

INTERNATIONAL EQUITY FUND

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

December 31, 2012

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 1, 2013.

A Note on Forward-looking Statements

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

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

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

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

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

MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth primarily through exposure to a diversified portfolio of companies located in countries outside North America, including countries in Europe, the Far East (including Japan), and Australia, while minimizing fluctuations in the value of foreign currencies relative to the Canadian dollar. To achieve the Fund's investment objective, we invest primarily in units of the Phillips, Hager & North Overseas Equity Fund (the "Underlying Fund"), as well as derivative instruments that are used to hedge against fluctuations in the value of foreign currencies relative to the Canadian dollar.

Risk

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

Results of Operations

The Fund's net asset value increased to \$224.4 million as of December 31, 2012, from \$186.2 million at the end of 2011. The change reflected \$38.8 million of investment returns, offset by \$613,000 in net redemptions.

Over the past year, the Fund's Series D units gained 19.7%, which outperformed the benchmark return of 17.3%. The Fund's return is after the deduction of fees and expenses. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, which may vary because of differences in management fees and expenses.

The global economy showed signs of tentative progress during 2012, as U.S. housing and business activity picked up and China's economy appeared to rebound in the second half after a mid-year slowdown. Europe's economy continued to sputter, held back by fragile banking systems and a mix of government spending cuts and tax increases. This situation forced the European Central Bank to backstop the finances of indebted Eurozone economies. In the U.S., politicians were able to piece together a last-minute budget compromise, but still faced the difficult work of agreeing on long-term solutions to the country's rising debt load.

Global stock markets started 2012 strongly, but fell back after inconclusive Greek elections and amid concern about the health of Spain's banking system. However, the success of policy responses and the continuation of slow but steady economic improvement led global markets to subsequently rebound and end 2012 with solid gains.

Within our holding of the Phillips, Hager & North Overseas Equity Fund, the Fund held a defensive tilt, with overweight positions in Telecommunication Services and Health Care. However, the Fund still outperformed the benchmark during the period. The best-performing holdings were in the Financials and Consumer Discretionary sectors. Renault and Michelin performed well as the stocks rebounded from the previous year's depressed levels on a positive outlook for both companies.

During the period, a position in Banco Bradesco, Brazil's leading bank, was added. This is a high-quality company with a strong balance sheet and dominant market share. We eliminated our position in Petrobras, and reduced positions in a number of Japanese companies, including Hony Medical and Otsuka Pharmaceutical.

The Fund invests primarily in units of the Phillips, Hager & North Overseas Equity Fund as well as instruments used for hedging currency. The Fund's currency-hedging strategy had a positive effect on performance, as a broad number of currencies depreciated against the Canadian dollar during the period.

Recent Developments

While global economic growth was modest in 2012, progress on a number of fronts has reduced several major risks threatening the expansion. The U.S. economy is gaining momentum, the European debt crisis seems to be stabilizing, and China's economy appears to have avoided a hard landing. However, U.S. politicians must now turn their attention to the debt ceiling, which in the past has always been raised just in time for the government to avoid default. If the concern surrounding the debt ceiling crisis of 2011 is any indication, a bumpy road may lie ahead.

The global economy seems to be firming and the threats that have plagued investors since the 2008 financial crisis have diminished. Equity markets have shown impressive gains through the past year, and yet valuations are still far below equilibrium.

Effective July 27, 2012, Royal Bank of Canada ("Royal Bank") owns 100% of RBC Investor Services Trust (formerly, RBC Dexia Investor Services Trust, referred to throughout as "RBC IS").

Related-Party Transactions
Manager, Portfolio Advisor and Registrar

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

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

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

Distributors

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

Trustee and Custodian

RBC IS is the trustee and custodian of the Fund. The fees paid to RBC IS are paid by RBC GAM and not the Fund.

