to consolidate the highly fragmented Canadian storage industry, which is profitable in most business environments.

Holdings that negatively affected the Fund's returns included Cara Operations, ProMetic Life Sciences and UrtheCast.

The portfolio manager added several stocks to the portfolio during the period, while eliminating or trimming other positions. Additions included Boralex, Norbord and Painted Pony Petroleum. Positions in CRH Medical, Element Fleet Management and Gildan Activewear were eliminated.

### Recent Developments

Equity markets have continued to march higher on the back of improved economic data and investor sentiment. While the investment environment has improved, the populist victories in the U.K. referendum and U.S. election add uncertainty. In the U.S., the U.S. Federal Reserve raised interest rates in December for the first time in a year and has indicated its intention to continue raising them at a gradual pace as long as economic data is strong enough. However, interest rates globally continue to remain at historically low levels.

The Trump victory produces the potential for a significant shift in U.S. public policy. Fiscal stimulus in the form of tax cuts and infrastructure spending should provide a boost to short-term growth, while fewer government regulations could further enhance it. On the other hand, protectionist trade policies, higher interest rates and a stronger U.S. dollar could offset some of the potential positives. Financial markets have, for now, decided to focus on the positive potential, responding to the election with renewed optimism as seen by the surge in stock prices.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

## **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 A, 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.

### ***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$24,000 (2015 – \$38,000), or 7% (2015 – 12%) 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>30.93</b>	<b>0.99</b>	<b>(0.63)</b>	<b>0.72</b>	<b>4.39</b>	<b>5.47</b>	—	<b>(0.33)</b>	—	—	<b>(0.33)</b>	<b>36.31</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>30.94</b>	<b>0.99</b>	<b>(0.64)</b>	<b>0.72</b>	<b>4.66</b>	<b>5.73</b>	—	<b>(0.33)</b>	—	—	<b>(0.33)</b>	<b>36.31</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>30.57</b>	<b>0.98</b>	<b>(0.36)</b>	<b>0.71</b>	<b>4.54</b>	<b>5.87</b>	—	<b>(0.62)</b>	—	—	<b>(0.62)</b>	<b>35.87</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>30.76</b>	<b>0.99</b>	<b>(0.27)</b>	<b>0.72</b>	<b>5.31</b>	<b>6.75</b>	—	<b>(0.73)</b>	—	—	<b>(0.73)</b>	<b>36.10</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>31.35</b>	<b>1.01</b>	<b>(0.02)</b>	<b>0.73</b>	<b>4.81</b>	<b>6.53</b>	—	<b>(1.02)</b>	—	—	<b>(1.02)</b>	<b>36.81</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>36.31</b>	<b>2 205</b>	<b>61</b>	<b>1.92<sup>4</sup></b>	<b>1.92</b>	<b>27.48</b>	<b>0.06</b>
Dec. 31, 2015	30.93	2 499	81	2.00	2.00	30.74	0.07
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>36.31</b>	<b>170</b>	<b>5</b>	<b>1.91<sup>4</sup></b>	<b>1.91</b>	<b>27.48</b>	<b>0.06</b>
Dec. 31, 2015	30.94	186	6	2.00	2.00	30.74	0.07
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>35.87</b>	<b>119 163</b>	<b>3 322</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>27.48</b>	<b>0.06</b>
Dec. 31, 2015	30.57	112 805	3 691	1.19	1.19	30.74	0.07
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>36.10</b>	<b>1 594</b>	<b>44</b>	<b>0.81<sup>4</sup></b>	<b>0.81</b>	<b>27.48</b>	<b>0.06</b>
Dec. 31, 2015	30.76	551	18	0.90	0.90	30.74	0.07
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>36.81</b>	<b>453 111</b>	<b>12 310</b>	<b>0.04</b>	<b>0.04</b>	<b>27.48</b>	<b>0.06</b>
Dec. 31, 2015	31.35	393 664	12 555	0.04	0.04	30.74	0.07
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.83%, Advisor Series – 1.83%, Series D – 1.02% and Series F – 0.74%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

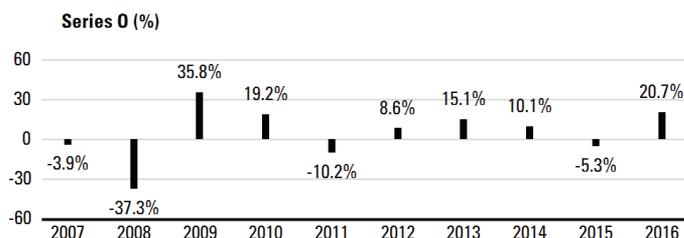
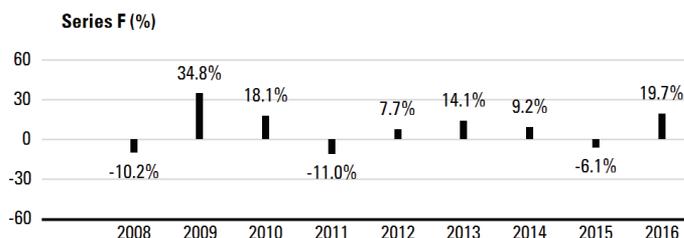
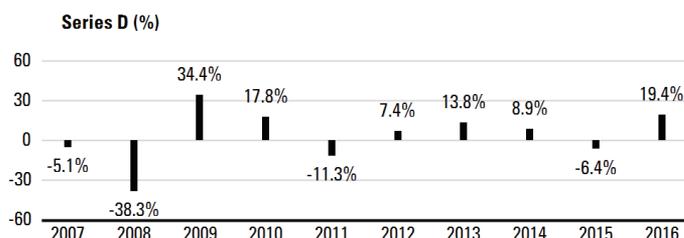
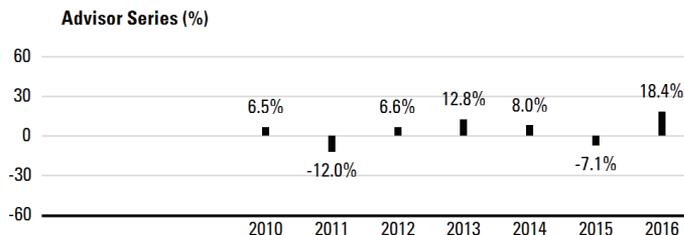
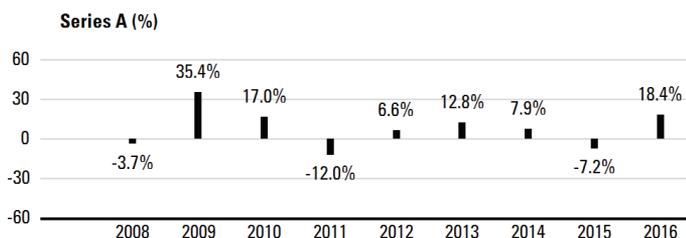
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	18.4	5.9	7.4	—	8.4
Benchmark	21.1	7.1	8.2	—	9.6
Advisor Series	18.4	5.9	7.4	—	4.8
Benchmark	21.1	7.1	8.2	—	6.2
Series D	19.4	6.8	8.3	2.0	—
Benchmark	21.1	7.1	8.2	4.7	—
Series F	19.7	7.1	8.6	—	8.3
Benchmark	21.1	7.1	8.2	—	8.9
Series O	20.7	8.0	9.5	3.2	—
Benchmark	21.1	7.1	8.2	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.

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Financials	34.3
Energy	21.1
Materials	11.1
Industrials	7.7
Consumer Discretionary	6.2
Real Estate	3.6
Consumer Staples	3.5
Telecommunication Services	3.0
Information Technology	2.7
Utilities	2.7
Health Care	0.6
Cash/Other	3.5

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	7.1
Toronto-Dominion Bank	6.6
Bank of Nova Scotia	4.9
Canadian National Railway Co.	4.5
Suncor Energy Inc.	3.7
Cash & Cash Equivalents	3.3
Bank of Montreal	3.3
TransCanada Corp.	2.6
Enbridge Inc.	2.6
Canadian Imperial Bank of Commerce	2.5
Canadian Natural Resources Ltd.	2.4
Manulife Financial Corporation	2.2
BCE Inc.	2.1
Brookfield Asset Management Inc., Class A	1.8
Magna International Inc., Class A	1.8
Power Corporation of Canada	1.6
Sun Life Financial Inc.	1.3
Loblaw Companies Ltd.	1.2
Canadian Pacific Railway Ltd.	1.2
Potash Corporation of Saskatchewan Inc.	1.2
CGI Group Inc., Class A	1.1
Spartan Energy Corp.	1.0
Waste Connections Inc.	1.0
Alimentation Couche-Tard Inc.	1.0
Thomson Corp.	0.9
Top 25 Holdings	62.9

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 INCOME FUND**

December 31, 2016

**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 8, 2017.

**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 fell to \$936 million as of December 31, 2016, from \$984 million at the end of 2015. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 23.6%, which outperformed the 21.1% 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 2016, the Fund made monthly distributions of 1.00 cent per Series A unit. For the year, the Fund made total distributions of approximately 21 cents per Series A unit, all of which consisted of dividends. The annual payout included an additional year-end distribution.

The S&P/TSX Composite Index ended 2016 as one of the best-performing global equity markets and, at times, flirted with the all-time highs recorded in 2014. In a year where macroeconomic events were difficult to predict, let alone investors' reaction to them, the final months of the year did not disappoint, with Donald Trump's surprise U.S. election win and OPEC's agreement to cut supply sending oil prices significantly higher. With bond yields increasing and the focus moving toward a better economy, interest-sensitive and cyclical stocks surged, while those with more visible cash flows and higher valuations stalled.

The Fund's position in the Energy sector was among the leading contributors to relative performance in 2016. Key positions in exploration and production companies such as ARC Resources and PrairieSky Royalty contributed to performance, as these companies benefited from the price of oil nearly doubling after hitting a low of US\$26 in February. Oil rallied from the February lows, and the Energy sector finished the year as one of the best-performing sectors. The Financials sector was also a leading contributor to relative performance during the period. Rising interest rates drove the Financials sector, with the biggest gains coming from bank and insurance stocks. The Fund's positioning in both industries contributed to relative performance.

The Materials sector had a negative impact on the Fund's relative returns, as an underweight position in the surging mining industry held back returns when metals prices surged. A complete lack of exposure to Barrick Gold was a big negative for the Fund's relative returns. The Consumer Staples sector also had a negative impact on relative performance. The Fund's position in Empire Co. dropped significantly in the final quarter of 2016 as the company's Sobeys grocery chain failed to integrate the acquisition of Safeway.

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

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. This is a welcome change compared with the investing environment that was in place at the beginning of 2016, when fears about China, U.S. rate hikes and weak economic figures led to a sharp correction in financial markets. Contrary to popular perceptions, this new market direction began before the populist victories in the U.K. referendum and U.S. election. A number of trends that pre-date those events suggest that the outlook for the economy and markets has been improving since earlier in 2016 and were further punctuated by Trump's victory.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

#### **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 A, 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.

##### ***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$237,000 (2015 – \$212,000), or 8% (2015 – 4%) 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>13.05</b>	<b>0.45</b>	<b>(0.27)</b>	<b>0.33</b>	<b>2.15</b>	<b>2.66</b>	—	<b>(0.21)</b>	—	—	<b>(0.21)</b>	<b>15.61</b>
Dec. 31, 2015	14.35	0.49	(0.28)	(0.68)	(0.76)	(1.23)	—	(0.09)	—	—	(0.09)	13.05
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>13.05</b>	<b>0.45</b>	<b>(0.28)</b>	<b>0.33</b>	<b>2.23</b>	<b>2.73</b>	—	<b>(0.21)</b>	—	—	<b>(0.21)</b>	<b>15.61</b>
Dec. 31, 2015	14.35	0.49	(0.28)	(0.68)	(0.76)	(1.23)	—	(0.09)	—	—	(0.09)	13.05
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>13.04</b>	<b>0.45</b>	<b>(0.16)</b>	<b>0.33</b>	<b>2.23</b>	<b>2.85</b>	<b>(0.01)</b>	<b>(0.33)</b>	—	—	<b>(0.34)</b>	<b>15.59</b>
Dec. 31, 2015	14.31	0.49	(0.17)	(0.68)	(0.76)	(1.12)	—	(0.17)	—	—	(0.17)	13.04
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>13.06</b>	<b>0.45</b>	<b>(0.12)</b>	<b>0.33</b>	<b>1.95</b>	<b>2.61</b>	<b>(0.01)</b>	<b>(0.39)</b>	—	—	<b>(0.40)</b>	<b>15.60</b>
Dec. 31, 2015	14.34	0.48	(0.13)	(0.67)	(0.75)	(1.07)	—	(0.21)	—	—	(0.21)	13.06
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>12.91</b>	<b>0.44</b>	<b>(0.01)</b>	<b>0.33</b>	<b>2.20</b>	<b>2.96</b>	<b>(0.01)</b>	<b>(0.46)</b>	—	—	<b>(0.47)</b>	<b>15.45</b>
Dec. 31, 2015	14.30	0.48	(0.01)	(0.67)	(0.75)	(0.95)	(0.01)	(0.44)	—	—	(0.45)	12.91
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>15.61</b>	<b>4 698</b>	<b>301</b>	<b>1.94<sup>4</sup></b>	<b>1.94</b>	<b>146.47</b>	<b>0.33</b>
Dec. 31, 2015	13.05	4 880	374	2.03	2.03	207.29	0.48
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>15.61</b>	<b>1 049</b>	<b>67</b>	<b>1.94<sup>4</sup></b>	<b>1.94</b>	<b>146.47</b>	<b>0.33</b>
Dec. 31, 2015	13.05	939	72	2.03	2.03	207.29	0.48
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>15.59</b>	<b>62 851</b>	<b>4 033</b>	<b>1.11<sup>4</sup></b>	<b>1.11</b>	<b>146.47</b>	<b>0.33</b>
Dec. 31, 2015	13.04	57 305	4 395	1.19	1.19	207.29	0.48
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>15.60</b>	<b>1 361</b>	<b>87</b>	<b>0.85<sup>4</sup></b>	<b>0.85</b>	<b>146.47</b>	<b>0.33</b>
Dec. 31, 2015	13.06	1 265	97	0.93	0.93	207.29	0.48
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>15.45</b>	<b>865 635</b>	<b>56 030</b>	<b>0.07</b>	<b>0.07</b>	<b>146.47</b>	<b>0.33</b>
Dec. 31, 2015	12.91	920 098	71 280	0.07	0.07	207.29	0.48
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.86%, Advisor Series – 1.86%, Series D – 1.03% and Series F – 0.77%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

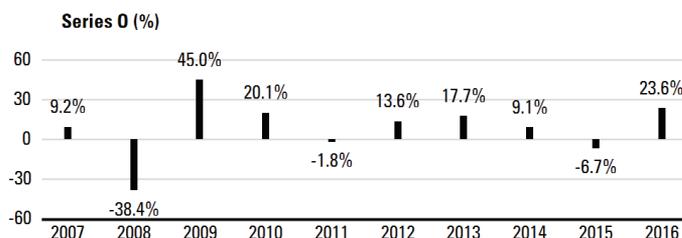
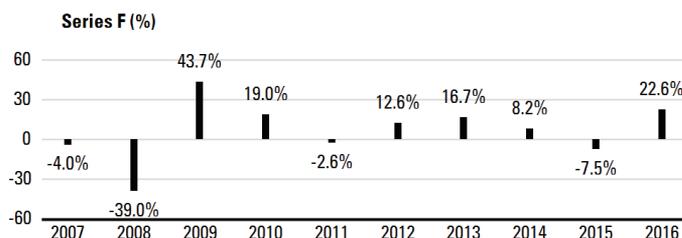
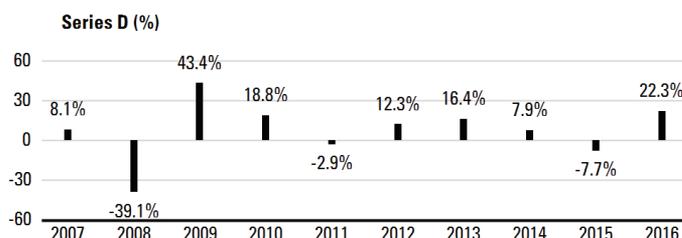
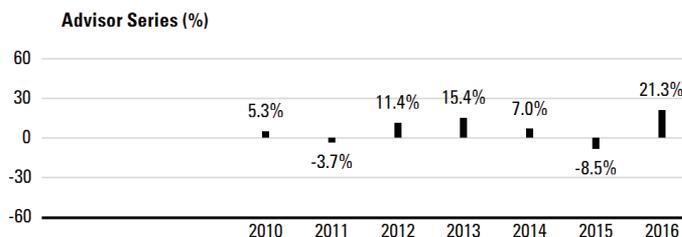
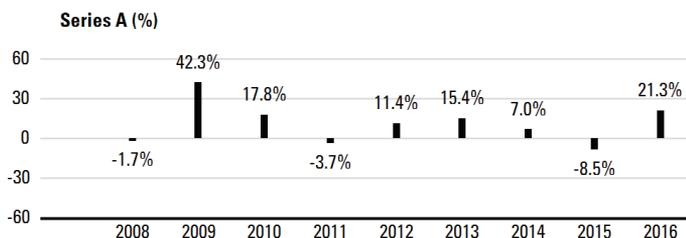
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	21.3	5.9	8.8	–	11.6
Benchmark	21.1	7.1	8.2	–	9.6
Advisor Series	21.3	5.9	8.8	–	7.4
Benchmark	21.1	7.1	8.2	–	6.2
Series D	22.3	6.8	9.7	5.6	–
Benchmark	21.1	7.1	8.2	4.7	–
Series F	22.6	7.1	10.0	–	4.9
Benchmark	21.1	7.1	8.2	–	4.0
Series O	23.6	8.0	11.0	6.8	–
Benchmark	21.1	7.1	8.2	4.7	–

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

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Financials	37.2
Energy	19.7
Materials	7.8
Industrials	6.8
Consumer Discretionary	6.6
Utilities	4.9
Real Estate	4.7
Telecommunication Services	3.2
Consumer Staples	3.1
Information Technology	3.0
Cash/Other	3.0

**Top 25 Holdings**

	% of Net Asset Value
Toronto-Dominion Bank	8.1
Royal Bank of Canada	8.1
Enbridge Inc.	4.8
Brookfield Asset Management Inc., Class A	3.8
Canadian Imperial Bank of Commerce	3.8
Bank of Nova Scotia	3.4
Crescent Point Energy Corp.	3.0
Alimentation Couche-Tard Inc.	2.9
Manulife Financial Corporation	2.9
Cenovus Energy Inc.	2.8
Sun Life Financial Inc.	2.5
Waste Connections Inc.	2.4
Brookfield Property Partners LP	2.2
Rogers Communications Inc., Class B	2.2
Goldcorp Inc.	2.1
Quebecor Inc., Class B	2.1
Brookfield Infrastructure Partners LP	2.0
CCL Industries, Class B	1.9
Stantec Inc.	1.9
Gildan Activewear Inc., Class A	1.7
Canadian National Railway Co.	1.5
Fortis Inc.	1.5
Element Fleet Management Corp.	1.5
Dollarama Inc.	1.5
Pembina Pipeline Corp.	1.4
Top 25 Holdings	72.0

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.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, 2016***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 8, 2017.

**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 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 \$62 million as of December 31, 2016, from \$52 million at the end of 2015. The increase was due to investment returns.

Over the past year, the Fund's Series O units gained 24.1%, which outperformed the 21.1% 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/TSX Composite Index ended 2016 as one of the best-performing global equity markets and, at times, flirted with the all-time highs recorded in 2014. In a year where macroeconomic events were difficult to predict, let alone investors' reaction to them, the final months of the year did not disappoint, with Donald Trump's surprise U.S. election win and OPEC's agreement to cut supply sending oil prices significantly higher. With bond yields increasing and the focus moving toward a better economy, interest-sensitive and cyclical stocks surged, while those with more visible cash flows and higher valuations stalled.

The Fund's position in the Energy sector was among the leading contributors to relative performance in 2016. Key positions in exploration and production companies such as Seven Generations Energy, ARC Resources and PrairieSky Royalty contributed to performance, as these companies benefited from the price of oil nearly doubling after hitting a low of US\$26 in February. The Consumer Discretionary sector was also a leading contributor to relative performance during the period, driven by overweight exposure to Rona.

The Materials sector had a negative impact on the Fund's relative performance returns, as an underweight position in the surging mining industry held back returns when metals prices surged. The Fund's complete lack of exposure to Barrick Gold was a big negative for the Fund's relative returns. The Consumer Staples sector also had a negative impact on relative performance. The Fund's position in Empire Co. dropped significantly in the final quarter of 2016 as the company's Sobeys grocery chain failed to integrate the acquisition of Safeway.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. This is a welcome change compared with the investing environment that was in place at the beginning of 2016 when fears about China, U.S. rate hikes and weak economic figures led to a sharp correction in financial markets. Contrary to popular perception, this new market direction actually began before the populist victories in the U.K. referendum and U.S. election. A number of trends that pre-date these events suggest that the outlook for the economy and markets has been improving since earlier in 2016 and were further punctuated by Trump's victory.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 2.00% to 1.85% for Series C and Advisor Series units; from 1.25% to 1.10% for Series D units; and from 1.00% to 0.85% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

### 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 A, 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.

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$6,000 (2015 – \$2,000), or 10% (2015 – 4%) 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>24.41</b>	<b>0.64</b>	<b>(0.59)</b>	<b>0.59</b>	<b>4.43</b>	<b>5.07</b>	—	—	—	—	—	<b>29.64</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>24.44</b>	<b>0.65</b>	<b>(0.59)</b>	<b>0.59</b>	<b>4.60</b>	<b>5.25</b>	—	—	—	—	—	<b>29.68</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>25.37</b>	<b>0.67</b>	<b>(0.38)</b>	<b>0.61</b>	<b>4.72</b>	<b>5.62</b>	—	<b>(0.24)</b>	—	—	<b>(0.24)</b>	<b>30.83</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>26.37</b>	<b>0.69</b>	<b>(0.32)</b>	<b>0.63</b>	<b>4.59</b>	<b>5.59</b>	—	<b>(0.33)</b>	—	—	<b>(0.33)</b>	<b>32.05</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>27.56</b>	<b>0.74</b>	<b>(0.02)</b>	<b>0.67</b>	<b>5.47</b>	<b>6.86</b>	—	<b>(0.67)</b>	—	—	<b>(0.67)</b>	<b>33.52</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>29.64</b>	<b>1 702</b>	<b>57</b>	<b>2.23<sup>4</sup></b>	<b>2.23</b>	<b>52.97</b>	<b>0.11</b>
Dec. 31, 2015	24.41	1 781	73	2.27	2.28	41.32	0.11
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>29.68</b>	<b>797</b>	<b>27</b>	<b>2.22<sup>4</sup></b>	<b>2.22</b>	<b>52.97</b>	<b>0.11</b>
Dec. 31, 2015	24.44	453	19	2.27	2.28	41.32	0.11
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>30.83</b>	<b>34 976</b>	<b>1 134</b>	<b>1.37<sup>4</sup></b>	<b>1.37</b>	<b>52.97</b>	<b>0.11</b>
Dec. 31, 2015	25.37	31 096	1 226	1.45	1.46	41.32	0.11
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>32.05</b>	<b>987</b>	<b>31</b>	<b>1.14<sup>4</sup></b>	<b>1.14</b>	<b>52.97</b>	<b>0.11</b>
Dec. 31, 2015	26.37	2 585	98	1.22	1.23	41.32	0.11
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>33.52</b>	<b>23 929</b>	<b>714</b>	<b>0.07</b>	<b>0.07</b>	<b>52.97</b>	<b>0.11</b>
Dec. 31, 2015	27.56	16 583	602	0.06	0.07	41.32	0.11
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 2.14%, Advisor Series – 2.14%, Series D – 1.29% and Series F – 1.02%.

**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 A	1.85%	50%	50%
Advisor Series	1.85%	50%	50%
Series D	1.10%	20%	80%
Series F	0.85%	—	100%

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

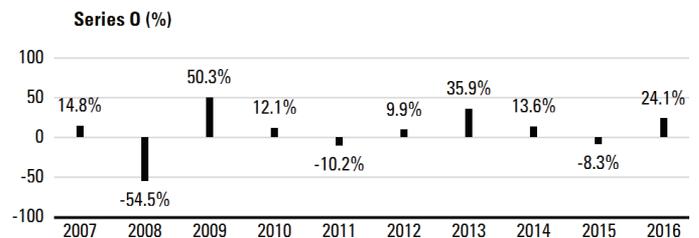
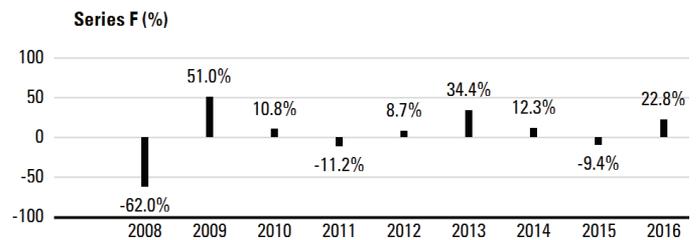
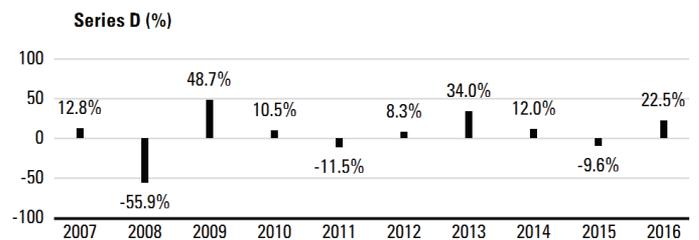
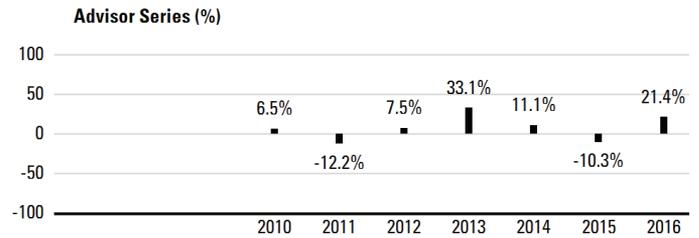
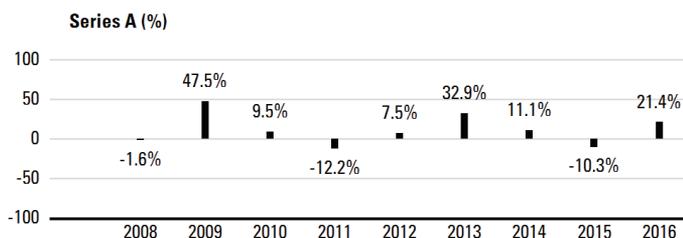
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	21.4	6.6	11.6	–	11.5
Benchmark	21.1	7.1	8.2	–	9.6
Advisor Series	21.4	6.6	11.6	–	8.1
Benchmark	21.1	7.1	8.2	–	6.2
Series D	22.5	7.4	12.5	2.7	–
Benchmark	21.1	7.1	8.2	4.7	–
Series F	22.8	7.7	12.8	–	0.4
Benchmark	21.1	7.1	8.2	–	4.0
Series O	24.1	8.9	14.0	4.3	–
Benchmark	21.1	7.1	8.2	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.

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Financials	32.2
Energy	19.6
Industrials	13.5
Consumer Discretionary	10.6
Materials	7.6
Information Technology	4.7
Consumer Staples	3.6
Utilities	2.5
Real Estate	1.6
Telecommunication Services	1.1
Cash/Other	3.0

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	6.3
Toronto-Dominion Bank	5.9
Bank of Nova Scotia	4.9
Badger Daylighting Ltd.	4.0
Enbridge Inc.	4.0
Element Fleet Management Corp.	3.0
Brookfield Asset Management Inc., Class A	2.9
Cash & Cash Equivalents	2.9
Manulife Financial Corporation	2.9
Alimentation Couche-Tard Inc.	2.8
Crescent Point Energy Corp.	2.0
Quebecor Inc., Class B	2.0
Stantec Inc.	1.8
Home Capital Group Inc.	1.7
Waste Connections Inc.	1.7
Canadian Natural Resources Ltd.	1.7
Pembina Pipeline Corp.	1.7
Brookfield Infrastructure Partners LP	1.5
Secure Energy Services Inc.	1.5
CCL Industries, Class B	1.4
CGI Group Inc., Class A	1.3
Cenovus Energy Inc.	1.3
Gildan Activewear Inc., Class A	1.3
Canadian National Railway Co.	1.3
Sleep Country Canada Holdings Inc.	1.3
Top 25 Holdings	63.1

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).

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH  
U.S. DIVIDEND INCOME FUND***December 31, 2016***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 8, 2017.

**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 was \$201 million as of December 31, 2016, unchanged from the end of 2015.

Over the past year, the Fund's Series O units gained 10.6%, which outperformed the 8.6% 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.

Financials and Health Care were the best-performing sectors in the Fund in 2016, with notable help from the Telecommunication Services and Utilities sectors. An underweight position in the Consumer Discretionary sector also aided returns. Strong stock selection in the Financials and Health Care contributed to returns. In the Financials sector, bank stocks benefited as rising bond yields led to an improved outlook for profits from lending. Citizens Financial Group, Bank of America and KeyCorp were standouts. In the Health Care sector, health insurer UnitedHealth and pharmaceuticals companies Merck & Co. and Johnson & Johnson generated solid returns thanks to strong cash flows and aggressive buybacks. Shares of Altria, the tobacco company, benefited from consistent high-single-digit earnings growth, an attractive dividend yield and significant buybacks. Other notable performers included DuPont Fabros Technology, a REIT that owns data centres; life insurer Prudential Financial; and utility company Public Service Enterprise Group.

Performance was hurt by the Fund's overweight position in the Consumer Staples sector, where rising interest rates and an improving economy in the second half of the year hurt the performance of many high-dividend payers. The Fund was also hurt by its positions in biotechnology company Gilead and by medical-

device maker Medtronic. Concerns that limits would be placed on drug prices negatively impacted the Fund's position in CVS, the No. 2 drugstore chain.

**Recent Developments**

In the portfolio manager's opinion, the stock market is priced as if all of President Trump's policies will be implemented. Recent economic data suggests the global economy is re-accelerating, slowly and from a low level. Earnings growth turned positive in the third quarter of 2016 and the portfolio manager expects further earnings improvements to drive markets somewhat higher in 2017. However, if the U.S. dollar remains strong or if Trump enacts protectionist trade policies, the portfolio manager expects corporate earnings to weaken and the stock market to come under pressure. Moreover, some aspects of Trump's plan are likely to be curtailed or even dropped, in the view of the portfolio manager.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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.

**Brokers and Dealers**

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$25,000 (2015 – \$38,000), or 17% (2015 – 26%) 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>13.52</b>	<b>0.34</b>	<b>(0.26)</b>	<b>1.57</b>	<b>(0.54)</b>	<b>1.11</b>	—	<b>(0.08)</b>	<b>(0.30)</b>	—	<b>(0.38)</b>	<b>14.30</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>13.52</b>	<b>0.34</b>	<b>(0.26)</b>	<b>1.57</b>	<b>(0.62)</b>	<b>1.03</b>	—	<b>(0.08)</b>	<b>(0.30)</b>	—	<b>(0.38)</b>	<b>14.30</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>13.43</b>	<b>0.34</b>	<b>(0.15)</b>	<b>1.56</b>	<b>(0.53)</b>	<b>1.22</b>	—	<b>(0.21)</b>	<b>(0.31)</b>	—	<b>(0.52)</b>	<b>14.20</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>13.40</b>	<b>0.34</b>	<b>(0.11)</b>	<b>1.56</b>	<b>(0.36)</b>	<b>1.43</b>	—	<b>(0.25)</b>	<b>(0.31)</b>	—	<b>(0.56)</b>	<b>14.15</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>13.44</b>	<b>0.34</b>	<b>(0.01)</b>	<b>1.57</b>	<b>(0.54)</b>	<b>1.36</b>	—	<b>(0.35)</b>	<b>(0.31)</b>	—	<b>(0.66)</b>	<b>14.21</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>14.30</b>	<b>13 461</b>	<b>941</b>	<b>1.95<sup>4</sup></b>	<b>1.95</b>	<b>96.36</b>	<b>0.08</b>
Dec. 31, 2015	13.52	12 974	959	2.04	2.04	76.34	0.07
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>14.30</b>	<b>11 523</b>	<b>806</b>	<b>1.95<sup>4</sup></b>	<b>1.95</b>	<b>96.36</b>	<b>0.08</b>
Dec. 31, 2015	13.52	12 585	931	2.04	2.04	76.34	0.07
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>14.20</b>	<b>78 706</b>	<b>5 544</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>96.36</b>	<b>0.08</b>
Dec. 31, 2015	13.43	78 132	5 816	1.19	1.19	76.34	0.07
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>14.15</b>	<b>10 012</b>	<b>708</b>	<b>0.85<sup>4</sup></b>	<b>0.85</b>	<b>96.36</b>	<b>0.08</b>
Dec. 31, 2015	13.40	7 349	548	0.94	0.94	76.34	0.07
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>14.21</b>	<b>87 618</b>	<b>6 167</b>	<b>0.08</b>	<b>0.08</b>	<b>96.36</b>	<b>0.08</b>
Dec. 31, 2015	13.44	90 426	6 729	0.08	0.08	76.34	0.07
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.87%, Advisor Series – 1.87%, Series D – 1.02% and Series F – 0.77%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

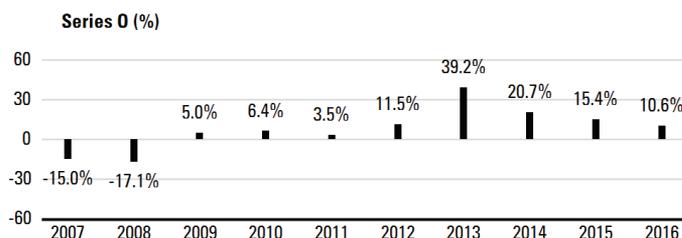
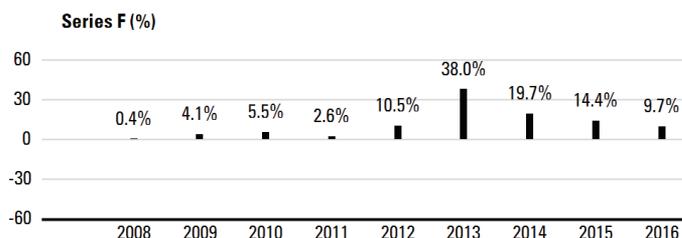
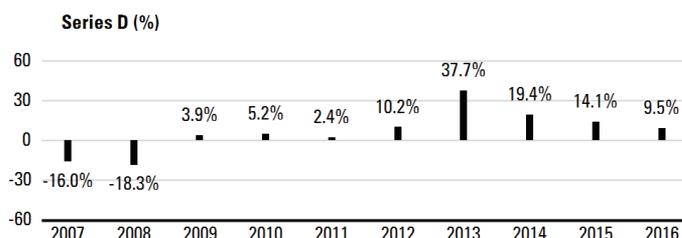
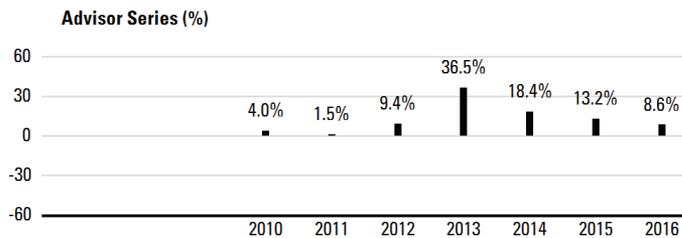
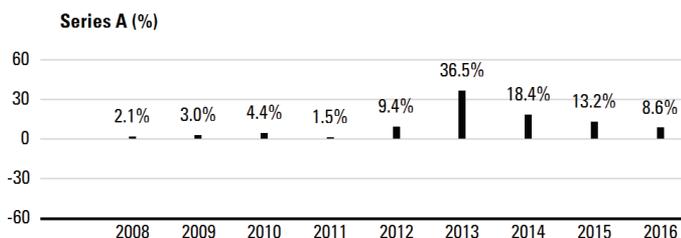
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	8.6	13.3	16.8	—	11.6
Benchmark	8.6	17.7	21.2	—	15.6
Advisor Series	8.6	13.3	16.8	—	14.4
Benchmark	8.6	17.7	21.2	—	18.5
Series D	9.5	14.3	17.7	5.7	—
Benchmark	8.6	17.7	21.2	8.5	—
Series F	9.7	14.5	18.1	—	12.4
Benchmark	8.6	17.7	21.2	—	14.7
Series O	10.6	15.5	19.0	6.9	—
Benchmark	8.6	17.7	21.2	8.5	—

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 A 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.

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

**Investment Mix**

	% of Net Asset Value
Health Care	17.9
Information Technology	17.2
Financials	15.6
Consumer Staples	10.8
Energy	8.1
Industrials	8.0
Utilities	5.6
Consumer Discretionary	4.4
Telecommunication Services	3.6
Real Estate	3.6
Materials	2.6
Cash/Other	2.6

**Top 25 Holdings**

	% of Net Asset Value
Johnson & Johnson	4.3
Microsoft Corp.	4.2
Apple Inc.	4.0
UnitedHealth Group Incorporated	3.5
JPMorgan Chase & Co.	3.5
Chevron Corp.	3.4
Altria Group Inc.	2.9
Occidental Petroleum Corp.	2.8
PepsiCo Inc.	2.8
CVS Health Corp.	2.6
Philip Morris International Inc.	2.5
Pfizer Inc.	2.5
AT&T Inc.	2.5
Cash & Cash Equivalents	2.5
Bank of America Corp.	2.4
Intel Corp.	2.3
Cisco Systems Inc.	2.3
Cardinal Health Inc.	2.3
McDonald's Corp.	2.1
Prudential Financial Inc.	2.1
International Business Machines	2.1
Medtronic Plc.	1.9
Merck & Co. Inc.	1.9
PG&E Corporation	1.9
Oracle Corporation	1.8
Top 25 Holdings	67.1

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).

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH  
U.S. MULTI-STYLE ALL-CAP  
EQUITY FUND***December 31, 2016***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 8, 2017.

**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 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 \$4.7 billion as of December 31, 2016, from \$3.9 billion at the end of 2015. The increase was due to a mix of investment returns and net inflows.

Over the past year, the Fund's Series O units rose 8.2%, which underperformed the 9.4% 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 generated above-average returns during the period. The strong performance was driven by a recovery in commodity prices, improvement in most global economies, and optimism about the newly elected President Donald Trump's fiscal-spending policies. U.S. stocks rose to an all-time high after the election as investors decided that Trump's pro-growth, pro-business agenda was likely positive for corporate profits. The promise of tax and regulatory reform, and increased infrastructure spending led to an increase in confidence, and late-year readings on economic activity were at multi-year highs.

The Fund's Small Cap Value strategy outperformed its benchmark, the Russell 2000 Value Index, during the period. Favourable stock selection and sector allocation both aided returns. Strong stock selection in the Industrials and Energy sectors had a positive impact on the Fund's performance, and offset adverse security selection within Financials and Consumer Discretionary.

The Large Cap Value component underperformed the Russell Top 200 Value Index, due primarily to unfavourable security selection in the Consumer Discretionary and Energy sectors. An underweight position in the Financials sector was also a drag on performance. However, positive stock selection in the Consumer Staples sector aided returns.

The QUBE Large Cap Value sleeve underperformed its benchmark, the Russell Large Cap Value Index, during the period. Relative performance was negatively impacted primarily due to adverse sector-allocation bets. An overweight position in the Information Technology sector benefited the portfolio, while a significant underweight position in the strongly performing Energy sector detracted from returns. Stock selection within the Health Care, Energy and Financials sectors was the biggest positive contributor to performance.

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

**Recent Developments**

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. The possibility that policies espoused by the Trump administration could lead to a significant pick-up in growth and earnings would challenge the assumption of many investors and business leaders that economic growth and inflation would stay low for a very long time. Time will tell whether the new administration's policies have the desired effect, but it would appear that the business cycle should continue to trudge forward, and perhaps even accelerate, in the portfolio manager's view. In anticipation of faster growth, cyclical and value stocks have outperformed, while high-dividend-paying stocks have lagged.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloepfer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

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

**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 A, 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.

**Brokers and Dealers**

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$30,000 (2015 – \$58,000), or 1% (2015 – 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.