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

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as the Independent Review Committee with respect to one or more of the following transactions:

Related-Party Trading Activities

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

Inter-Fund Trading

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

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

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

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. "Net Assets" are calculated in accordance with Canadian generally accepted accounting principles, which are used to prepare the financial statements (see table below). "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.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series C												
Dec. 31, 2012	6.59	0.26	(0.16)	0.19	1.00	1.29	–	(0.07)	(0.16)	–	(0.23)	7.59
Dec. 31, 2011	8.72	0.35	(0.16)	(0.32)	(1.86)	(1.99)	–	(0.16)	–	–	(0.16)	6.59
Dec. 31, 2010	8.22	0.24	(0.17)	0.56	0.05	0.68	–	(0.03)	(0.04)	–	(0.07)	8.72
Dec. 31, 2009	5.94	0.73	(0.16)	(0.20)	2.19	2.56	(0.07)	–	–	–	(0.07)	8.22
Dec. 31, 2008 ³	6.01 [†]	0.32	(0.02)	(0.24)	0.13	0.19	(0.25)	–	–	–	(0.25)	5.94
Advisor Series												
Dec. 31, 2012	6.59	0.26	(0.16)	0.19	1.00	1.29	–	(0.07)	(0.16)	–	(0.23)	7.59
Dec. 31, 2011	8.72	0.35	(0.16)	(0.32)	(1.86)	(1.99)	–	(0.16)	–	–	(0.16)	6.59
Dec. 31, 2010 ⁴	8.53 [†]	0.04	(0.03)	0.09	0.01	0.11	–	(0.03)	(0.04)	–	(0.07)	8.72
Series D⁵												
Dec. 31, 2012	6.41	0.25	(0.10)	0.18	0.98	1.31	–	(0.13)	(0.16)	–	(0.29)	7.37
Dec. 31, 2011	8.49	0.34	(0.10)	(0.31)	(1.84)	(1.91)	–	(0.21)	–	–	(0.21)	6.41
Dec. 31, 2010	8.01	0.24	(0.11)	0.56	0.05	0.74	–	(0.10)	(0.04)	–	(0.14)	8.49
Dec. 31, 2009	5.92	0.26	(0.09)	(0.01)	2.22	2.38	(0.14)	–	–	–	(0.14)	8.01
Dec. 31, 2008	10.75	1.15	(0.11)	(1.84)	(3.13)	(3.93)	(0.27)	–	–	–	(0.27)	5.92
Series F												
Dec. 31, 2012	6.46	0.25	(0.08)	0.19	0.99	1.35	–	(0.16)	(0.16)	–	(0.32)	7.44
Dec. 31, 2011	8.56	0.34	(0.08)	(0.31)	(1.84)	(1.89)	–	(0.23)	–	–	(0.23)	6.46
Dec. 31, 2010	8.08	0.24	(0.08)	0.56	0.05	0.77	–	(0.13)	(0.04)	–	(0.17)	8.56
Dec. 31, 2009	5.98	0.24	(0.07)	(0.04)	1.97	2.10	(0.17)	–	–	–	(0.17)	8.08
Dec. 31, 2008	10.75	5.51	(0.08)	(0.41)	0.31	5.33	(0.23)	–	–	–	(0.23)	5.98
Series O												
Dec. 31, 2012	6.49	0.26	(0.01)	0.19	0.99	1.43	–	(0.23)	(0.16)	–	(0.39)	7.47
Dec. 31, 2011	8.60	0.34	(0.01)	(0.32)	(1.86)	(1.85)	–	(0.30)	–	–	(0.30)	6.49
Dec. 31, 2010	8.12	0.24	(0.01)	0.56	0.05	0.84	–	(0.21)	(0.04)	–	(0.25)	8.60
Dec. 31, 2009	6.01	0.25	(0.01)	(0.03)	2.16	2.37	(0.24)	–	–	–	(0.24)	8.12
Dec. 31, 2008	10.83	0.75	(0.01)	(1.57)	(3.30)	(4.13)	(0.33)	–	–	–	(0.33)	6.01

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

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

³ From November 2008.

⁴ From October 2010.

⁵ Series D was known as Series A prior to November 17, 2008.