**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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>16.05</b>	<b>0.29</b>	<b>(0.30)</b>	<b>0.57</b>	<b>0.29</b>	<b>0.85</b>	—	—	<b>(0.59)</b>	—	<b>(0.59)</b>	<b>16.46</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>16.06</b>	<b>0.29</b>	<b>(0.30)</b>	<b>0.57</b>	<b>0.37</b>	<b>0.93</b>	—	—	<b>(0.57)</b>	—	<b>(0.57)</b>	<b>16.49</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>16.74</b>	<b>0.31</b>	<b>(0.18)</b>	<b>0.60</b>	<b>0.21</b>	<b>0.94</b>	—	<b>(0.11)</b>	<b>(0.65)</b>	—	<b>(0.76)</b>	<b>17.17</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>16.69</b>	<b>0.31</b>	<b>(0.14)</b>	<b>0.60</b>	<b>0.37</b>	<b>1.14</b>	—	<b>(0.16)</b>	<b>(0.59)</b>	—	<b>(0.75)</b>	<b>17.18</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>16.35</b>	<b>0.30</b>	<b>(0.01)</b>	<b>0.59</b>	<b>0.63</b>	<b>1.51</b>	—	<b>(0.28)</b>	<b>(0.62)</b>	—	<b>(0.90)</b>	<b>16.80</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>16.46</b>	<b>2 427</b>	<b>147</b>	<b>1.93<sup>4</sup></b>	<b>1.93</b>	<b>108.36</b>	<b>0.07</b>
Dec. 31, 2015	16.05	2 558	159	2.02	2.02	133.63	0.12
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>16.49</b>	<b>858</b>	<b>52</b>	<b>1.93<sup>4</sup></b>	<b>1.93</b>	<b>108.36</b>	<b>0.07</b>
Dec. 31, 2015	16.06	870	54	2.02	2.02	133.63	0.12
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>17.17</b>	<b>31 493</b>	<b>1 834</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>108.36</b>	<b>0.07</b>
Dec. 31, 2015	16.74	34 522	2 062	1.17	1.17	133.63	0.12
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>17.18</b>	<b>641</b>	<b>37</b>	<b>0.86<sup>4</sup></b>	<b>0.86</b>	<b>108.36</b>	<b>0.07</b>
Dec. 31, 2015	16.69	459	28	0.95	0.95	133.63	0.12
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>16.80</b>	<b>4 663 326</b>	<b>277 653</b>	<b>0.06</b>	<b>0.06</b>	<b>108.36</b>	<b>0.07</b>
Dec. 31, 2015	16.35	3 875 711	237 032	0.06	0.06	133.63	0.12
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.85%, Advisor Series – 1.85%, Series D – 1.02% and Series F – 0.78%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

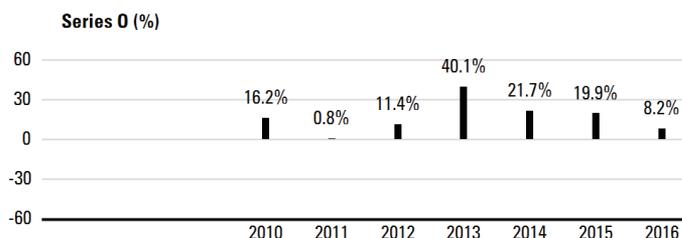
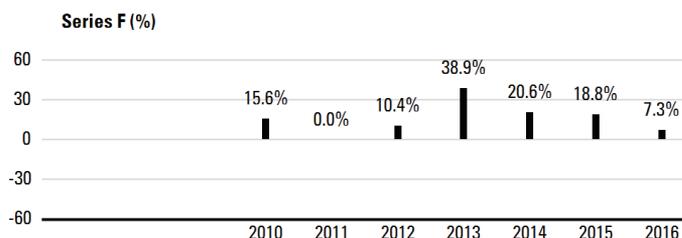
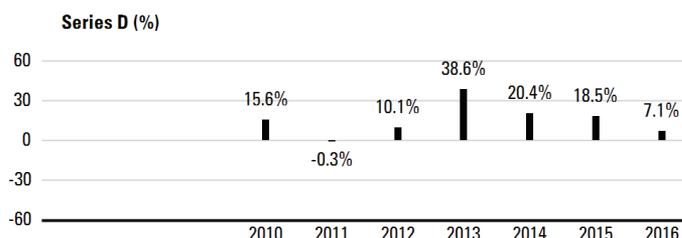
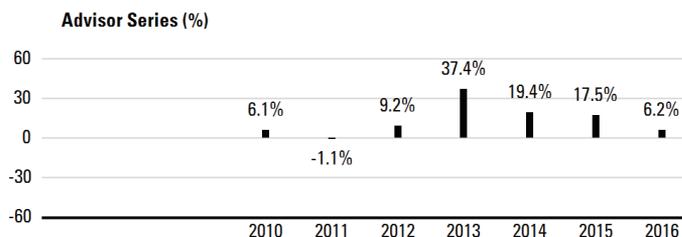
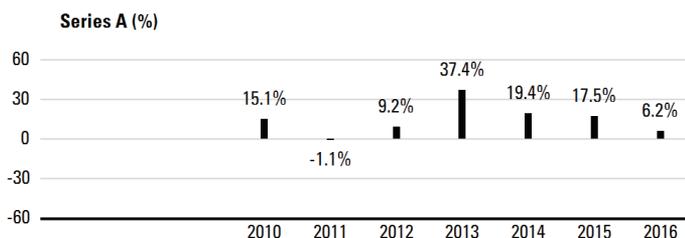
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**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, 2016, 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 A	6.2	14.2	17.5	—	15.5
Benchmark	9.4	17.2	21.2	—	19.3
Advisor Series	6.2	14.2	17.5	—	14.8
Benchmark	9.4	17.2	21.2	—	18.4
Series D	7.1	15.2	18.4	—	16.4
Benchmark	9.4	17.2	21.2	—	19.3
Series F	7.3	15.4	18.7	—	16.7
Benchmark	9.4	17.2	21.2	—	19.3
Series O	8.2	16.4	19.8	—	17.7
Benchmark	9.4	17.2	21.2	—	19.3

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

Advisor Series units have been available for sale to unitholders since October 2010, and Series A, 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.

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

**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, 2016

**Investment Mix**

	% of Net Asset Value
Information Technology	21.0
Financials	15.2
Health Care	12.9
Consumer Discretionary	12.3
Industrials	11.1
Consumer Staples	8.1
Energy	6.1
Utilities	4.1
Real Estate	3.2
Materials	2.9
Telecommunication Services	2.2
Cash/Other	0.9

**Top 25 Holdings**

	% of Net Asset Value
Apple Inc.	2.1
Microsoft Corp.	2.1
Johnson & Johnson	1.9
Facebook Inc., Class A	1.4
Cisco Systems Inc.	1.3
Exxon Mobil Corp.	1.3
Home Depot Inc.	1.3
Bank of America Corp.	1.3
Amazon.com, Inc.	1.2
Amgen Inc.	1.1
International Business Machines	1.1
Citigroup Inc.	1.1
Verizon Communications Inc.	1.1
Altria Group Inc.	1.0
Wal-Mart Stores, Inc.	0.9
Gilead Sciences Inc.	0.9
Alphabet Inc., Class C	0.9
JPMorgan Chase & Co.	0.9
The Goldman Sachs Group Inc.	0.9
Tyson Foods Inc.	0.9
AT&T Inc.	0.8
Cash & Cash Equivalents	0.8
Philip Morris International Inc.	0.8
UnitedHealth Group Incorporated	0.7
DTE Energy Company	0.7
Top 25 Holdings	28.5

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).

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH  
U.S. EQUITY FUND***December 31, 2016***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 8, 2017.

**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 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 rose to \$582 million as of December 31, 2016, from \$557 million at the end of 2015. The increase was due to a combination of investment returns and net inflows.

Over the past year, the Fund's Series O units gained 4.1%, which underperformed the 8.6% 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.

Sector performance was most negatively affected by allocations to the Telecommunication Services and Utilities sectors. Sector allocation aided returns slightly in the Health Care and Energy sectors.

Stock positions that had a positive impact on relative returns included Time Warner, Zions Bancorp. and Pioneer Natural Resources. Relative positions that had a negative impact included Skyworks Solutions, Wells Fargo and JPMorgan Chase.

### Recent Developments

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloepfer were appointed as members of the IRC.

Effective November 30, 2016, portfolio management responsibilities for the Fund were transferred to RBC Global Asset Management Inc. from RBC Global Asset Management (U.S.) Inc.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

### 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 A, 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.

#### *Brokers and Dealers*

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$0 (2015 – \$40,000), or 0% (2015 – 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.

**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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>57.22</b>	<b>1.22</b>	<b>(1.06)</b>	<b>0.34</b>	<b>0.16</b>	<b>0.66</b>	—	—	—	—	—	<b>58.44</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>57.22</b>	<b>1.22</b>	<b>(1.07)</b>	<b>0.34</b>	<b>(1.47)</b>	<b>(0.98)</b>	—	—	—	—	—	<b>58.44</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>57.08</b>	<b>1.22</b>	<b>(0.60)</b>	<b>0.34</b>	<b>0.29</b>	<b>1.25</b>	—	<b>(0.50)</b>	—	—	<b>(0.50)</b>	<b>58.30</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>57.33</b>	<b>1.23</b>	<b>(0.46)</b>	<b>0.34</b>	<b>1.16</b>	<b>2.27</b>	—	<b>(0.65)</b>	—	—	<b>(0.65)</b>	<b>58.55</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>57.93</b>	<b>1.24</b>	<b>(0.01)</b>	<b>0.34</b>	<b>0.28</b>	<b>1.85</b>	—	<b>(1.14)</b>	—	—	<b>(1.14)</b>	<b>59.19</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>58.44</b>	<b>4 076</b>	<b>70</b>	<b>1.97<sup>4</sup></b>	<b>1.97</b>	<b>78.06</b>	<b>0.07</b>
Dec. 31, 2015	57.22	4 615	81	2.05	2.05	106.27	0.08
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>58.44</b>	<b>1 284</b>	<b>22</b>	<b>1.97<sup>4</sup></b>	<b>1.97</b>	<b>78.06</b>	<b>0.07</b>
Dec. 31, 2015	57.22	1 979	35	2.05	2.05	106.27	0.08
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>58.30</b>	<b>135 852</b>	<b>2 330</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>78.06</b>	<b>0.07</b>
Dec. 31, 2015	57.08	147 545	2 585	1.18	1.18	106.27	0.08
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>58.55</b>	<b>3 777</b>	<b>65</b>	<b>0.84<sup>4</sup></b>	<b>0.84</b>	<b>78.06</b>	<b>0.07</b>
Dec. 31, 2015	57.33	3 580	62	0.94	0.94	106.27	0.08
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>59.19</b>	<b>437 136</b>	<b>7 386</b>	<b>0.02</b>	<b>0.02</b>	<b>78.06</b>	<b>0.07</b>
Dec. 31, 2015	57.93	399 193	6 891	0.02	0.02	106.27	0.08
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.88%, Advisor Series – 1.88%, Series D – 1.02% and Series F – 0.77%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

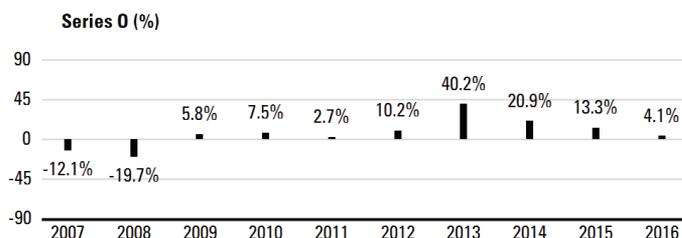
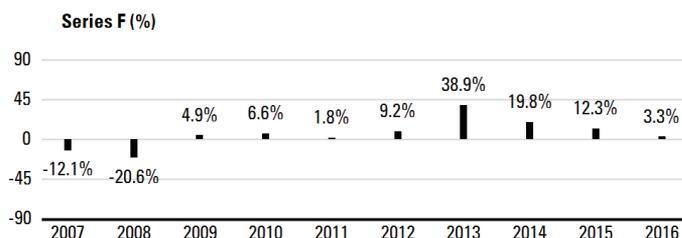
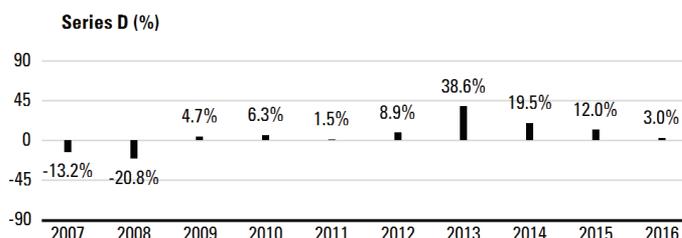
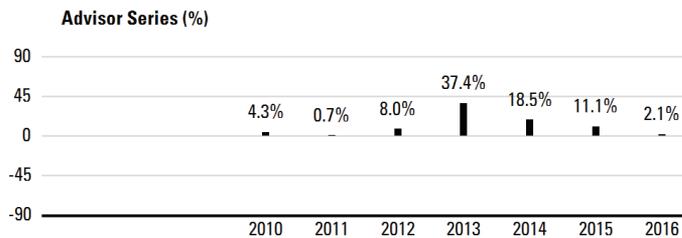
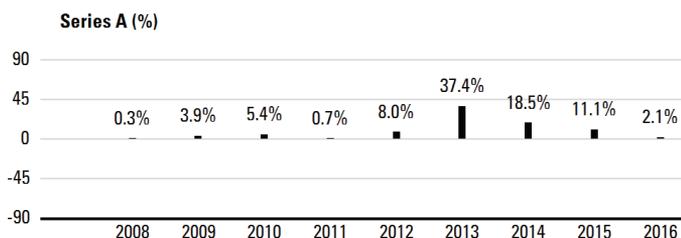
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	2.1	10.4	14.8	—	10.3
Benchmark	8.6	17.7	21.2	—	15.6
Advisor Series	2.1	10.4	14.8	—	12.7
Benchmark	8.6	17.7	21.2	—	18.5
Series D	3.0	11.3	15.8	4.9	—
Benchmark	8.6	17.7	21.2	8.5	—
Series F	3.3	11.6	16.1	—	5.6
Benchmark	8.6	17.7	21.2	—	9.2
Series O	4.1	12.6	17.1	6.1	—
Benchmark	8.6	17.7	21.2	8.5	—

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 A 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.

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

**Investment Mix**

	% of Net Asset Value
Information Technology	22.8
Financials	14.6
Health Care	12.1
Consumer Discretionary	11.9
Industrials	10.5
Consumer Staples	9.2
Energy	7.1
Utilities	4.1
Materials	2.7
Real Estate	2.4
Telecommunication Services	1.1
Cash/Other	1.5

**Top 25 Holdings**

	% of Net Asset Value
Microsoft Corp.	3.3
Alphabet Inc., Class C	3.1
Apple Inc.	2.9
Amazon.com, Inc.	2.5
Facebook Inc., Class A	2.3
Bank of New York Mellon Corp.	2.3
DTE Energy Company	2.3
Pioneer Natural Resources Co.	2.1
Bank of America Corp.	2.1
Broadcom Ltd.	2.0
The Procter & Gamble Co.	2.0
American Electric Power	1.9
Honeywell International Inc.	1.8
PepsiCo Inc.	1.8
Johnson & Johnson	1.8
Suntrust Banks Inc.	1.7
Synchrony Financial	1.7
Time Warner Inc.	1.7
Chubb Ltd.	1.6
Celgene Corp.	1.6
Aetna Inc.	1.5
Western Digital Corp.	1.5
Medtronic Plc.	1.5
S&P Global Inc.	1.5
Anadarko Petroleum Corp.	1.4
Top 25 Holdings	49.9

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.rbegam.com/funds](http://www.rbegam.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, 2016***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 8, 2017.

**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 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**

The Fund has multiple risks, which are similar to the risks of investing in the underlying fund(s). The Fund is suitable for investors who plan to hold their investments for the long term and can tolerate medium investment 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 \$46 million as of December 31, 2016, from \$41 million at the end of 2015. The increase was due to a combination of investment returns and net inflows.

Over the past year, the Fund's Series O units gained 5.9%, which underperformed the 11.5% 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.

Sector performance was most negatively affected by allocations to the Telecommunication Services and Utilities sectors. Sector allocation aided returns slightly in the Health Care and Energy sectors.

Stock positions that had a positive impact on relative returns included Time Warner, Zions Bancorp. and Pioneer Natural Resources. Relative positions that had a negative impact included Skyworks Solutions, Wells Fargo and JPMorgan Chase.

The Fund's currency-hedging mandate had a positive impact on returns in 2016, as the Fund was shielded from the decline in the U.S. dollar versus the Canadian dollar.

**Recent Developments**

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective November 30, 2016, portfolio management responsibilities for the underlying fund, the Phillips, Hager & North U.S. Equity Fund, were transferred to RBC Global Asset Management Inc. from RBC Global Asset Management (U.S.) Inc.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>9.81</b>	<b>0.18</b>	<b>(0.19)</b>	<b>0.94</b>	<b>(0.72)</b>	<b>0.21</b>	—	—	—	—	—	<b>10.20</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>9.81</b>	<b>0.18</b>	<b>(0.19)</b>	<b>0.93</b>	<b>(0.92)</b>	—	—	—	—	—	—	<b>10.20</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>9.76</b>	<b>0.18</b>	<b>(0.11)</b>	<b>0.94</b>	<b>(0.30)</b>	<b>0.71</b>	—	<b>(0.08)</b>	—	—	<b>(0.08)</b>	<b>10.15</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>9.85</b>	<b>0.18</b>	<b>(0.08)</b>	<b>0.94</b>	<b>(0.02)</b>	<b>1.02</b>	—	<b>(0.11)</b>	—	—	<b>(0.11)</b>	<b>10.24</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>9.87</b>	<b>0.18</b>	<b>(0.01)</b>	<b>0.96</b>	<b>(0.31)</b>	<b>0.82</b>	—	<b>(0.18)</b>	—	—	<b>(0.18)</b>	<b>10.28</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>10.20</b>	<b>888</b>	<b>87</b>	<b>1.96<sup>4</sup></b>	<b>1.96</b>	<b>30.91</b>	<b>0.07</b>
Dec. 31, 2015	9.81	1 128	115	2.05	2.06	24.20	0.08
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>10.20</b>	<b>398</b>	<b>39</b>	<b>1.99<sup>4</sup></b>	<b>1.99</b>	<b>30.91</b>	<b>0.07</b>
Dec. 31, 2015	9.81	3 153	321	2.05	2.06	24.20	0.08
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>10.15</b>	<b>9 258</b>	<b>912</b>	<b>1.12<sup>4</sup></b>	<b>1.12</b>	<b>30.91</b>	<b>0.07</b>
Dec. 31, 2015	9.76	7 793	799	1.21	1.22	24.20	0.08
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>10.24</b>	<b>1 400</b>	<b>137</b>	<b>0.86<sup>4</sup></b>	<b>0.86</b>	<b>30.91</b>	<b>0.07</b>
Dec. 31, 2015	9.85	761	77	0.95	0.95	24.20	0.08
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>10.28</b>	<b>34 469</b>	<b>3 354</b>	<b>0.13</b>	<b>0.13</b>	<b>30.91</b>	<b>0.07</b>
Dec. 31, 2015	9.87	27 937	2 831	0.13	0.14	24.20	0.08
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.88%, Advisor Series – 1.88%, Series D – 1.04% and Series F – 0.78%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

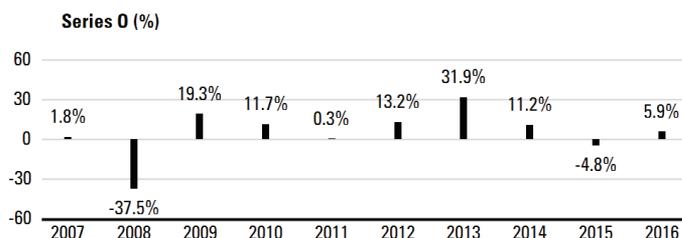
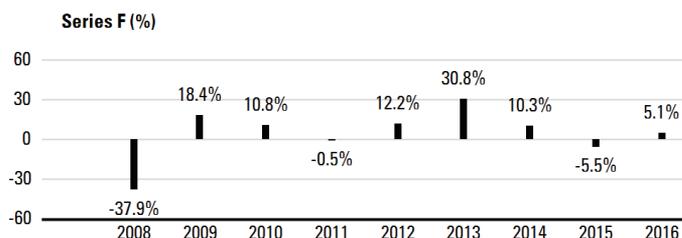
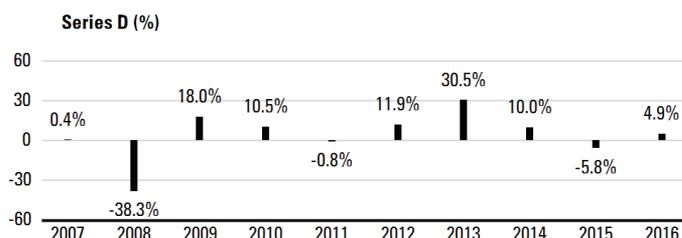
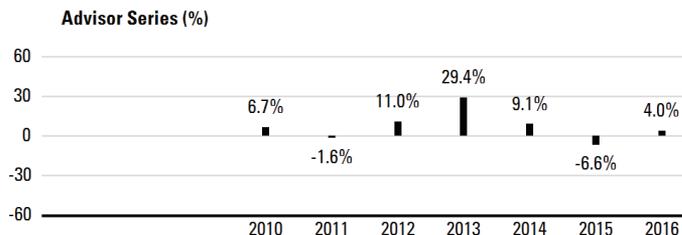
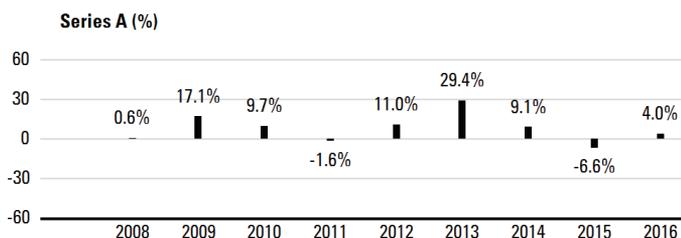
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**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, 2016, 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 A	4.0	1.9	8.8	—	8.5
Benchmark	11.5	8.8	14.8	—	14.0
Advisor Series	4.0	1.9	8.8	—	7.9
Benchmark	11.5	8.8	14.8	—	13.3
Series D	4.9	2.8	9.7	2.4	—
Benchmark	11.5	8.8	14.8	6.1	—
Series F	5.1	3.1	10.0	—	3.0
Benchmark	11.5	8.8	14.8	—	6.3
Series O	5.9	3.9	10.8	3.6	—
Benchmark	11.5	8.8	14.8	6.1	—

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

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Information Technology	23.0
Financials	14.7
Health Care	12.2
Consumer Discretionary	12.0
Industrials	10.7
Consumer Staples	9.4
Energy	7.2
Utilities	4.1
Materials	2.7
Real Estate	2.4
Telecommunication Services	1.1
Cash/Other	0.5

**Top 25 Holdings\***

	% of Net Asset Value
Microsoft Corp.	3.3
Alphabet Inc., Class C	3.1
Apple Inc.	2.9
Amazon.com, Inc.	2.5
Facebook Inc., Class A	2.3
Bank of New York Mellon Corp.	2.3
DTE Energy Company	2.3
Pioneer Natural Resources Co.	2.1
Bank of America Corp.	2.1
Broadcom Ltd.	2.0
The Procter & Gamble Co.	2.0
American Electric Power	1.9
Honeywell International Inc.	1.8
PepsiCo Inc.	1.8
Johnson & Johnson	1.8
Suntrust Banks Inc.	1.7
Synchrony Financial	1.7
Time Warner Inc.	1.7
Chubb Ltd.	1.6
Celgene Corp.	1.6
Aetna Inc.	1.5
Western Digital Corp.	1.5
Medtronic Plc.	1.5
S&P Global Inc.	1.5
Anadarko Petroleum Corp.	1.4
Top 25 Holdings	49.9

\* 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, 2016***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 8, 2017.

**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 fell to \$110 million as of December 31, 2016, from \$124 million at the end of 2015. The decrease was due to net redemptions.

Over the past year, the Fund's Series O units gained 4.1%, which underperformed the 8.6% 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.

Sector performance was most negatively affected by allocations to the Telecommunication Services and Utilities sectors. Sector allocation aided returns slightly in the Health Care and Energy sectors.

Stock positions that had a positive impact on relative returns included Time Warner, Zions Bancorp. and Pioneer Natural Resources. Relative positions that had a negative impact included Skyworks Solutions, Wells Fargo and JPMorgan Chase.

### Recent Developments

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloepfer were appointed as members of the IRC.

Effective November 30, 2016, sub-advisor responsibilities for the Fund were transferred to RBC Global Asset Management Inc. from RBC Global Asset Management (U.S.) Inc.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

### 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 A, 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.

#### *Brokers and Dealers*

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$0 (2015 – \$15,000), or 0% (2015 – 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>21.82</b>	<b>0.47</b>	<b>(0.40)</b>	<b>0.06</b>	<b>(0.45)</b>	<b>(0.32)</b>	—	<b>(0.08)</b>	—	—	<b>(0.08)</b>	<b>22.22</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>21.82</b>	<b>0.47</b>	<b>(0.39)</b>	<b>0.06</b>	<b>0.46</b>	<b>0.60</b>	—	<b>(0.08)</b>	—	—	<b>(0.08)</b>	<b>22.22</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>22.44</b>	<b>0.48</b>	<b>(0.23)</b>	<b>0.07</b>	<b>0.19</b>	<b>0.51</b>	—	<b>(0.27)</b>	—	—	<b>(0.27)</b>	<b>22.85</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>22.70</b>	<b>0.49</b>	<b>(0.19)</b>	<b>0.07</b>	<b>1.40</b>	<b>1.77</b>	—	<b>(0.34)</b>	—	—	<b>(0.34)</b>	<b>23.10</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>22.93</b>	<b>0.50</b>	<b>(0.02)</b>	<b>0.07</b>	<b>0.05</b>	<b>0.60</b>	—	<b>(0.51)</b>	—	—	<b>(0.51)</b>	<b>23.35</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>22.22</b>	<b>1 532</b>	<b>69</b>	<b>1.91<sup>4</sup></b>	<b>1.91</b>	<b>66.58</b>	<b>0.07</b>
Dec. 31, 2015	21.82	2 289	105	1.98	1.98	124.55	0.09
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>22.22</b>	<b>190</b>	<b>9</b>	<b>1.91<sup>4</sup></b>	<b>1.91</b>	<b>66.58</b>	<b>0.07</b>
Dec. 31, 2015	21.82	166	8	1.98	1.98	124.55	0.09
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>22.85</b>	<b>39 450</b>	<b>1 726</b>	<b>1.10<sup>4</sup></b>	<b>1.10</b>	<b>66.58</b>	<b>0.07</b>
Dec. 31, 2015	22.44	43 208	1 925	1.18	1.18	124.55	0.09
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>23.10</b>	<b>2 268</b>	<b>98</b>	<b>0.86<sup>4</sup></b>	<b>0.86</b>	<b>66.58</b>	<b>0.07</b>
Dec. 31, 2015	22.70	764	34	0.95	0.95	124.55	0.09
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>23.35</b>	<b>66 230</b>	<b>2 836</b>	<b>0.08</b>	<b>0.08</b>	<b>66.58</b>	<b>0.07</b>
Dec. 31, 2015	22.93	77 521	3 381	0.08	0.08	124.55	0.09
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.82%, Advisor Series – 1.82%, Series D – 1.02% and Series F – 0.78%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

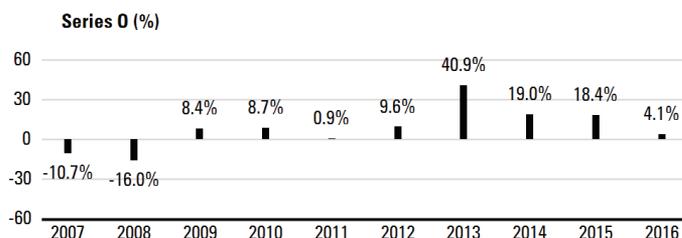
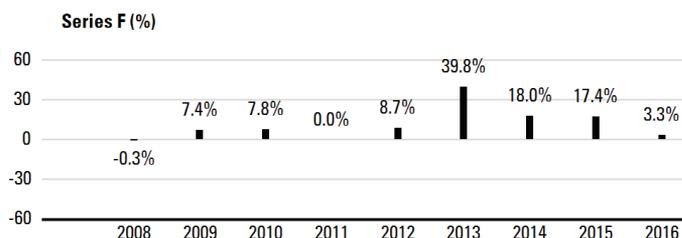
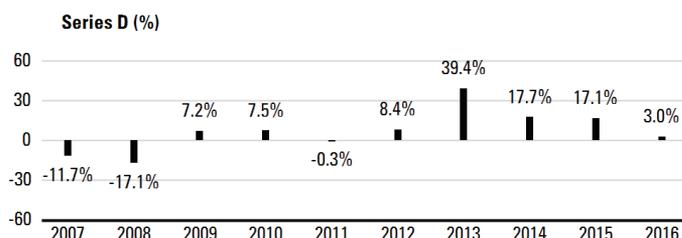
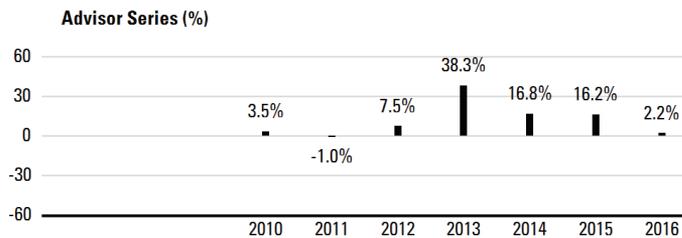
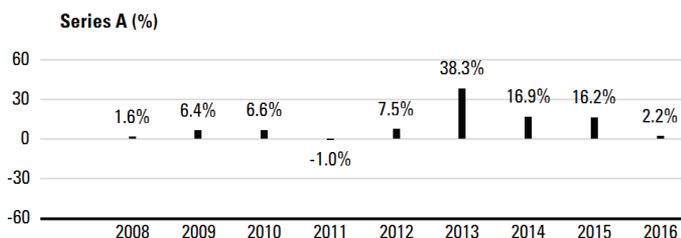
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	2.2	11.5	15.6	—	11.2
Benchmark	8.6	17.7	21.2	—	15.6
Advisor Series	2.2	11.5	15.6	—	12.9
Benchmark	8.6	17.7	21.2	—	18.5
Series D	3.0	12.4	16.5	6.1	—
Benchmark	8.6	17.7	21.2	8.5	—
Series F	3.3	12.7	16.8	—	11.9
Benchmark	8.6	17.7	21.2	—	14.7
Series O	4.1	13.6	17.8	7.3	—
Benchmark	8.6	17.7	21.2	8.5	—

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 A 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.

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

**Investment Mix**

	% of Net Asset Value
Information Technology	22.9
Financials	14.7
Health Care	12.1
Consumer Discretionary	11.9
Industrials	10.5
Consumer Staples	9.2
Energy	7.1
Utilities	4.1
Materials	2.8
Real Estate	2.4
Telecommunication Services	1.1
Cash/Other	1.2

**Top 25 Holdings**

	% of Net Asset Value
Microsoft Corp.	3.3
Alphabet Inc., Class C	3.0
Apple Inc.	2.9
Amazon.com, Inc.	2.4
Facebook Inc., Class A	2.4
Bank of New York Mellon Corp.	2.3
DTE Energy Company	2.3
Pioneer Natural Resources Co.	2.1
Bank of America Corp.	2.1
The Procter & Gamble Co.	2.0
Broadcom Ltd.	2.0
American Electric Power	1.9
Honeywell International Inc.	1.8
PepsiCo Inc.	1.8
Johnson & Johnson	1.8
Synchrony Financial	1.7
Time Warner Inc.	1.7
Suntrust Banks Inc.	1.7
Celgene Corp.	1.6
Chubb Ltd.	1.6
Aetna Inc.	1.5
Medtronic Plc.	1.5
Western Digital Corp.	1.5
S&P Global Inc.	1.5
Citigroup Inc.	1.4
Top 25 Holdings	49.8

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).

INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
OVERSEAS EQUITY FUND***December 31, 2016***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 8, 2017.

**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 \$1.0 billion as of December 31, 2016, from \$976 million at the end of 2015. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund's Series O units lost 6.5%, which underperformed the 2.5% 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 bulk of the Fund's underperformance was due to events and trends that occurred in the second half of 2016, and which accelerated after the election of Donald Trump as U.S. president in November.

A number of factors held back returns for investors in global equity markets, particularly for those focused on longer-term drivers of performance. Among the negatives were rising U.S. bond yields, which harmed the Fund's holdings in the Consumer Staples sector and propelled shares of the lowest-quality companies in the Financials sector – stocks that are absent from the portfolio because they almost never meet the Fund's investment criteria. Moreover, expectations that governments would boost fiscal spending aided stocks in the Materials sector, a sector where the sub-advisor has struggled to find high-quality businesses. The decision by the U.K. in June to leave the EU ("Brexit") was a negative for a number of the Fund's U.K. holdings. In addition, the Fund's Health Care holdings came under pressure owing to concerns that drug-price increases would be limited.

Stocks in the portfolio that had a negative impact on returns included the pharmaceuticals companies Novo Nordisk of Denmark and Swiss-based Roche, as well as the U.K. bookmaker Paddy Power, which was hurt by the Brexit vote.

Contributors to returns included chip maker Taiwan Semiconductor, which benefited from demand for products used in mobile devices, especially Apple's iPhone; Nidec, a Japanese manufacturer of electronic motors and switches; and Germany's Deutsche Post, a global shipping company.

**Recent Developments**

Big-picture events dominated financial markets in 2016. Oil-price swings, relative bond yields, Brexit and the U.S. Presidential election all distracted investors to some degree from company earnings and balance sheets – fundamentals that tend to determine long-term shareholder returns. The sub-advisor remains convinced that investors will more fully realize the value of the holdings in the portfolio in due course. Investors must be mindful that signs of a retreat in global trade may mark the start of a longer-term trend that negatively affects capital markets. The sub-advisor has attempted to factor in any impact related to this shift.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.85% to 1.75% for Series C and Advisor Series units; from 1.10% to 1.00% for Series D units; and from 0.85% to 0.75% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

**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 A, 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.

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$92,000 (2015 – \$112,000), or 5% (2015 – 7%) 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>13.81</b>	<b>0.38</b>	<b>(0.28)</b>	<b>0.14</b>	<b>(1.57)</b>	<b>(1.33)</b>	—	<b>(0.11)</b>	—	—	<b>(0.11)</b>	<b>12.55</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>13.81</b>	<b>0.38</b>	<b>(0.28)</b>	<b>0.14</b>	<b>(1.59)</b>	<b>(1.35)</b>	—	<b>(0.11)</b>	—	—	<b>(0.11)</b>	<b>12.55</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>13.72</b>	<b>0.38</b>	<b>(0.16)</b>	<b>0.14</b>	<b>(1.42)</b>	<b>(1.06)</b>	—	<b>(0.22)</b>	—	—	<b>(0.22)</b>	<b>12.46</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>13.08</b>	<b>0.36</b>	<b>(0.13)</b>	<b>0.14</b>	<b>(0.89)</b>	<b>(0.52)</b>	—	<b>(0.23)</b>	—	—	<b>(0.23)</b>	<b>11.88</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>13.99</b>	<b>0.39</b>	<b>(0.01)</b>	<b>0.15</b>	<b>(1.31)</b>	<b>(0.78)</b>	—	<b>(0.36)</b>	—	—	<b>(0.36)</b>	<b>12.72</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>12.55</b>	<b>2 888</b>	<b>230</b>	<b>2.16<sup>4</sup></b>	<b>2.16</b>	<b>33.49</b>	<b>0.19</b>
Dec. 31, 2015	13.81	3 664	265	2.22	2.22	35.42	0.17
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>12.55</b>	<b>1 013</b>	<b>81</b>	<b>2.16<sup>4</sup></b>	<b>2.16</b>	<b>33.49</b>	<b>0.19</b>
Dec. 31, 2015	13.81	1 401	101	2.22	2.22	35.42	0.17
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>12.46</b>	<b>165 905</b>	<b>13 316</b>	<b>1.29<sup>4</sup></b>	<b>1.29</b>	<b>33.49</b>	<b>0.19</b>
Dec. 31, 2015	13.72	186 721	13 614	1.34	1.34	35.42	0.17
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>11.88</b>	<b>9 150</b>	<b>770</b>	<b>1.06<sup>4</sup></b>	<b>1.06</b>	<b>33.49</b>	<b>0.19</b>
Dec. 31, 2015	13.08	5 569	426	1.13	1.13	35.42	0.17
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>12.72</b>	<b>835 297</b>	<b>65 680</b>	<b>0.09</b>	<b>0.09</b>	<b>33.49</b>	<b>0.19</b>
Dec. 31, 2015	13.99	778 286	55 634	0.09	0.09	35.42	0.17
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 2.10%, Advisor Series – 2.10%, Series D – 1.23% and Series F – 1.01%.

**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 A	1.75%	54%	46%
Advisor Series	1.75%	54%	46%
Series D	1.00%	23%	77%
Series F	0.75%	—	100%

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

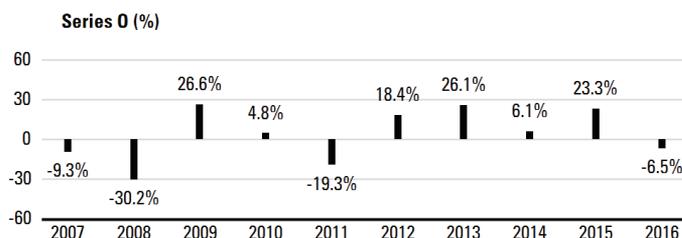
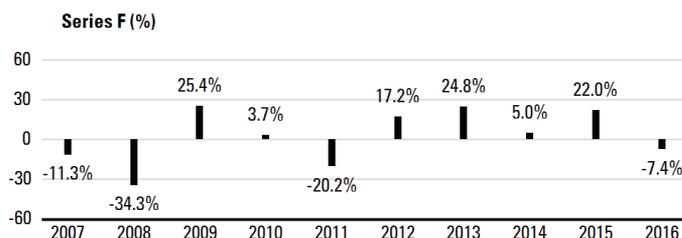
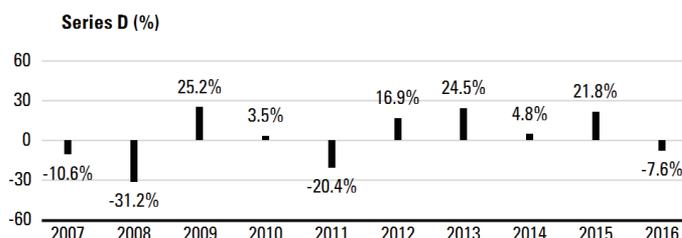
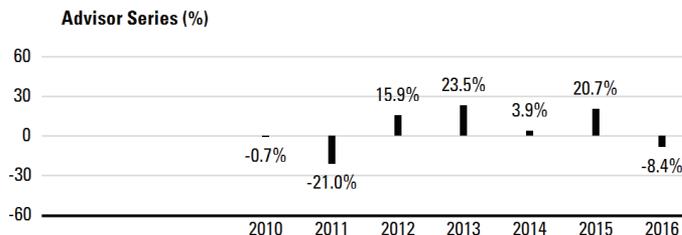
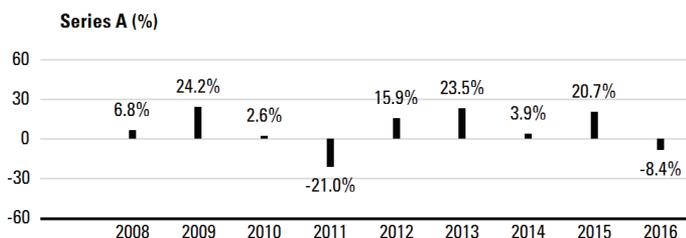
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



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

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	-8.4	4.8	10.5	—	7.3
Benchmark	-2.5	6.3	12.6	—	8.7
Advisor Series	-8.4	4.8	10.5	—	4.2
Benchmark	-2.5	6.3	12.6	—	8.3
Series D	-7.6	5.7	11.4	0.9	—
Benchmark	-2.5	6.3	12.6	2.2	—
Series F	-7.4	5.9	11.7	—	0.5
Benchmark	-2.5	6.3	12.6	—	2.2
Series O	-6.5	7.0	12.8	2.2	—
Benchmark	-2.5	6.3	12.6	2.2	—

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 A 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.

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

**Investment Mix – Sectors**

	% of Net Asset Value
Financials	18.3
Industrials	17.2
Consumer Discretionary	16.0
Consumer Staples	11.8
Health Care	9.5
Information Technology	8.9
Energy	6.2
Materials	5.7
Telecommunication Services	3.8
Utilities	1.6
Cash/Other	1.0

**Investment Mix – Countries/Regions**

	% of Net Asset Value
Europe ex-United Kingdom Equities	45.5
Japan Equities	18.2
Pacific Rim ex-Japan Equities	17.7
United Kingdom Equities	13.6
Middle East and Africa Equities	3.9
Cash/Other	1.1

**Top 25 Holdings**

	% of Net Asset Value
Deutsche Post AG	4.9
Safran S.A.	4.9
ASML Holding N.V.	4.6
Pernod-Ricard S.A.	4.3
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	4.3
Nidec Corp.	4.1
InterContinental Hotels Group Plc.	4.1
Anheuser-Busch InBev S.A./N.V.	4.0
Naspers Ltd.	3.9
AIA Group Ltd.	3.6
Roche Holdings AG Genussscheine	3.6
Kubota Corp.	3.3
HDFC Bank Ltd. ADR	3.2
Oil Search Ltd.	3.2
Novo Nordisk A/S	3.1
UBS Group AG	3.0
Royal Dutch Shell Plc., B Shares	3.0
Oriental Land Co. Ltd.	3.0
Astellas Pharma Inc.	2.9
Paddy Power Betfair Plc.	2.8
St James's Place Plc.	2.6
Akzo Nobel N.V.	2.6
Lloyds TSB Group Plc.	2.3
Nippon Telegraph & Telephone Corp.	2.2
Air Liquide S.A.	2.0
Top 25 Holdings	85.5

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).

INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CURRENCY-HEDGED OVERSEAS  
EQUITY FUND***December 31, 2016***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 8, 2017.

**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**

The Fund has multiple risks, which are similar to the risks of investing in the underlying fund(s). The Fund is suitable for investors who plan to hold their investments for the long term and can tolerate medium investment 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 \$165 million as of December 31, 2016, from \$171 million at the end of 2015. The decrease was due mostly to net redemptions.

Over the past year, the Fund's Series O units lost 0.9%, which underperformed the 5.8% 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.

The bulk of the Fund's underperformance was due to events and trends that occurred in the second half of 2016, and which accelerated after the election of Donald Trump as U.S. president in November.

A number of factors held back returns for investors in global equity markets, particularly for those focused on longer-term drivers of performance. Among the negatives were rising U.S. bond yields, which harmed the Fund's holdings in the Consumer Staples sector and propelled shares of the lowest-quality companies in the Financials sector – stocks that are absent from the portfolio because they almost never meet the Fund's investment criteria. Moreover, expectations that governments would boost fiscal spending aided stocks in the Materials sector, a sector where the portfolio manager

has struggled to find high-quality businesses. The decision by the U.K in June to leave the EU ("Brexit") was a negative for a number of the Fund's U.K. holdings. In addition, the Fund's Health Care holdings came under pressure owing to concerns that drug-price increases would be limited.

Stocks in the portfolio that had a negative impact on returns included the pharmaceuticals companies Novo Nordisk of Denmark and Swiss-based Roche, as well as the U.K. bookmaker Paddy Power, which was hurt by the Brexit vote.

Contributors to returns included chip maker Taiwan Semiconductor, which benefited from demand for products used in mobile devices, especially Apple's iPhone; Nidec, a Japanese manufacturer of electronic motors and switches; and Germany's Deutsche Post, a global shipping company.

The Fund's currency-hedging mandate had a positive impact on returns in 2016, as the Fund was shielded from the fall in foreign currencies versus the Canadian dollar.

**Recent Developments**

Big-picture events dominated financial markets in 2016; oil-price volatility, relative bond yields, Brexit and the U.S. presidential election all distracted investors to some degree from company earnings and balance sheets – fundamentals that tend to determine long-term shareholder returns. The portfolio manager remains convinced that investors will more fully realize the value of holdings in the portfolio in due course. Investors must be mindful that signs of a retreat in global trade may mark the start of a longer-term trend that negatively affects capital markets. The portfolio manager has attempted to factor in any impact related to this shift.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.85% to 1.75% for Series C and Advisor Series units; from 1.10% to 1.00% for Series D units; and from 0.85% to 0.75% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED OVERSEAS EQUITY 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 A, 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 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>9.73</b>	<b>0.25</b>	<b>(0.20)</b>	<b>0.53</b>	<b>(0.95)</b>	<b>(0.37)</b>	—	<b>(0.06)</b>	—	—	<b>(0.06)</b>	<b>9.38</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>9.73</b>	<b>0.25</b>	<b>(0.20)</b>	<b>0.53</b>	<b>(0.76)</b>	<b>(0.18)</b>	—	<b>(0.06)</b>	—	—	<b>(0.06)</b>	<b>9.39</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>9.46</b>	<b>0.25</b>	<b>(0.12)</b>	<b>0.52</b>	<b>(0.66)</b>	<b>(0.01)</b>	—	<b>(0.14)</b>	—	—	<b>(0.14)</b>	<b>9.13</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>9.55</b>	<b>0.25</b>	<b>(0.10)</b>	<b>0.52</b>	<b>(0.75)</b>	<b>(0.08)</b>	—	<b>(0.16)</b>	—	—	<b>(0.16)</b>	<b>9.22</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>9.59</b>	<b>0.25</b>	<b>(0.01)</b>	<b>0.53</b>	<b>(0.87)</b>	<b>(0.10)</b>	—	<b>(0.25)</b>	—	—	<b>(0.25)</b>	<b>9.26</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>9.38</b>	<b>570</b>	<b>61</b>	<b>2.28<sup>4</sup></b>	<b>2.28</b>	<b>18.67</b>	<b>0.18</b>
Dec. 31, 2015	9.73	733	75	2.30	2.30	20.40	0.17
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>9.39</b>	<b>1 675</b>	<b>178</b>	<b>2.28<sup>4</sup></b>	<b>2.28</b>	<b>18.67</b>	<b>0.18</b>
Dec. 31, 2015	9.73	1 675	172	2.30	2.30	20.40	0.17
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>9.13</b>	<b>13 610</b>	<b>1 490</b>	<b>1.37<sup>4</sup></b>	<b>1.37</b>	<b>18.67</b>	<b>0.18</b>
Dec. 31, 2015	9.46	11 977	1 266	1.43	1.43	20.40	0.17
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>9.22</b>	<b>2 956</b>	<b>321</b>	<b>1.16<sup>4</sup></b>	<b>1.16</b>	<b>18.67</b>	<b>0.18</b>
Dec. 31, 2015	9.55	3 268	342	1.19	1.19	20.40	0.17
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>9.26</b>	<b>146 277</b>	<b>15 799</b>	<b>0.24</b>	<b>0.24</b>	<b>18.67</b>	<b>0.18</b>
Dec. 31, 2015	9.59	153 811	16 036	0.24	0.24	20.40	0.17
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 2.22%, Advisor Series – 2.22%, Series D – 1.32% and Series F – 1.11%.