[†] Initial offering net asset value per unit.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
Dec. 31, 2012	7.59	774	102	2.32	2.32	26.95	0.38
Dec. 31, 2011	6.59	474	72	2.30	2.30	22.35	0.34
Dec. 31, 2010	8.72	369	42	2.24	2.24	20.15	0.34
Dec. 31, 2009	8.22	150	18	2.12 ⁴	3.27	35.60	0.56
Dec. 31, 2008 ⁵	5.94	1	–	2.43	234.15	39.02	1.02
Advisor Series							
Dec. 31, 2012	7.59	62	8	2.32	2.32	26.95	0.38
Dec. 31, 2011	6.59	11	2	2.30	2.30	22.35	0.34
Dec. 31, 2010 ⁶	8.72	–	–	2.24	2.24	20.15	0.34
Series D⁷							
Dec. 31, 2012	7.37	35 554	4 822	1.48	1.48	26.95	0.38
Dec. 31, 2011	6.41	42 109	6 573	1.48	1.48	22.35	0.34
Dec. 31, 2010	8.49	59 969	7 067	1.44	1.44	20.15	0.34
Dec. 31, 2009	8.01	52 624	6 573	1.35 ⁴	1.35	35.60	0.56
Dec. 31, 2008	5.92	33 779	5 707	1.58	1.58	39.02	1.02
Series F							
Dec. 31, 2012	7.44	827	111	1.18	1.18	26.95	0.38
Dec. 31, 2011	6.46	794	123	1.21	1.21	22.35	0.34
Dec. 31, 2010	8.56	626	73	1.17	1.17	20.15	0.34
Dec. 31, 2009	8.08	415	51	1.07 ⁴	1.24	35.60	0.56
Dec. 31, 2008	5.98	318	53	1.33	3.93	39.02	1.02
Series O							
Dec. 31, 2012	7.47	187 165	25 054	0.25	0.25	26.95	0.38
Dec. 31, 2011	6.49	142 835	22 010	0.25	0.25	22.35	0.34
Dec. 31, 2010	8.60	143 589	16 697	0.24	0.24	20.15	0.34
Dec. 31, 2009	8.12	106 324	13 096	0.15 ⁴	0.15	35.60	0.56
Dec. 31, 2008	6.01	74 410	12 388	0.25	0.25	39.02	1.02

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

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

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

⁴ Effective November 1, 2009, a fixed administration fee was introduced in respect of each series of the Fund. If the fixed administration fee would have been in effect throughout 2009, the adjusted MER for each series of the Fund would be: Series C – 2.16%, Series D – 1.40%, Series F – 1.14%, Series O – 0.23%.

⁵ From November 2008.

⁶ From October 2010.

⁷ Series D was known as Series A prior to November 17, 2008.

PHILLIPS, HAGER & NORTH CURRENCY-HEDGED OVERSEAS EQUITY FUND

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

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

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.85%	54%	46%
Advisor Series	1.85%	54%	46%
Series D	1.10%	23%	77%
Series F	0.85%	—	100%