**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 A	1.75%	54%	46%
Advisor Series	1.75%	54%	46%
Series D	1.00%	23%	77%
Series F	0.75%	—	100%

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

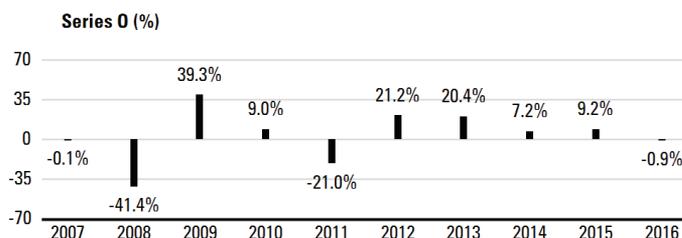
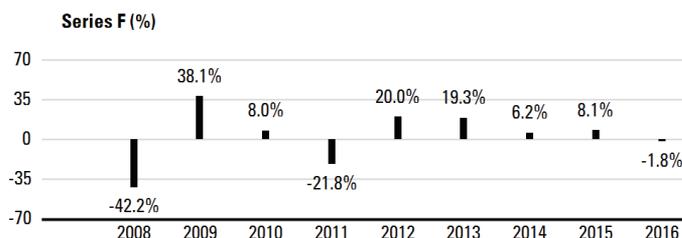
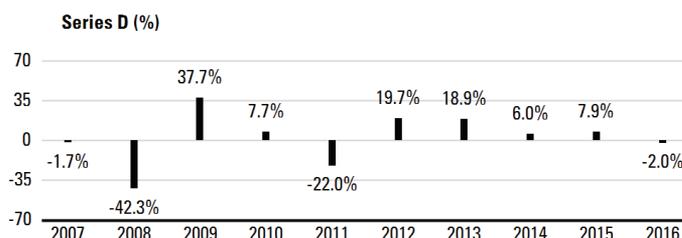
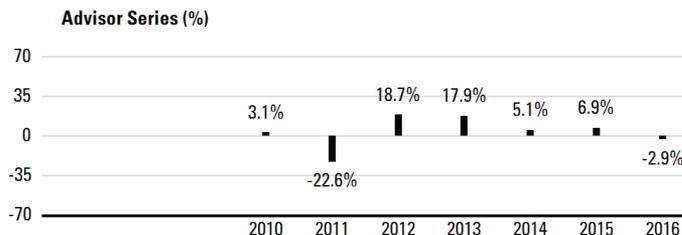
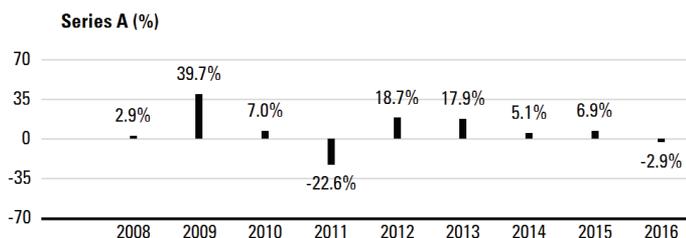
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED  
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, 2016, 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 A	-2.9	2.9	8.8	—	7.7
Benchmark	5.8	5.8	12.2	—	9.2
Advisor Series	-2.9	2.9	8.8	—	3.3
Benchmark	5.8	5.8	12.2	—	8.1
Series D	-2.0	3.9	9.8	0.5	—
Benchmark	5.8	5.8	12.2	2.0	—
Series F	-1.8	4.1	10.1	—	1.0
Benchmark	5.8	5.8	12.2	—	1.8
Series O	-0.9	5.1	11.1	1.7	—
Benchmark	5.8	5.8	12.2	2.0	—

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 A 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.

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

**Investment Mix – Sectors**

	% of Net Asset Value
Financials	18.2
Industrials	17.1
Consumer Discretionary	15.9
Consumer Staples	11.7
Health Care	9.5
Information Technology	8.9
Energy	6.2
Materials	5.6
Telecommunication Services	3.7
Utilities	1.6
Cash/Other	1.6

**Investment Mix – Countries/Regions**

	% of Net Asset Value
Europe ex-United Kingdom Equities	45.0
Japan Equities	17.9
Pacific Rim ex-Japan Equities	17.4
United Kingdom Equities	13.4
Middle East and Africa Equities	3.8
Cash/Other	2.5

**Top 25 Holdings\***

	% of Net Asset Value
Deutsche Post AG	4.9
Safran S.A.	4.9
ASML Holding N.V.	4.6
Pernod-Ricard S.A.	4.3
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	4.3
Nidec Corp.	4.1
InterContinental Hotels Group Plc.	4.1
Anheuser-Busch InBev S.A./N.V.	4.0
Naspers Ltd.	3.9
AIA Group Ltd.	3.6
Roche Holdings AG Genussscheine	3.6
Kubota Corp.	3.3
HDFC Bank Ltd. ADR	3.2
Oil Search Ltd.	3.2
Novo Nordisk A/S	3.1
UBS Group AG	3.0
Royal Dutch Shell Plc., B Shares	3.0
Oriental Land Co. Ltd.	3.0
Astellas Pharma Inc.	2.9
Paddy Power Betfair Plc.	2.8
St James's Place Plc.	2.6
Akzo Nobel N.V.	2.6
Lloyds TSB Group Plc.	2.3
Nippon Telegraph & Telephone Corp.	2.2
Air Liquide S.A.	2.0
Top 25 Holdings	85.5

\* 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, 2016***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 8, 2017.

**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 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 \$160 million as of December 31, 2016, from \$121 million at the end of 2015. The change was due mostly to net inflows.

Over the past year, the Fund's Series O units gained 1.2%, which underperformed the 3.8% 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.

The bulk of the Fund's underperformance was due to events and trends that occurred in the second half of 2016, and which accelerated after the election of Donald Trump as U.S. president in November.

A number of factors held back returns for investors in global equity markets, particularly for those focused on longer-term drivers of performance. Among the negatives were rising U.S. bond yields, which harmed the Fund's holdings in the Consumer Staples sector and propelled shares of the lowest-quality companies in the Financials sector – stocks that were absent from the portfolio because they almost never meet the Fund's investment criteria. Moreover, expectations that governments would boost fiscal spending aided stocks in the Materials sector, a sector where the sub-advisor has struggled to find high-quality businesses. The decision by the U.K. in June to leave the EU ("Brexit") was a negative for a number of the Fund's U.K. holdings. In addition, the Fund's Health Care holdings came under pressure owing to concerns that drug-price increases would be limited.

Stocks in the portfolio that had a negative impact on returns included the pharmaceuticals companies Novo Nordisk of Denmark and Swiss-based Roche, as well as the U.K. bookmaker Paddy Power, which was hurt by the Brexit vote.

Contributors to returns included EOG Resources, an oil producer that benefited from higher prices; UnitedHealth, a U.S. provider of health-insurance programs; and chip maker Taiwan Semiconductor, which benefited from demand for products used in mobile devices, especially Apple's iPhone.

### Recent Developments

Big-picture events dominated financial markets in 2016. Oil-price swings, relative bond yields, Brexit and the U.S. presidential election all distracted investors to some degree from company earnings and balance sheets – fundamentals that tend to determine long-term shareholder returns. The sub-advisor remains convinced that investors will more fully realize the value of holdings in the portfolio in due course. Investors must be mindful that signs of a retreat in global trade may mark the start of a longer-term trend that negatively affects capital markets. The sub-advisor has attempted to factor in any impact related to this shift.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series C units were renamed Series A units.

### 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 A, 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.

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$2,000 (2015 – \$15,000), or 1% (2015 – 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>14.47</b>	<b>0.27</b>	<b>(0.28)</b>	<b>0.71</b>	<b>(0.81)</b>	<b>(0.11)</b>	—	—	—	—	—	<b>14.36</b>
Dec. 31, 2015	11.82	0.23	(0.28)	0.73	1.95	2.63	—	—	—	—	—	14.47
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>14.47</b>	<b>0.27</b>	<b>(0.28)</b>	<b>0.70</b>	<b>(0.94)</b>	<b>(0.25)</b>	—	—	—	—	—	<b>14.36</b>
Dec. 31, 2015	11.82	0.23	(0.28)	0.73	1.94	2.62	—	—	—	—	—	14.47
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>14.69</b>	<b>0.28</b>	<b>(0.17)</b>	<b>0.72</b>	<b>(0.81)</b>	<b>0.02</b>	—	<b>(0.04)</b>	—	—	<b>(0.04)</b>	<b>14.67</b>
Dec. 31, 2015	11.94	0.23	(0.16)	0.74	1.98	2.79	—	(0.06)	—	—	(0.06)	14.69
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>14.87</b>	<b>0.27</b>	<b>(0.14)</b>	<b>0.71</b>	<b>(0.58)</b>	<b>0.26</b>	—	<b>(0.07)</b>	—	—	<b>(0.07)</b>	<b>14.86</b>
Dec. 31, 2015	12.10	0.24	(0.13)	0.75	1.99	2.85	—	(0.10)	—	—	(0.10)	14.87
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>15.08</b>	<b>0.28</b>	<b>(0.01)</b>	<b>0.72</b>	<b>(0.85)</b>	<b>0.14</b>	—	<b>(0.21)</b>	—	—	<b>(0.21)</b>	<b>15.06</b>
Dec. 31, 2015	12.26	0.24	(0.01)	0.77	2.04	3.04	—	(0.23)	—	—	(0.23)	15.08
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>14.36</b>	<b>6 953</b>	<b>484</b>	<b>2.06</b>	<b>2.06</b>	<b>47.90</b>	<b>0.20</b>
Dec. 31, 2015	14.47	7 246	501	2.06	2.06	38.75	0.17
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>14.36</b>	<b>3 353</b>	<b>233</b>	<b>2.06</b>	<b>2.06</b>	<b>47.90</b>	<b>0.20</b>
Dec. 31, 2015	14.47	3 686	255	2.06	2.06	38.75	0.17
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>14.67</b>	<b>52 931</b>	<b>3 609</b>	<b>1.19</b>	<b>1.19</b>	<b>47.90</b>	<b>0.20</b>
Dec. 31, 2015	14.69	52 874	3 600	1.19	1.19	38.75	0.17
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>14.86</b>	<b>7 292</b>	<b>491</b>	<b>0.95</b>	<b>0.95</b>	<b>47.90</b>	<b>0.20</b>
Dec. 31, 2015	14.87	2 536	171	0.95	0.95	38.75	0.17
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>15.06</b>	<b>89 103</b>	<b>5 917</b>	<b>0.07</b>	<b>0.07</b>	<b>47.90</b>	<b>0.20</b>
Dec. 31, 2015	15.08	54 566	3 619	0.07	0.07	38.75	0.17
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

<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 A	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

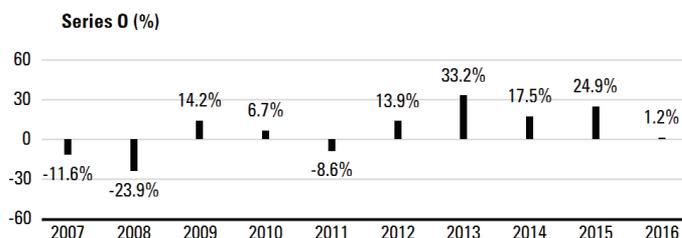
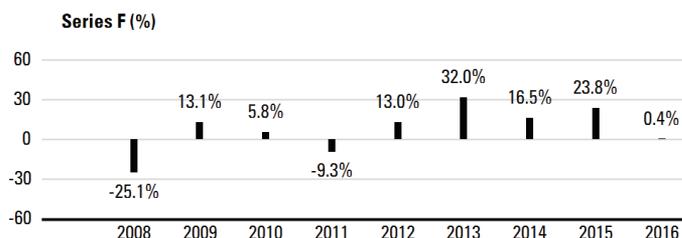
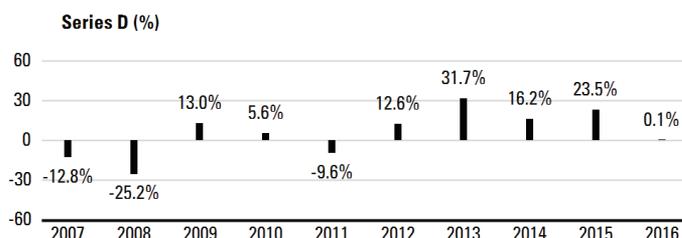
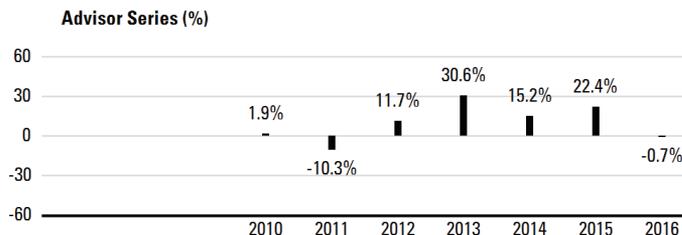
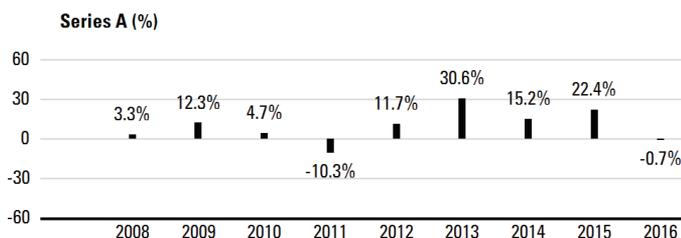
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



## PAST PERFORMANCE (cont.)

### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	-0.7	11.9	15.3	—	10.4
Benchmark	3.8	12.2	16.7	—	12.1
Advisor Series	-0.7	11.9	15.3	—	10.6
Benchmark	3.8	12.2	16.7	—	13.2
Series D	0.1	12.9	16.3	4.1	—
Benchmark	3.8	12.2	16.7	5.3	—
Series F	0.4	13.1	16.6	—	6.5
Benchmark	3.8	12.2	16.7	—	6.8
Series O	1.2	14.1	17.7	5.4	—
Benchmark	3.8	12.2	16.7	5.3	—

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

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

### Investment Mix – Sectors

	% of Net Asset Value
Financials	19.9
Information Technology	18.2
Consumer Discretionary	15.3
Industrials	13.0
Health Care	12.4
Consumer Staples	8.8
Energy	7.6
Materials	2.0
Utilities	2.0
Cash/Other	0.8

### Investment Mix – Countries/Regions

	% of Net Asset Value
United States Equities	59.4
Europe ex-United Kingdom Equities	22.1
Pacific Rim ex-Japan Equities	6.8
United Kingdom Equities	4.9
Japan Equities	3.2
Middle East and Africa Equities	2.8
Cash/Other	0.8

### Top 25 Holdings

	% of Net Asset Value
First Republic Bank	4.2
UnitedHealth Group Incorporated	4.2
EOG Resources Inc.	4.1
Alphabet Inc., Class A	4.0
Intuit Inc.	3.7
Fortive Corp.	3.6
TJX Companies Inc.	3.6
Blackstone Group LP	3.5
Deutsche Post AG	3.5
HDFC Bank Ltd. ADR	3.4
Danaher Corp.	3.4
Amazon.com, Inc.	3.2
Estée Lauder Companies Inc., Class A	3.1
InterContinental Hotels Group Plc.	3.1
Anheuser-Busch InBev S.A./N.V.	2.9
Gartner Inc.	2.8
ASML Holding N.V.	2.8
Naspers Ltd.	2.8
Safran S.A.	2.8
Pernod-Ricard S.A.	2.8
SVB Financial Group	2.7
Roche Holdings AG Genussscheine	2.6
Paddy Power Betfair Plc.	2.5
Activision Blizzard Inc.	2.5
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	2.3
Top 25 Holdings	80.1

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).

## GLOBAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
COMMUNITY VALUES GLOBAL  
EQUITY FUND***December 31, 2016***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 8, 2017.

**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 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 \$135 million as of December 31, 2016, from \$123 million at the end of 2015. The increase was due mostly to net inflows.

Over the past year, the Fund's Series O units gained 1.2%, which underperformed the 3.8% 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.

The bulk of the Fund's underperformance was due to events and trends that occurred in the second half of 2016, and which accelerated after the election of Donald Trump as U.S. president in November.

A number of factors held back returns for investors in global equity markets, particularly for those focused on longer-term drivers of performance. Among the negatives were rising U.S. bond yields, which harmed the Fund's holdings in the Consumer Staples sector and propelled shares of the lowest-quality companies in the Financials sector – stocks that were absent from the portfolio because they almost never meet the Fund's investment criteria. Moreover, expectations that governments would boost fiscal spending aided stocks in the Materials sector, a sector where the sub-advisor has struggled to find high-quality businesses. The decision by the U.K. in June to leave the EU ("Brexit") was a negative for a number of the Fund's U.K. holdings. In addition, the Fund's Health Care holdings came under pressure owing to concerns that drug-price increases would be limited.

Stocks in the portfolio that had a negative impact on returns included the pharmaceuticals companies Novo Nordisk of Denmark and Swiss-based Roche, as well as the U.K. bank Lloyds, which was hurt by the Brexit vote.

Contributors to returns included EOG Resources, an oil producer that benefited from higher prices; UnitedHealth, a U.S. provider of health-insurance programs; and chip maker Taiwan Semiconductor, which benefited from demand for products used in mobile devices, especially Apple's iPhone.

### Recent Developments

Big-picture events dominated financial markets in 2016. Oil-price swings, relative bond yields, Brexit and the U.S. Presidential election all distracted investors to some degree from company earnings and balance sheets – fundamentals that tend to determine long-term shareholder returns. The sub-advisor remains convinced that investors will more fully realize the value of holdings in the portfolio in due course. Investors must be mindful that signs of a retreat in global trade may mark the start of a longer-term trend that negatively affects capital markets. The sub-advisor has attempted to factor in any impact related to this shift.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, Series C units were renamed Series A units.

### 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 A, 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.

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$16,000 (2015 – \$26,000), or 7% (2015 – 15%) of the total transaction costs paid for this Fund.

***Other Related-Party Transactions***

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>13.70</b>	<b>0.27</b>	<b>(0.27)</b>	<b>0.76</b>	<b>(0.90)</b>	<b>(0.14)</b>	–	–	<b>(0.58)</b>	–	<b>(0.58)</b>	<b>13.03</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>13.70</b>	<b>0.27</b>	<b>(0.27)</b>	<b>0.76</b>	<b>(0.59)</b>	<b>0.17</b>	–	–	<b>(0.58)</b>	–	<b>(0.58)</b>	<b>13.03</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>13.63</b>	<b>0.27</b>	<b>(0.16)</b>	<b>0.76</b>	<b>(0.87)</b>	–	–	<b>(0.09)</b>	<b>(0.58)</b>	–	<b>(0.67)</b>	<b>12.98</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>13.62</b>	<b>0.27</b>	<b>(0.13)</b>	<b>0.76</b>	<b>(0.48)</b>	<b>0.42</b>	–	<b>(0.13)</b>	<b>(0.58)</b>	–	<b>(0.71)</b>	<b>12.98</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>13.87</b>	<b>0.28</b>	<b>(0.02)</b>	<b>0.78</b>	<b>(0.81)</b>	<b>0.23</b>	–	<b>(0.24)</b>	<b>(0.60)</b>	–	<b>(0.84)</b>	<b>13.21</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>13.03</b>	<b>3 347</b>	<b>257</b>	<b>2.08</b>	<b>2.08</b>	<b>45.89</b>	<b>0.18</b>
Dec. 31, 2015	13.70	3 528	258	2.08	2.08	35.36	0.15
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>13.03</b>	<b>4 947</b>	<b>380</b>	<b>2.08</b>	<b>2.08</b>	<b>45.89</b>	<b>0.18</b>
Dec. 31, 2015	13.70	3 010	220	2.07	2.07	35.36	0.15
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>12.98</b>	<b>12 050</b>	<b>928</b>	<b>1.24</b>	<b>1.24</b>	<b>45.89</b>	<b>0.18</b>
Dec. 31, 2015	13.63	13 458	987	1.24	1.24	35.36	0.15
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>12.98</b>	<b>4 553</b>	<b>351</b>	<b>0.99</b>	<b>0.99</b>	<b>45.89</b>	<b>0.18</b>
Dec. 31, 2015	13.62	1 900	139	1.00	1.00	35.36	0.15
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>13.21</b>	<b>109 865</b>	<b>8 320</b>	<b>0.17</b>	<b>0.17</b>	<b>45.89</b>	<b>0.18</b>
Dec. 31, 2015	13.87	101 222	7 297	0.17	0.17	35.36	0.15
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

<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 A	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

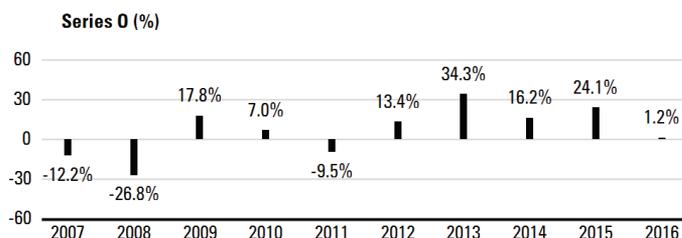
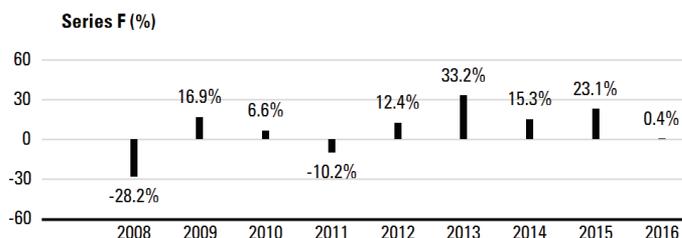
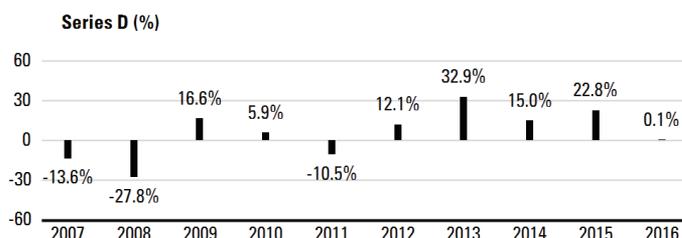
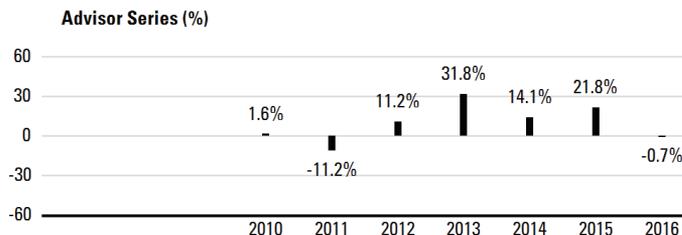
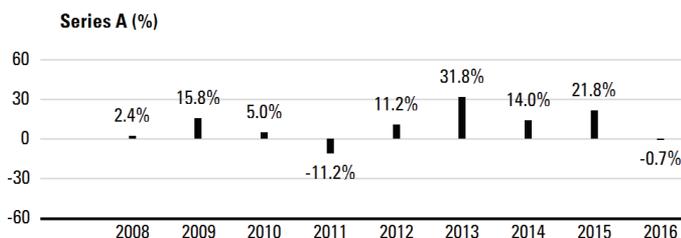
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



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

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	-0.7	11.3	15.1	—	10.5
Benchmark	3.8	12.2	16.7	—	12.1
Advisor Series	-0.7	11.3	15.1	—	10.2
Benchmark	3.8	12.2	16.7	—	13.2
Series D	0.1	12.2	16.1	3.8	—
Benchmark	3.8	12.2	16.7	5.3	—
Series F	0.4	12.5	16.4	—	6.2
Benchmark	3.8	12.2	16.7	—	6.8
Series O	1.2	13.4	17.3	5.0	—
Benchmark	3.8	12.2	16.7	5.3	—

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

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix – Sectors**

	% of Net Asset Value
Information Technology	19.9
Financials	18.3
Health Care	15.6
Industrials	15.6
Consumer Discretionary	10.4
Energy	6.7
Consumer Staples	5.8
Materials	3.7
Utilities	2.4
Telecommunication Services	0.9
Cash/Other	0.7

**Investment Mix – Countries/Regions**

	% of Net Asset Value
United States Equities	55.6
Europe ex-United Kingdom Equities	16.9
Pacific Rim ex-Japan Equities	9.3
Japan Equities	7.6
United Kingdom Equities	7.1
Middle East and Africa Equities	2.9
Cash/Other	0.6

**Top 25 Holdings**

	% of Net Asset Value
UnitedHealth Group Incorporated	4.4
Deutsche Post AG	4.4
Alphabet Inc., Class A	4.2
Intuit Inc.	4.1
First Republic Bank	4.0
TJX Companies Inc.	3.8
InterContinental Hotels Group Plc.	3.7
Safran S.A.	3.7
Estée Lauder Companies Inc., Class A	3.7
EOG Resources Inc.	3.6
Danaher Corp.	3.6
Blackstone Group LP	3.5
Fortive Corp.	3.3
Roche Holdings AG Genussscheine	3.2
Gartner Inc.	3.1
ASML Holding N.V.	3.1
Naspers Ltd.	2.9
HDFC Bank Ltd. ADR	2.8
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	2.8
Activision Blizzard Inc.	2.7
SVB Financial Group	2.6
Novo Nordisk A/S	2.5
Nidec Corp.	2.3
AIA Group Ltd.	2.2
Ecolab Inc.	2.0
Top 25 Holdings	82.2

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, [www.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, 2016***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 8, 2017.

**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

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment 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 \$10 million as of December 31, 2016, from \$8 million at the end of 2015. The increase was due to a mix of net inflows and investment returns.

Over the past year, the Fund’s Series O units rose 6.1%. The FTSE TMX Canada Universe Bond Index rose 1.7%, and the S&P/TSX Capped Composite Total Return Index rose 21.1%. 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.

Investors witnessed an abundance of political and macroeconomic headlines in 2016. Early in the year, the European Central Bank announced a series of measures aimed at bolstering economic growth, followed by the decision in June by U.K. voters to leave the EU (“Brexit”) and, in November, Donald Trump’s election as U.S. president.

In December, the U.S. Federal Reserve raised short-term rates for the first time in 12 months and hinted that more hikes were coming. Growth in the Canadian economy remained soft for much of 2016, weighed down by weak oil prices at the beginning of the year and the consequent drop in exports.

Global sovereign bonds ended 2016 with gains, as a rally, fuelled by central-bank purchases and economic concerns present for much of the year was offset by big price drops after the U.S. presidential election in November. Government-bond yields, which move in the opposite direction as prices, touched their lows during the summer following Brexit but rose steadily after mid-year. Yields then surged after Trump’s surprise win led to speculation that increased fiscal spending and other measures would lead to faster economic growth and inflation. Canadian federal-government bonds underperformed U.S. Treasury securities, due in part to expectations that higher oil prices might lead to faster domestic inflation. All of the Fund’s fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Inflation-Linked Bond Fund.

Global stocks rose in 2016, with Canada’s market being one of the strongest after oil prices rebounded beginning in the first quarter. U.S. markets also gained while European equities generally fell, adjusted for the Canadian dollar. Stocks declined immediately after Brexit, but quickly recovered to end the year above pre-Brexit levels. The Canadian dollar rose modestly against the U.S. dollar amid higher oil prices. Overall, the Fund’s equity holdings had a positive impact on returns, led by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Conservative Equity Income Fund.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed income remains unimpressive, in the view of the portfolio manager. The possibility that a Trump administration could lead to a significant increase in earnings, and therefore equity prices, shouldn’t be ignored.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the “IRC”). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the 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 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		
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>10.96</b>	<b>0.29</b>	<b>(0.10)</b>	<b>0.18</b>	<b>0.19</b>	<b>0.56</b>	<b>(0.09)</b>	<b>(0.09)</b>	<b>(0.19)</b>	–	<b>(0.37)</b>	<b>11.16</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>10.92</b>	<b>0.29</b>	<b>(0.01)</b>	<b>0.19</b>	<b>0.18</b>	<b>0.65</b>	<b>(0.14)</b>	<b>(0.14)</b>	<b>(0.19)</b>	–	<b>(0.47)</b>	<b>11.12</b>
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

<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 D</b>							
<b>Dec. 31, 2016</b>	<b>11.16</b>	<b>6 306</b>	<b>565</b>	<b>0.90</b>	<b>0.92</b>	<b>28.96</b>	<b>0.03</b>
Dec. 31, 2015	10.96	5 187	473	0.90	0.93	85.81	0.03
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>11.12</b>	<b>3 381</b>	<b>304</b>	<b>0.08</b>	<b>0.11</b>	<b>28.96</b>	<b>0.03</b>
Dec. 31, 2015	10.92	2 750	252	0.08	0.12	85.81	0.03
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

<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.

**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.

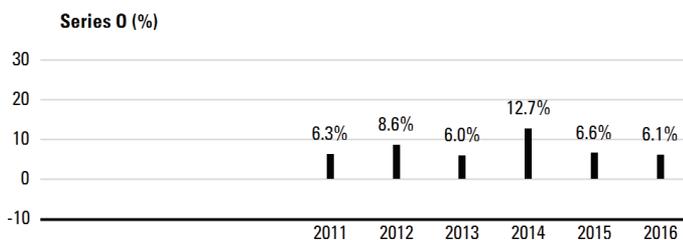
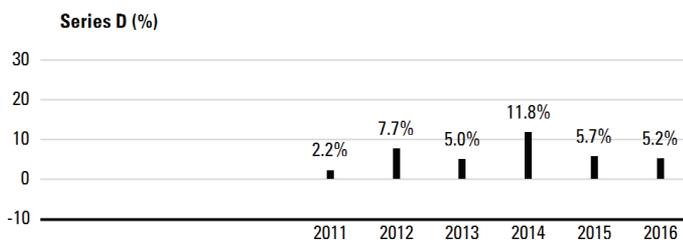
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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	5.2	7.5	7.1	–	6.8
Benchmark 1	1.7	4.6	3.2	–	4.3
Benchmark 2	21.1	7.1	8.2	–	5.7
Series O	6.1	8.4	8.0	–	7.8
Benchmark 1	1.7	4.6	3.2	–	4.4
Benchmark 2	21.1	7.1	8.2	–	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 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.

**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*

*As at December 31, 2016*

**Investment Mix**

	% of Net Asset Value
Bonds	61.6
Global Equities	20.8
Canadian Equities	12.5
United States Equities	4.1
Cash/Other	1.0

**Top 25 Holdings\***

	% of Net Asset Value
Phillips, Hager & North Inflation-Linked Bond Fund	34.7
Phillips, Hager & North Bond Fund	26.9
RBC QUBE Low Volatility Global Equity Fund	20.8
Phillips, Hager & North Conservative Equity Income Fund	6.3
Phillips, Hager & North Canadian Equity Underlying Fund	6.2
Vanguard Real Estate Investment Trust Fund	4.1
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 2020 FUND***December 31, 2016***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 8, 2017.

**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 achieve a balance of income and long-term capital growth relative to its target retirement date of 2020 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

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment 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 \$33 million as of December 31, 2016, from \$23 million at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units rose 7.2%. The FTSE TMX Canada Universe Bond Index rose 1.7%, and the S&P/TSX Capped Composite Total Return Index rose 21.1%. 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.

Investors witnessed an abundance of political and macroeconomic headlines in 2016. Early in the year, the European Central Bank announced a series of measures aimed at bolstering economic growth, followed by the decision in June by U.K. voters to leave the EU (“Brexit”) and, in November, Donald Trump’s election as U.S. president. In December, the U.S. Federal Reserve raised short-term rates for

the first time in 12 months and hinted that more hikes were coming. Growth in the Canadian economy remained soft for much of 2016, weighed down by weak oil prices at the beginning of the year and the consequent drop in exports.

Global sovereign bonds ended 2016 with gains, as a rally, fuelled by central-bank purchases and economic concerns present for much of the year was offset by big price drops after the U.S. presidential election in November. Government-bond yields, which move in the opposite direction as prices, touched their lows during the summer following Brexit but rose steadily after mid-year. Yields then surged after Trump’s surprise win led to speculation that increased fiscal spending and other measures would lead to faster economic growth and inflation. Canadian federal-government bonds underperformed U.S. Treasury securities, due in part to expectations that higher oil prices might lead to faster domestic inflation. All of the Fund’s fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Inflation-Linked Bond Fund.

Global stocks rose in 2016, with Canada’s market being one of the strongest after oil prices rebounded beginning in the first quarter. U.S. markets also gained while European equities generally fell, adjusted for the Canadian dollar. Stocks declined immediately after Brexit, but quickly recovered to end the year above pre-Brexit levels. The Canadian dollar rose modestly against the U.S. dollar amid higher oil prices. Overall, the Fund’s equity holdings had a positive impact on returns, led by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Conservative Equity Income Fund.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed income remains unimpressive, in the view of the portfolio manager. The possibility that a Trump administration could lead to a significant increase in earnings, and therefore equity prices, shouldn’t be ignored.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the “IRC”). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the 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 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		
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>11.94</b>	<b>0.31</b>	<b>(0.12)</b>	<b>0.17</b>	<b>0.36</b>	<b>0.72</b>	<b>(0.06)</b>	<b>(0.11)</b>	<b>(0.09)</b>	–	<b>(0.26)</b>	<b>12.42</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>11.85</b>	<b>0.31</b>	<b>(0.01)</b>	<b>0.17</b>	<b>0.36</b>	<b>0.83</b>	<b>(0.10)</b>	<b>(0.18)</b>	<b>(0.09)</b>	–	<b>(0.37)</b>	<b>12.33</b>
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

<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 D</b>							
<b>Dec. 31, 2016</b>	<b>12.42</b>	<b>21 368</b>	<b>1 720</b>	<b>0.97</b>	<b>0.98</b>	<b>19.94</b>	<b>0.05</b>
Dec. 31, 2015	11.94	14 303	1 198	0.96	0.98	63.64	0.04
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>12.33</b>	<b>11 406</b>	<b>925</b>	<b>0.09</b>	<b>0.10</b>	<b>19.94</b>	<b>0.05</b>
Dec. 31, 2015	11.85	8 448	713	0.09	0.10	63.64	0.04
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

<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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	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.

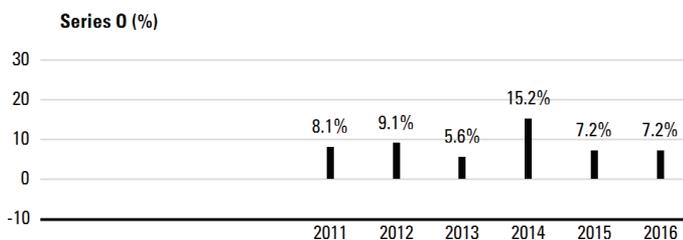
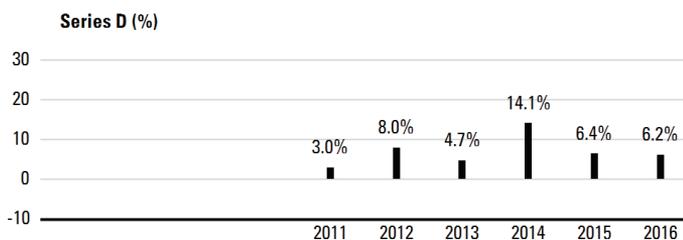
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**PAST PERFORMANCE**

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**Year-by-Year Returns (%)**

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**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, 2016, 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	6.2	8.9	7.9	–	7.7
Benchmark 1	1.7	4.6	3.2	–	4.3
Benchmark 2	21.1	7.1	8.2	–	5.7
Series O	7.2	9.8	8.8	–	8.8
Benchmark 1	1.7	4.6	3.2	–	4.4
Benchmark 2	21.1	7.1	8.2	–	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 indexes.

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

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**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*

*As at December 31, 2016*

**Investment Mix**

	% of Net Asset Value
Bonds	54.5
Global Equities	25.9
Canadian Equities	12.8
United States Equities	5.9
Cash/Other	0.9

**Top 25 Holdings\***

	% of Net Asset Value
Phillips, Hager & North Inflation-Linked Bond Fund	46.1
RBC QUBE Low Volatility Global Equity Fund	16.4
Phillips, Hager & North Canadian Equity Underlying Fund	6.4
Phillips, Hager & North Conservative Equity Income Fund	5.4
Phillips, Hager & North Long Inflation-Linked Bond Fund	5.3
RBC Global Equity Focus Fund	4.8
Vanguard Real Estate Investment Trust Fund	3.9
Phillips, Hager & North High Yield Bond Fund	3.1
RBC Emerging Markets Equity Fund	3.0
RBC QUBE Global Equity Fund	1.7
RBC U.S. Mid-Cap Value Equity Fund	1.5
Phillips, Hager & North Canadian Equity Value Fund	1.0
RBC U.S. Small-Cap Value Equity Fund	0.5
Phillips, Hager & North Canadian Money Market Fund	0.5
Cash & Cash Equivalents	0.4
<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).

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, 2016***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 8, 2017.

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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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## 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

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment 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 \$32 million as of December 31, 2016, from \$23 million at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units rose 7.6%. The FTSE TMX Canada Universe Bond Index rose 1.7%, and the S&P/TSX Capped Composite Total Return Index rose 21.1%. 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.

Investors witnessed an abundance of political and macroeconomic headlines in 2016. Early in the year, the European Central Bank announced a series of measures aimed at bolstering economic growth, followed by the decision in June by U.K. voters to leave the EU (“Brexit”) and, in November, Donald Trump’s election as U.S. president.

In December, the U.S. Federal Reserve raised short-term rates for the first time in 12 months and hinted that more hikes were coming. Growth in the Canadian economy remained soft for much of 2016, weighed down by weak oil prices at the beginning of the year and the consequent drop in exports.

Global sovereign bonds ended 2016 with gains, as a rally, fuelled by central-bank purchases and economic concerns present for much of the year was offset by big price drops after the U.S. presidential election in November. Government-bond yields, which move in the opposite direction as prices, touched their lows during the summer following Brexit but rose steadily after mid-year. Yields then surged after Trump’s surprise win led to speculation that increased fiscal spending and other measures would lead to faster economic growth and inflation. Canadian federal-government bonds underperformed U.S. Treasury securities, due in part to expectations that higher oil prices might lead to faster domestic inflation. All of the Fund’s fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

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### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed income remains unimpressive, in the view of the portfolio manager. The possibility that a Trump administration could lead to a significant increase in earnings, and therefore equity prices, shouldn’t be ignored.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the “IRC”). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the 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.

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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		
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>12.01</b>	<b>0.32</b>	<b>(0.12)</b>	<b>0.18</b>	<b>0.41</b>	<b>0.79</b>	<b>(0.07)</b>	<b>(0.10)</b>	<b>(0.11)</b>	–	<b>(0.28)</b>	<b>12.53</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>11.93</b>	<b>0.32</b>	<b>(0.01)</b>	<b>0.18</b>	<b>0.42</b>	<b>0.91</b>	<b>(0.12)</b>	<b>(0.17)</b>	<b>(0.11)</b>	–	<b>(0.40)</b>	<b>12.44</b>
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

<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 D</b>							
<b>Dec. 31, 2016</b>	<b>12.53</b>	<b>13 440</b>	<b>1 073</b>	<b>1.03</b>	<b>1.03</b>	<b>15.09</b>	<b>0.06</b>
Dec. 31, 2015	12.01	9 384	781	1.02	1.03	43.06	0.05
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>12.44</b>	<b>18 663</b>	<b>1 501</b>	<b>0.09</b>	<b>0.10</b>	<b>15.09</b>	<b>0.06</b>
Dec. 31, 2015	11.93	13 925	1 168	0.09	0.11	43.06	0.05
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

<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.

**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.

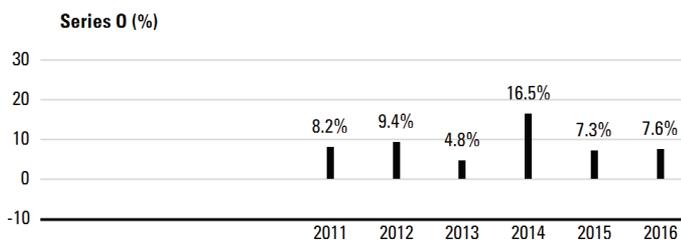
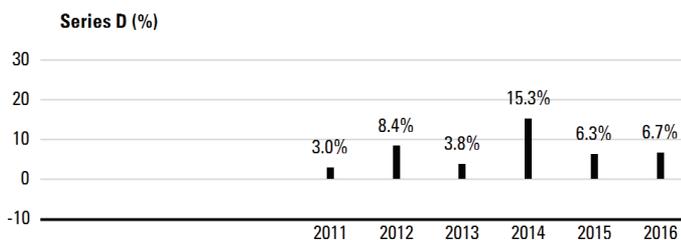
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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	6.7	9.4	8.0	–	7.8
Benchmark 1	1.7	4.6	3.2	–	4.3
Benchmark 2	21.1	7.1	8.2	–	5.7
Series O	7.6	10.4	9.1	–	9.0
Benchmark 1	1.7	4.6	3.2	–	4.4
Benchmark 2	21.1	7.1	8.2	–	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 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.

**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*

*As at December 31, 2016*

**Investment Mix**

	% of Net Asset Value
Bonds	51.1
Global Equities	27.0
Canadian Equities	13.1
United States Equities	7.8
Cash/Other	1.0

**Top 25 Holdings\***

	% of Net Asset Value
Phillips, Hager & North Long Inflation-Linked Bond Fund	28.8
Phillips, Hager & North Inflation-Linked Bond Fund	19.2
RBC QUBE Low Volatility Global Equity Fund	11.1
RBC Global Equity Focus Fund	9.0
Phillips, Hager & North Canadian Equity Underlying Fund	6.9
Vanguard Real Estate Investment Trust Fund	5.1
RBC Emerging Markets Equity Fund	3.8
Phillips, Hager & North Canadian Equity Value Fund	3.6
RBC QUBE Global Equity Fund	3.1
Phillips, Hager & North High Yield Bond Fund	3.1
Phillips, Hager & North Conservative Equity Income Fund	2.8
RBC U.S. Mid-Cap Value Equity Fund	2.0
RBC U.S. Small-Cap Value Equity Fund	0.7
Phillips, Hager & North Canadian Money Market Fund	0.5
Cash & Cash Equivalents	0.3
<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).