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

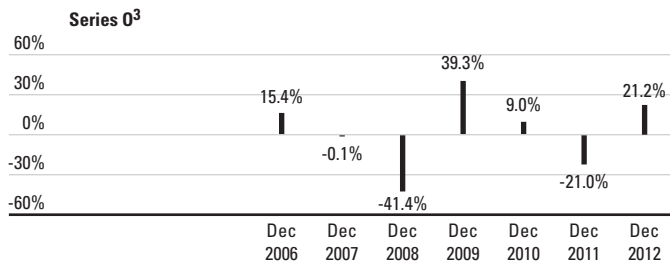
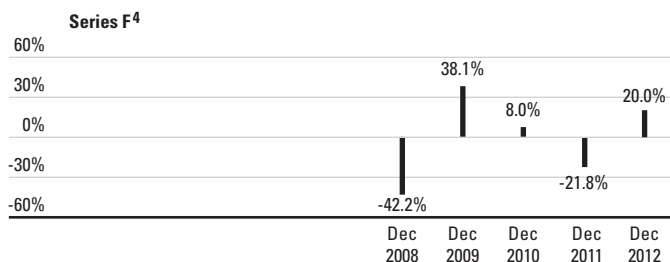
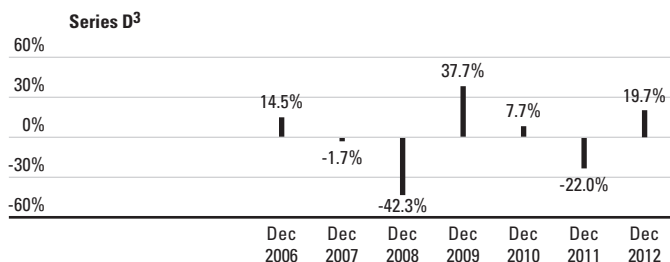
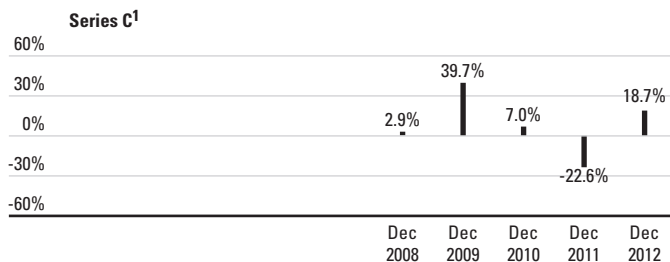
* Includes all costs related to management, investment advisory services, general administration and profit.

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, 2012, compared with the following benchmark:

MSCI EAFE Total Return Net Index (hedged to CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series C ¹	18.7	-0.6	—	—	8.8
Benchmark	17.3	2.6	—	—	7.9
Advisor Series ²	18.7	—	—	—	-2.5
Benchmark	17.3	—	—	—	3.1
Series D ³	19.7	0.2	-4.4	—	-1.6
Benchmark	17.3	2.6	-4.3	—	-1.0
Series F ⁴	20.0	0.5	-4.1	—	-4.1
Benchmark	17.3	2.6	-4.3	—	-4.3
Series O ³	21.2	1.4	-3.2	—	-0.3
Benchmark	17.3	2.6	-4.3	—	-1.0

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.

¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date June 2006.

⁴ Inception date December 2007.

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

INDEX DESCRIPTION

MSCI EAFE Total Return Net Index (hedged to CAD) This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indices) 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, 2012

Investment Mix – Sectors

	% of Net Asset Value
Financials	17.9
Health Care	17.9
Industrials	14.2
Energy	13.8
Telecommunication Services	12.3
Consumer Staples	11.0
Materials	6.3
Consumer Discretionary	5.4
Utilities	1.0
Information Technology	0.4
Cash/Other	-0.2

Investment Mix – Countries/Regions

	% of Net Asset Value
Europe ex-U.K. Equities	45.1
U.K. Equities	21.8
Pacific Rim ex-Japan Equities	15.1
Japan Equities	12.4
U.S. Equities	1.7
Latin America Equities	1.6
Middle East & Africa Equities	0.3
Cash/Other	2.0

Top 25 Holdings*

	% of Net Asset Value
Sanofi	5.5
Novartis AG	5.2
Golden Agri-Resources Ltd.	3.8
China Mobile (Hong Kong) Ltd.	3.7
Teva Pharmaceutical Industries Ltd. ADR	3.5
Roche Holdings AG Genussscheine	3.3
ENI S.p.A.	3.1
KDDI Corporation	3.1
ABB Ltd.	3.0
Imperial Tobacco Group Plc.	3.0
Royal Dutch Shell Plc., A Shares	3.0
Zijin Mining Group Co. Ltd.	2.6
Barclays Plc.	2.5
Telecom Italia S.p.A.	2.5
Catlin Group Ltd.	2.4
Cash & Cash Equivalents	2.3
UBS AG	2.2
Total S.A.	2.1
Aviva Plc.	2.0
G4S Plc.	2.0
Sumitomo Heavy Industries Ltd.	1.9
Inpex Corp.	1.7
Compagnie Generale des Etablissements Michelin	1.7
Transocean Ltd.	1.7
Vodafone Group Plc.	1.7
Top 25 Holdings	69.5

* 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.phn.com, or by emailing us at info@phn.com.

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