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, 2016***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 8, 2017.

**A Note on Forward-looking Statements**

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#### ***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		
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>11.86</b>	<b>0.35</b>	<b>(0.13)</b>	<b>0.23</b>	<b>0.33</b>	<b>0.78</b>	<b>(0.09)</b>	<b>(0.09)</b>	<b>(0.21)</b>	–	<b>(0.39)</b>	<b>12.32</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>11.77</b>	<b>0.35</b>	<b>(0.01)</b>	<b>0.24</b>	<b>0.38</b>	<b>0.96</b>	<b>(0.15)</b>	<b>(0.16)</b>	<b>(0.21)</b>	–	<b>(0.52)</b>	<b>12.23</b>
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

<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 D</b>							
<b>Dec. 31, 2016</b>	<b>12.32</b>	<b>7 614</b>	<b>618</b>	<b>1.07</b>	<b>1.08</b>	<b>10.91</b>	<b>0.06</b>
Dec. 31, 2015	11.86	3 752	316	1.07	1.08	34.53	0.06
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>12.23</b>	<b>24 169</b>	<b>1 976</b>	<b>0.09</b>	<b>0.10</b>	<b>10.91</b>	<b>0.06</b>
Dec. 31, 2015	11.77	17 077	1 450	0.09	0.11	34.53	0.06
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

<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.

**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	0.90%	26%	74%

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

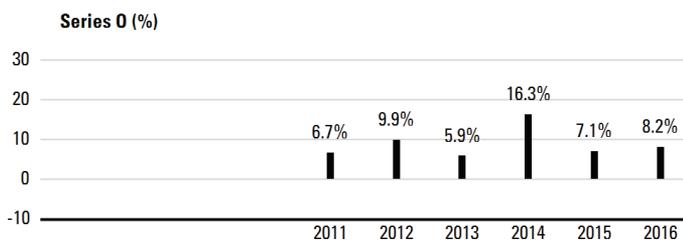
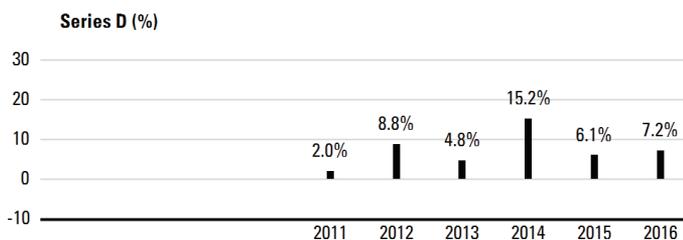
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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	7.2	9.4	8.3	–	7.9
Benchmark 1	1.7	4.6	3.2	–	4.3
Benchmark 2	21.1	7.1	8.2	–	5.7
Series O	8.2	10.5	9.4	–	9.1
Benchmark 1	1.7	4.6	3.2	–	4.4
Benchmark 2	21.1	7.1	8.2	–	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 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.

**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*

*As at December 31, 2016*

**Investment Mix**

	% of Net Asset Value
Bonds	49.3
Global Equities	28.0
Canadian Equities	13.2
United States Equities	8.5
Cash/Other	1.0

**Top 25 Holdings\***

	% of Net Asset Value
Phillips, Hager & North Long Inflation-Linked Bond Fund	44.4
RBC Global Equity Focus Fund	13.1
Phillips, Hager & North Canadian Equity Underlying Fund	7.2
Phillips, Hager & North Canadian Equity Value Fund	5.7
RBC QUBE Low Volatility Global Equity Fund	5.5
Phillips, Hager & North High Yield Bond Fund	4.9
Vanguard Real Estate Investment Trust Fund	4.9
RBC Emerging Markets Equity Fund	4.9
RBC QUBE Global Equity Fund	4.5
RBC U.S. Mid-Cap Value Equity Fund	2.6
RBC U.S. Small-Cap Value Equity Fund	1.0
Cash & Cash Equivalents	0.6
Phillips, Hager & North Canadian Money Market Fund	0.4
Phillips, Hager & North Conservative Equity Income Fund	0.3
<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).

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, 2016***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 8, 2017.

**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 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

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate medium investment 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 \$37 million as of December 31, 2016, from \$26 million at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units rose 8.1%. The FTSE TMX Canada Universe Bond Index rose 1.7%, and the S&P/TSX Capped Composite Total Return Index rose 21.1%. 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.

Investors witnessed an abundance of political and macroeconomic headlines in 2016. Early in the year, the European Central Bank announced a series of measures aimed at bolstering economic growth, followed by the decision in June by U.K. voters to leave the EU (“Brexit”) and, in November, Donald Trump’s election as U.S. president.

In December, the U.S. Federal Reserve raised short-term rates for the first time in 12 months and hinted that more hikes were coming. Growth in the Canadian economy remained soft for much of 2016, weighed down by weak oil prices at the beginning of the year and the consequent drop in exports.

Global sovereign bonds ended 2016 with modest gains, as a rally, fuelled by central-bank purchases and economic concerns present for much of the year was offset by big price drops after the U.S. presidential election in November. Government-bond yields, which move in the opposite direction as prices, touched their lows during the summer following Brexit but rose steadily after mid-year. Yields then surged after Trump’s surprise win led to speculation that increased fiscal spending and other measures would lead to faster economic growth and inflation. Canadian federal-government bonds underperformed U.S. Treasury securities, due in part to expectations that higher oil prices might lead to faster domestic inflation. All of the Fund’s fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global stocks rose in 2016, with Canada’s market being one of the strongest after oil prices rebounded beginning in the first quarter. U.S. markets also gained while European equities generally fell, adjusted for the Canadian dollar. Stocks declined immediately after Brexit, but quickly recovered to end the year above pre-Brexit levels. The Canadian dollar rose modestly against the U.S. dollar amid higher oil prices. Overall, the Fund’s equity holdings had a positive impact on returns, led by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Canadian Equity Value Fund.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed income remains unimpressive, in the view of the portfolio manager. The possibility that a Trump administration could lead to a significant increase in earnings, and therefore equity prices, shouldn’t be ignored.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the “IRC”). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the 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 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		
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>12.07</b>	<b>0.34</b>	<b>(0.14)</b>	<b>0.25</b>	<b>0.41</b>	<b>0.86</b>	<b>(0.08)</b>	<b>(0.09)</b>	<b>(0.22)</b>	–	<b>(0.39)</b>	<b>12.52</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>11.99</b>	<b>0.34</b>	<b>(0.01)</b>	<b>0.25</b>	<b>0.38</b>	<b>0.96</b>	<b>(0.14)</b>	<b>(0.17)</b>	<b>(0.22)</b>	–	<b>(0.53)</b>	<b>12.43</b>
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

<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 D</b>							
<b>Dec. 31, 2016</b>	<b>12.52</b>	<b>6 356</b>	<b>508</b>	<b>1.13</b>	<b>1.14</b>	<b>11.65</b>	<b>0.08</b>
Dec. 31, 2015	12.07	5 209	432	1.13	1.14	36.79	0.08
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>12.43</b>	<b>30 818</b>	<b>2 480</b>	<b>0.10</b>	<b>0.11</b>	<b>11.65</b>	<b>0.08</b>
Dec. 31, 2015	11.99	21 230	1 771	0.10	0.11	36.79	0.08
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

<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.

**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.

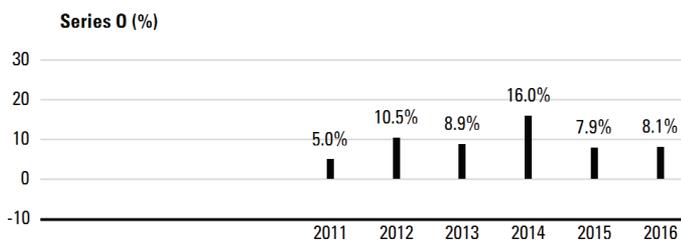
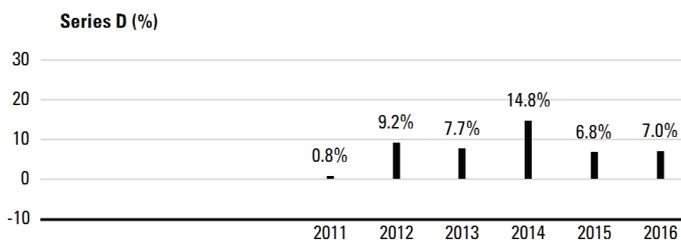
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**PAST PERFORMANCE**

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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, 2016, 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	9.5	9.0	–	8.3
Benchmark 1	1.7	4.6	3.2	–	4.3
Benchmark 2	21.1	7.1	8.2	–	5.7
Series O	8.1	10.6	10.2	–	9.5
Benchmark 1	1.7	4.6	3.2	–	4.4
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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.

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**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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**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*

*As at December 31, 2016*

**Investment Mix**

	% of Net Asset Value
Bonds	45.3
Global Equities	30.3
Canadian Equities	13.6
United States Equities	9.7
Cash/Other	1.1

**Top 25 Holdings\***

	% of Net Asset Value
Phillips, Hager & North Long Inflation-Linked Bond Fund	40.3
RBC Global Equity Focus Fund	17.3
Phillips, Hager & North Canadian Equity Underlying Fund	7.3
RBC Emerging Markets Equity Fund	6.4
Phillips, Hager & North Canadian Equity Value Fund	6.2
RBC QUBE Global Equity Fund	5.8
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.9
RBC U.S. Mid-Cap Value Equity Fund	3.5
RBC U.S. Small-Cap Value Equity Fund	1.3
RBC QUBE Low Volatility Global Equity Fund	0.8
Cash & Cash Equivalents	0.7
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 2040 FUND***December 31, 2016***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 8, 2017.

**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

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate medium investment 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 \$35 million as of December 31, 2016, from \$25 million at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units rose 8.2%. The FTSE TMX Canada Universe Bond Index rose 1.7%, and the S&P/TSX Capped Composite Total Return Index rose 21.1%. 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.

Investors witnessed an abundance of political and macroeconomic headlines in 2016. Early in the year, the European Central Bank announced a series of measures aimed at bolstering economic growth, followed by the decision in June by U.K. voters to leave the EU (“Brexit”) and, in November, Donald Trump’s election as U.S. president.

In December, the U.S. Federal Reserve raised short-term rates for the first time in 12 months and hinted that more hikes were coming. Growth in the Canadian economy remained soft for much of 2016, weighed down by weak oil prices at the beginning of the year and the consequent drop in exports.

Global sovereign bonds ended 2016 with gains, as a rally, fuelled by central-bank purchases and economic concerns present for much of the year was offset by big price drops after the U.S. presidential election in November. Government-bond yields, which move in the opposite direction as prices, touched their lows during the summer following Brexit but rose steadily after mid-year. Yields then surged after Trump’s surprise win led to speculation that increased fiscal spending and other measures would lead to faster economic growth and inflation. Canadian federal-government bonds underperformed U.S. Treasury securities, due in part to expectations that higher oil prices might lead to faster domestic inflation. All of the Fund’s fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global stocks rose in 2016, with Canada’s market being one of the strongest after oil prices rebounded beginning in the first quarter. U.S. markets also gained while European equities generally fell, adjusted for the Canadian dollar. Stocks declined immediately after Brexit, but quickly recovered to end the year above pre-Brexit levels. The Canadian dollar rose modestly against the U.S. dollar amid higher oil prices. Overall, the Fund’s equity holdings had a positive impact on returns, led by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Canadian Equity Value Fund.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed income remains unimpressive, in the view of the portfolio manager. The possibility that a Trump administration could lead to a significant increase in earnings, and therefore equity prices, shouldn’t be ignored.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the “IRC”). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the 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 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		
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>12.14</b>	<b>0.34</b>	<b>(0.14)</b>	<b>0.25</b>	<b>0.41</b>	<b>0.86</b>	<b>(0.07)</b>	<b>(0.09)</b>	<b>(0.24)</b>	–	<b>(0.40)</b>	<b>12.60</b>
Dec. 31, 2015	12.14	0.34	(0.15)	0.83	(0.29)	0.73	(0.05)	(0.09)	(0.72)	–	(0.86)	12.14
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>12.05</b>	<b>0.34</b>	<b>(0.01)</b>	<b>0.25</b>	<b>0.42</b>	<b>1.00</b>	<b>(0.13)</b>	<b>(0.17)</b>	<b>(0.24)</b>	–	<b>(0.54)</b>	<b>12.50</b>
Dec. 31, 2015	12.06	0.34	(0.01)	0.83	(0.29)	0.87	(0.11)	(0.18)	(0.72)	–	(1.01)	12.05
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

<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 D</b>							
<b>Dec. 31, 2016</b>	<b>12.60</b>	<b>4 048</b>	<b>321</b>	<b>1.18</b>	<b>1.19</b>	<b>13.04</b>	<b>0.07</b>
Dec. 31, 2015	12.14	3 294	271	1.21	1.22	35.55	0.08
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>12.50</b>	<b>31 436</b>	<b>2 515</b>	<b>0.10</b>	<b>0.11</b>	<b>13.04</b>	<b>0.07</b>
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Dec. 31, 2012	10.53	3 320	315	0.09	0.26	12.56	0.19

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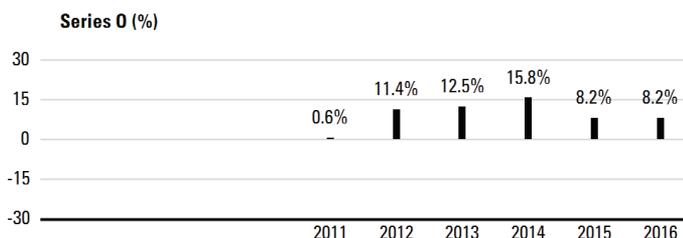
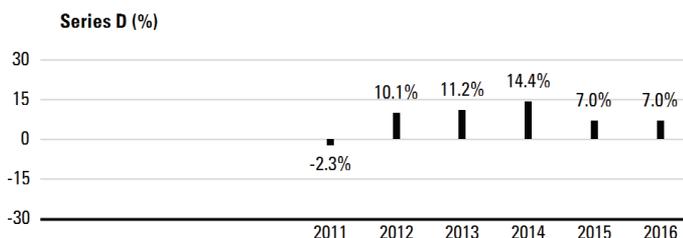
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Benchmark 2	21.1	7.1	8.2	–	5.7
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*As at December 31, 2016*

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RBC U.S. Small-Cap Value Equity Fund	1.5
Cash & Cash Equivalents	0.9
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<b>Total</b>	<b>100.0</b>

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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 2045 FUND***December 31, 2016***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 8, 2017.

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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 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

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate medium investment 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 \$71 million as of December 31, 2016, from \$50 million at the end of 2015. The increase was due mainly to net inflows.

Over the past year, the Fund’s Series O units rose 8.4%. The FTSE TMX Canada Universe Bond Index rose 1.7%, and the S&P/TSX Capped Composite Total Return Index rose 21.1%. 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.

Investors witnessed an abundance of political and macroeconomic headlines in 2016. Early in the year, the European Central Bank announced a series of measures aimed at bolstering economic growth, followed by the decision in June by U.K. voters to leave the EU (“Brexit”) and, in November, Donald Trump’s election as U.S. president.

In December, the U.S. Federal Reserve raised short-term rates for the first time in 12 months and hinted that more hikes were coming. Growth in the Canadian economy remained soft for much of 2016, weighed down by weak oil prices at the beginning of the year and the consequent drop in exports.

Global sovereign bonds ended 2016 with gains, as a rally, fuelled by central-bank purchases and economic concerns present for much of the year was offset by big price drops after the U.S. presidential election in November. Government-bond yields, which move in the opposite direction as prices, touched their lows during the summer following Brexit but rose steadily after mid-year. Yields then surged after Trump’s surprise win led to speculation that increased fiscal spending and other measures would lead to faster economic growth and inflation. Canadian federal-government bonds underperformed U.S. Treasury securities, due in part to expectations that higher oil prices might lead to faster domestic inflation. All of the Fund’s fixed-income holdings had a positive impact on performance, led by the Phillips, Hager & North Long Inflation-linked Bond Fund.

Global stocks rose in 2016, with Canada’s market being one of the strongest after oil prices rebounded beginning in the first quarter. U.S. markets also gained while European equities generally fell, adjusted for the Canadian dollar. Stocks declined immediately after Brexit, but quickly recovered to end the year above pre-Brexit levels. The Canadian dollar rose modestly against the U.S. dollar amid higher oil prices. Overall, the Fund’s equity holdings had a positive impact on returns, led by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Canadian Equity Value Fund.

### Recent Developments

Continuing the trend from the last quarter of 2016, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed income remains unimpressive, in the view of the portfolio manager. The possibility that a Trump administration could lead to a significant increase in earnings, and therefore equity prices, shouldn’t be ignored.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the “IRC”). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the 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 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		
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>12.59</b>	<b>0.35</b>	<b>(0.16)</b>	<b>0.28</b>	<b>0.48</b>	<b>0.95</b>	<b>(0.04)</b>	<b>(0.11)</b>	<b>(0.18)</b>	–	<b>(0.33)</b>	<b>13.16</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>12.51</b>	<b>0.35</b>	<b>(0.01)</b>	<b>0.28</b>	<b>0.48</b>	<b>1.10</b>	<b>(0.09)</b>	<b>(0.22)</b>	<b>(0.18)</b>	–	<b>(0.49)</b>	<b>13.07</b>
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

<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 D</b>							
<b>Dec. 31, 2016</b>	<b>13.16</b>	<b>5 875</b>	<b>446</b>	<b>1.26</b>	<b>1.26</b>	<b>10.52</b>	<b>0.11</b>
Dec. 31, 2015	12.59	4 379	348	1.25	1.26	37.28	0.10
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	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>13.07</b>	<b>65 082</b>	<b>4 981</b>	<b>0.11</b>	<b>0.11</b>	<b>10.52</b>	<b>0.11</b>
Dec. 31, 2015	12.51	45 335	3 625	0.11	0.11	37.28	0.10
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	—

<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.

**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	1.05%	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.

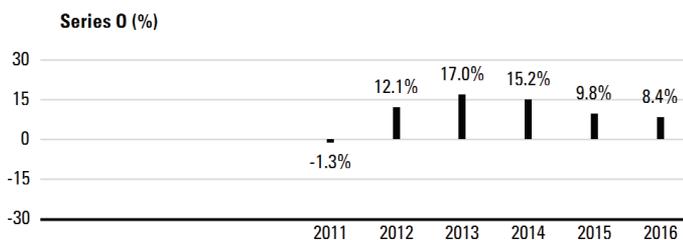
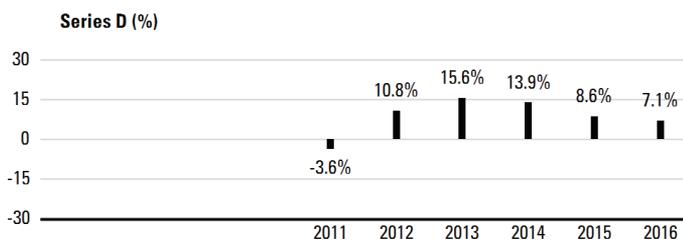
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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	7.1	9.8	11.1	–	9.4
Benchmark 1	1.7	4.6	3.2	–	4.3
Benchmark 2	21.1	7.1	8.2	–	5.7
Series O	8.4	11.1	12.5	–	10.2
Benchmark 1	1.7	4.6	3.2	–	4.4
Benchmark 2	21.1	7.1	8.2	–	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 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.

**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*

*As at December 31, 2016*

**Investment Mix**

	% of Net Asset Value
Global Equities	41.7
Bonds	27.4
Canadian Equities	17.4
United States Equities	12.5
Cash/Other	1.0

**Top 25 Holdings\***

	% of Net Asset Value
RBC Global Equity Focus Fund	23.9
Phillips, Hager & North Long Inflation-Linked Bond Fund	22.4
RBC Emerging Markets Equity Fund	9.7
Phillips, Hager & North Canadian Equity Underlying Fund	8.7
Phillips, Hager & North Canadian Equity Value Fund	8.7
RBC QUBE Global Equity Fund	8.1
RBC U.S. Mid-Cap Value Equity Fund	5.5
Vanguard Real Estate Investment Trust Fund	5.0
Phillips, Hager & North High Yield Bond Fund	5.0
RBC U.S. Small-Cap Value Equity Fund	2.0
Cash & Cash Equivalents	0.6
Phillips, Hager & North Canadian Money Market Fund	0.4
<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).

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, 2016***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 8, 2017.

**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.

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- (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		
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>10.34</b>	<b>0.40</b>	<b>(0.14)</b>	<b>0.27</b>	<b>0.33</b>	<b>0.86</b>	<b>(0.03)</b>	<b>(0.07)</b>	<b>(0.18)</b>	–	<b>(0.28)</b>	<b>10.81</b>
Dec. 31, 2015	9.88	0.48	(0.16)	0.68	(0.51)	0.49	(0.02)	(0.07)	(0.33)	–	(0.42)	10.34
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, 2016</b>	<b>10.25</b>	<b>0.37</b>	<b>(0.01)</b>	<b>0.25</b>	<b>0.47</b>	<b>1.08</b>	<b>(0.06)</b>	<b>(0.18)</b>	<b>(0.18)</b>	–	<b>(0.42)</b>	<b>10.71</b>
Dec. 31, 2015	9.79	0.48	(0.03)	0.68	(0.50)	0.63	(0.05)	(0.18)	(0.33)	–	(0.56)	10.25
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, 2016</b>	<b>10.81</b>	<b>610</b>	<b>56</b>	<b>1.32</b>	<b>1.35</b>	<b>16.14</b>	<b>0.12</b>
Dec. 31, 2015	10.34	417	40	1.36	1.55	34.42	0.11
Dec. 31, 2014 <sup>4</sup>	9.88	35	4	1.30	3.20	1.15	—
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>10.71</b>	<b>11 318</b>	<b>1 057</b>	<b>0.11</b>	<b>0.14</b>	<b>16.14</b>	<b>0.12</b>
Dec. 31, 2015	10.25	3 140	306	0.11	0.30	34.42	0.11
Dec. 31, 2014 <sup>4</sup>	9.79	157	16	0.06	1.96	1.15	—

<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 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	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, 2016, 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	7.2	–	–	–	8.7
Benchmark 1	1.7	–	–	–	3.6
Benchmark 2	21.1	–	–	–	3.4
Series O	8.5	–	–	–	10.1
Benchmark 1	1.7	–	–	–	3.6
Benchmark 2	21.1	–	–	–	3.4

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.

**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*

*As at December 31, 2016*

**Investment Mix**

	% of Net Asset Value
Global Equities	46.2
Bonds	21.5
Canadian Equities	18.8
United States Equities	12.5
Cash/Other	1.0

**Top 25 Holdings\***

	% of Net Asset Value
RBC Global Equity Focus Fund	26.4
Phillips, Hager & North Long Inflation-Linked Bond Fund	16.5
RBC Emerging Markets Equity Fund	11.0
Phillips, Hager & North Canadian Equity Value Fund	9.5
Phillips, Hager & North Canadian Equity Underlying Fund	9.4
RBC QUBE Global Equity Fund	8.8
RBC U.S. Mid-Cap Value Equity Fund	5.7
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate Investment Trust Fund	4.6
RBC U.S. Small-Cap Value Equity Fund	2.2
Cash & Cash Equivalents	0.5
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).

BALANCED FUND

**BONAVISTA GLOBAL BALANCED FUND***December 31, 2016***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 8, 2017.

**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 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 million as of December 31, 2016, from \$4 million at the end of 2015. The decrease was due to net redemptions.

Over the past year, the Fund's Series O units gained 8.7%, which outperformed the 8.5% rise in the benchmark. The broad-based index rose 1.7%. 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 ended 2016 as one of the best-performing global equity markets and at times flirted with the all-time highs recorded in 2014. The year culminated with the surprise U.S. election win for Donald Trump as president, OPEC's agreement to cut oil production and the first interest-rate increase by the U.S. Federal Reserve in 12 months. Bond yields moved higher overall, while interest-sensitive and cyclical stocks surged.

The asset mix of the Fund helped relative performance in 2016 as holdings of Canadian equities, the largest allocation in the portfolio, was the best-performing component in the Fund. The Fund's Canadian equity portfolio benefited from significant exposure to the Financials and Materials sectors, while performance was held back by exposure to the Information Technology sector.

### **Recent Developments**

Many investors expect stronger U.S. economic growth driven by the impact of pro-growth policies promised by President Trump. The portfolio manager believes that equities continue to offer better return potential than bonds, as economic growth accelerates and interest rates rise gradually.

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éline Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloefer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced from 2.00% to 1.75% for Series C and Advisor Series units. Also effective June 30, 2016, Series C units were renamed Series A units.

### **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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>12.72</b>	<b>0.33</b>	<b>(0.29)</b>	<b>0.33</b>	<b>0.44</b>	<b>0.81</b>	<b>(0.02)</b>	<b>(0.08)</b>	–	–	<b>(0.10)</b>	<b>13.45</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>12.72</b>	<b>0.33</b>	<b>(0.29)</b>	<b>0.33</b>	<b>0.32</b>	<b>0.69</b>	<b>(0.02)</b>	<b>(0.08)</b>	–	–	<b>(0.10)</b>	<b>13.46</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>12.66</b>	<b>0.33</b>	<b>(0.16)</b>	<b>0.33</b>	<b>0.38</b>	<b>0.88</b>	<b>(0.05)</b>	<b>(0.14)</b>	–	–	<b>(0.19)</b>	<b>13.43</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>12.91</b>	<b>0.34</b>	<b>(0.13)</b>	<b>0.34</b>	<b>0.45</b>	<b>1.00</b>	<b>(0.06)</b>	<b>(0.16)</b>	–	–	<b>(0.22)</b>	<b>13.70</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>12.40</b>	<b>0.32</b>	<b>(0.02)</b>	<b>0.33</b>	<b>0.43</b>	<b>1.06</b>	<b>(0.08)</b>	<b>(0.24)</b>	–	–	<b>(0.32)</b>	<b>13.15</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>13.45</b>	<b>216</b>	<b>16</b>	<b>2.21<sup>4</sup></b>	<b>2.28</b>	<b>8.84</b>	<b>0.04</b>
Dec. 31, 2015	12.72	220	17	2.36	2.44	133.09	0.01
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>13.46</b>	<b>14</b>	<b>1</b>	<b>2.22<sup>4</sup></b>	<b>2.28</b>	<b>8.84</b>	<b>0.04</b>
Dec. 31, 2015	12.72	19	1	2.36	2.44	133.09	0.01
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>13.43</b>	<b>2 868</b>	<b>214</b>	<b>1.23</b>	<b>1.30</b>	<b>8.84</b>	<b>0.04</b>
Dec. 31, 2015	12.66	3 320	262	1.23	1.30	133.09	0.01
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>13.70</b>	<b>19</b>	<b>1</b>	<b>0.99</b>	<b>1.06</b>	<b>8.84</b>	<b>0.04</b>
Dec. 31, 2015	12.91	18	1	0.99	1.07	133.09	0.01
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>13.15</b>	<b>294</b>	<b>22</b>	<b>0.14</b>	<b>0.20</b>	<b>8.84</b>	<b>0.04</b>
Dec. 31, 2015	12.40	277	22	0.13	0.21	133.09	0.01
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 2.07% and Advisor Series – 2.07%.

**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 A	1.75%	50%	50%
Advisor Series	1.75%	50%	50%
Series D	1.00%	25%	75%
Series F	0.75%	—	100%

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

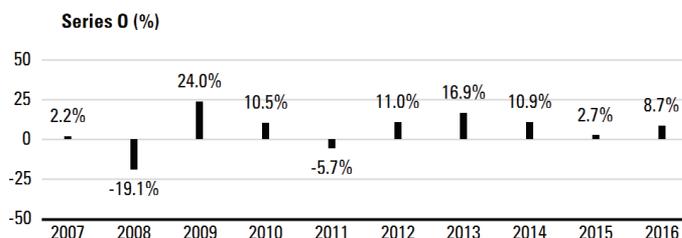
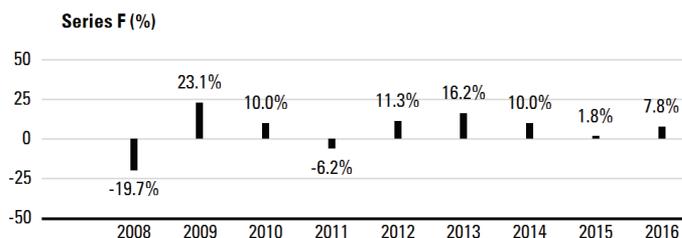
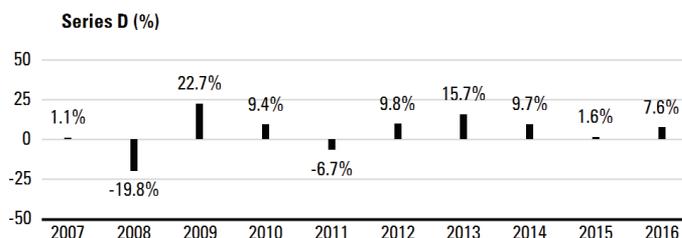
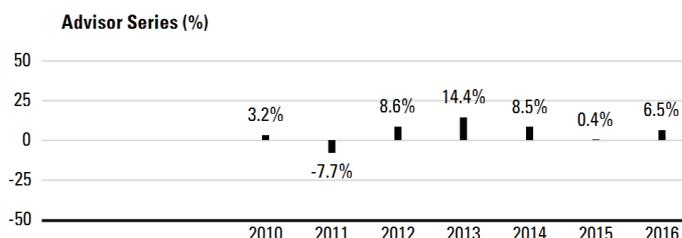
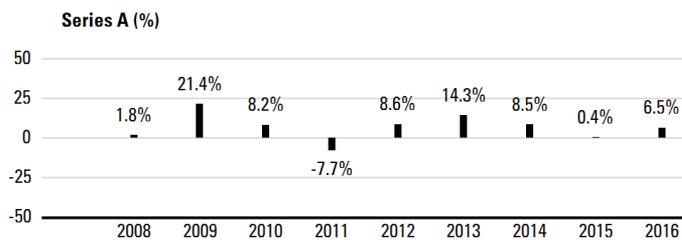
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE**

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

**Year-by-Year Returns (%)**

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



**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2016, 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 A	6.5	5.1	7.6	—	7.4
Benchmark	8.5	7.1	7.8	—	8.3
Broad-based index	1.7	4.6	3.2	—	5.0
Advisor Series	6.5	5.1	7.6	—	5.3
Benchmark	8.5	7.1	7.8	—	6.7
Broad-based index	1.7	4.6	3.2	—	4.0
Series D	7.6	6.2	8.8	4.4	—
Benchmark	8.5	7.1	7.8	5.2	—
Broad-based index	1.7	4.6	3.2	4.8	—
Series F	7.8	6.5	9.3	—	5.3
Benchmark	8.5	7.1	7.8	—	5.4
Broad-based index	1.7	4.6	3.2	—	4.9
Series O	8.7	7.4	10.0	5.6	—
Benchmark	8.5	7.1	7.8	5.2	—
Broad-based index	1.7	4.6	3.2	4.8	—

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 A 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.

All outstanding Series C units were renamed Series A units effective June 30, 2016. Series D was known as Series A prior to November 17, 2008.

**NDEX 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.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2016

**Investment Mix**

	% of Net Asset Value
Canadian Equities	37.8
Bonds	26.8
United States Equities	15.8
Overseas Equities	15.5
Mortgages	0.2
Cash/Other	3.9

**Top 25 Holdings**

	% of Net Asset Value
Phillips, Hager & North Bond Fund	28.2
Phillips, Hager & North U.S. Equity Fund	16.0
Phillips, Hager & North Overseas Equity Fund	15.7
Toronto-Dominion Bank	2.9
Cash & Cash Equivalents	2.3
Bank of Nova Scotia	2.2
Suncor Energy Inc.	1.9
Royal Bank of Canada	1.8
Bank of Montreal	1.7
Canadian National Railway Co.	1.7
Canadian Imperial Bank of Commerce	1.7
Canadian Natural Resources Ltd.	1.5
Manulife Financial Corporation	1.2
Magna International Inc., Class A	1.0
Alimentation Couche-Tard Inc.	1.0
Open Text Corp.	0.9
Canadian Pacific Railway Ltd.	0.9
Sun Life Financial Inc.	0.9
Agrium Inc.	0.8
National Bank of Canada	0.8
CGI Group Inc., Class A	0.8
Gildan Activewear Inc., Class A	0.7
Saputo Group Inc.	0.7
Quebecor Inc., Class B	0.7
Canadian Tire Corp. Ltd., Class A	0.7
<b>Top 25 Holdings</b>	<b>88.7</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).

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, 2016***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 8, 2017.

**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 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 \$16 million as of December 31, 2016, from \$17 million at the end of 2015. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 22.9%, which outperformed the 21.1% 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 sectors that added the most to the Fund's relative returns were Financials, Materials and Industrials. The sectors with the most negative impact were Consumer Staples, Consumer Discretionary and Information Technology.

The stocks that contributed the most to the Fund's relative performance were Teck Resources, Saputo and SNC-Lavalin. The stocks that hurt relative returns the most were Gildan, Mitel and Macdonald Dettwiler.

### **Recent Developments**

Effective December 1, 2016, Mr. Lloyd R. McGinnis retired and Ms. Éloïse Cousineau was appointed as Chair of the Independent Review Committee (the "IRC"). Mr. Charles F. Macfarlane was appointed as Vice Chair of the IRC. Effective January 1, 2017, Ms. Suromitra Sanatani and Ms. Catherine Kloepfer were appointed as members of the IRC.

Effective July 1, 2016, Deloitte LLP resigned and PricewaterhouseCoopers LLP was appointed as auditors of the Fund.

Effective June 30, 2016, management fees were reduced as follows: from 1.75% to 1.60% for Series C and Advisor Series units; from 1.00% to 0.85% for Series D units; and from 0.75% to 0.60% for Series F units. Also effective June 30, 2016, Series C units were renamed Series A units.

### **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 A, 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		
<b>Series A</b>												
<b>Dec. 31, 2016</b>	<b>12.98</b>	<b>0.37</b>	<b>(0.27)</b>	<b>0.71</b>	<b>1.92</b>	<b>2.73</b>	—	<b>(0.11)</b>	—	—	<b>(0.11)</b>	<b>15.56</b>
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
<b>Advisor Series</b>												
<b>Dec. 31, 2016</b>	<b>13.01</b>	<b>0.37</b>	<b>(0.27)</b>	<b>0.71</b>	<b>1.88</b>	<b>2.69</b>	—	<b>(0.11)</b>	—	—	<b>(0.11)</b>	<b>15.60</b>
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
<b>Series D</b>												
<b>Dec. 31, 2016</b>	<b>13.06</b>	<b>0.37</b>	<b>(0.16)</b>	<b>0.71</b>	<b>1.79</b>	<b>2.71</b>	—	<b>(0.25)</b>	—	—	<b>(0.25)</b>	<b>15.64</b>
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
<b>Series F</b>												
<b>Dec. 31, 2016</b>	<b>13.08</b>	<b>0.37</b>	<b>(0.12)</b>	<b>0.71</b>	<b>1.91</b>	<b>2.87</b>	—	<b>(0.29)</b>	—	—	<b>(0.29)</b>	<b>15.67</b>
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
<b>Series O</b>												
<b>Dec. 31, 2016</b>	<b>13.22</b>	<b>0.37</b>	<b>(0.02)</b>	<b>0.71</b>	<b>1.76</b>	<b>2.82</b>	—	<b>(0.41)</b>	—	—	<b>(0.41)</b>	<b>15.85</b>
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

<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 A</b>							
<b>Dec. 31, 2016</b>	<b>15.56</b>	<b>216</b>	<b>14</b>	<b>1.93<sup>4</sup></b>	<b>1.94</b>	<b>6.62</b>	<b>0.01</b>
Dec. 31, 2015	12.98	163	13	2.00	2.02	12.30	0.02
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
<b>Advisor Series</b>							
<b>Dec. 31, 2016</b>	<b>15.60</b>	<b>45</b>	<b>3</b>	<b>1.93<sup>4</sup></b>	<b>1.94</b>	<b>6.62</b>	<b>0.01</b>
Dec. 31, 2015	13.01	37	3	2.01	2.02	12.30	0.02
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
<b>Series D</b>							
<b>Dec. 31, 2016</b>	<b>15.64</b>	<b>6 917</b>	<b>442</b>	<b>1.11<sup>4</sup></b>	<b>1.12</b>	<b>6.62</b>	<b>0.01</b>
Dec. 31, 2015	13.06	6 584	504	1.19	1.20	12.30	0.02
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
<b>Series F</b>							
<b>Dec. 31, 2016</b>	<b>15.67</b>	<b>110</b>	<b>7</b>	<b>0.87<sup>4</sup></b>	<b>0.88</b>	<b>6.62</b>	<b>0.01</b>
Dec. 31, 2015	13.08	92	7	0.94	0.95	12.30	0.02
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
<b>Series O</b>							
<b>Dec. 31, 2016</b>	<b>15.85</b>	<b>8 842</b>	<b>558</b>	<b>0.11</b>	<b>0.12</b>	<b>6.62</b>	<b>0.01</b>
Dec. 31, 2015	13.22	10 096	763	0.11	0.13	12.30	0.02
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

<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> Effective June 30, 2016, the management fee was changed in respect of certain series of the Fund. If the change to the management fee would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.85%, Advisor Series – 1.85%, Series D – 1.03% and Series F – 0.79%.

**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 A	1.60%	57%	43%
Advisor Series	1.60%	57%	43%
Series D	0.85%	25%	75%
Series F	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.

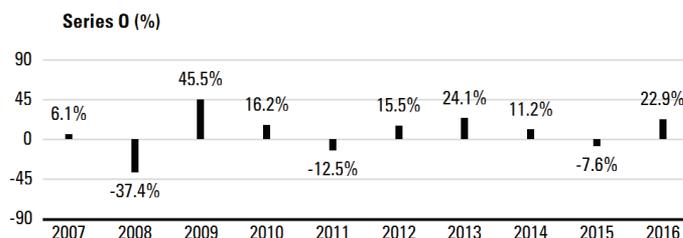
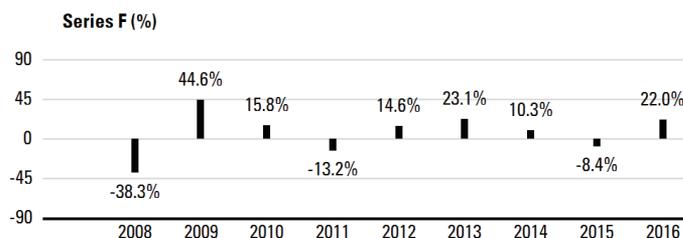
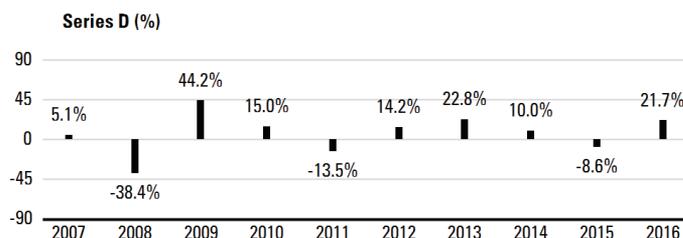
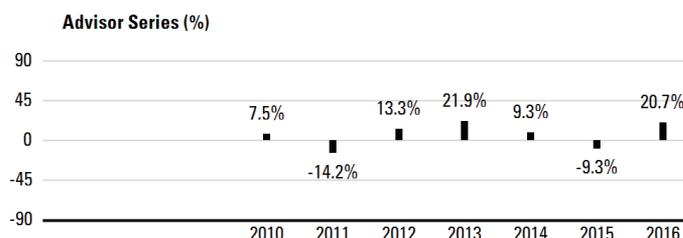
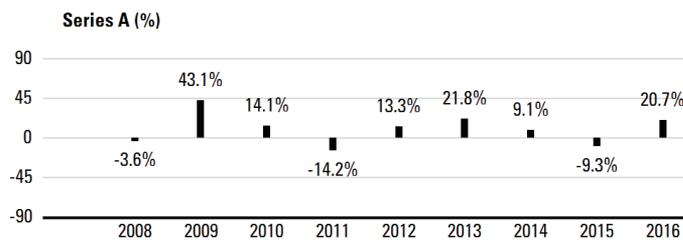
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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, 2016, 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 A	20.7	6.1	10.5	–	10.4
Benchmark	21.1	7.1	8.2	–	9.6
Advisor Series	20.7	6.1	10.6	–	7.1
Benchmark	21.1	7.1	8.2	–	6.2
Series D	21.7	7.0	11.4	4.8	–
Benchmark	21.1	7.1	8.2	4.7	–
Series F	22.0	7.2	11.7	–	5.1
Benchmark	21.1	7.1	8.2	–	4.2
Series O	22.9	8.1	12.6	5.9	–
Benchmark	21.1	7.1	8.2	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.

Advisor Series units have been available for sale to unitholders since October 2010, Series A 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.

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

**Investment Mix**

	% of Net Asset Value
Financials	39.5
Energy	13.2
Industrials	12.9
Consumer Discretionary	9.2
Materials	8.7
Consumer Staples	5.7
Information Technology	5.6
Telecommunication Services	2.3
Cash/Other	2.9

**Top 25 Holdings**

	% of Net Asset Value
Toronto-Dominion Bank	7.5
Bank of Nova Scotia	5.5
Suncor Energy Inc.	5.3
Royal Bank of Canada	5.0
Canadian National Railway Co.	4.5
Canadian Imperial Bank of Commerce	4.3
Bank of Montreal	4.3
Canadian Natural Resources Ltd.	3.8
Manulife Financial Corporation	2.9
Alimentation Couche-Tard Inc.	2.6
Magna International Inc., Class A	2.6
Canadian Pacific Railway Ltd.	2.4
Open Text Corp.	2.2
Agrium Inc.	2.2
Sun Life Financial Inc.	2.2
National Bank of Canada	2.2
CGI Group Inc., Class A	1.9
Phillips, Hager & North Canadian Money Market Fund	1.9
Gildan Activewear Inc., Class A	1.8
Saputo Group Inc.	1.8
Teck Resources Ltd., Class B	1.7
Quebecor Inc., Class B	1.6
Canadian Tire Corp. Ltd., Class A	1.5
Home Capital Group Inc.	1.5
Mitel Networks Corp.	1.4
<b>Top 25 Holdings</b>	<b>74.6</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).

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

### **RBC Funds and RBC Private Pools**

#### **By Phone**

Investors: **1-800-463-FUND (3863)**

Dealers: **1-800-662-0652**

#### **On the Internet**

Visit our website at: **[www.rbcgam.com/funds](http://www.rbcgam.com/funds)**

Email us at: **[funds.investments@rbc.com](mailto:funds.investments@rbc.com)**

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#### **By Phone**

Investors: **1-800-661-6141**

Dealers: **1-800-662-0652**

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Visit our website at: **[www.rbcgam.com/funds](http://www.rbcgam.com/funds)**

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**Global Asset  
Management**