

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.

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

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

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing primarily in common shares of high-quality Canadian companies. 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 ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2016	21.68	0.66	(0.47)	0.84	3.77	4.80	—	(0.15)	—	—	(0.15)	26.44
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
Advisor Series												
Dec. 31, 2016	21.69	0.66	(0.47)	0.84	4.11	5.14	—	(0.15)	—	—	(0.15)	26.46
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
Series D												
Dec. 31, 2016	21.54	0.66	(0.26)	0.84	3.83	5.07	—	(0.38)	—	—	(0.38)	26.26
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
Series F												
Dec. 31, 2016	21.83	0.67	(0.20)	0.85	4.04	5.36	—	(0.45)	—	—	(0.45)	26.62
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
Series O												
Dec. 31, 2016	21.65	0.67	(0.03)	0.84	3.99	5.47	—	(0.64)	—	—	(0.64)	26.41
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

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.

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

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2016	26.44	1 548	59	1.96⁴	1.96	49.56	0.09
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
Advisor Series							
Dec. 31, 2016	26.46	1 839	70	1.95⁴	1.95	49.56	0.09
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
Series D							
Dec. 31, 2016	26.26	22 573	860	1.11⁴	1.11	49.56	0.09
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
Series F							
Dec. 31, 2016	26.62	1 601	60	0.84⁴	0.84	49.56	0.09
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
Series O							
Dec. 31, 2016	26.41	63 516	2 405	0.11	0.11	49.56	0.09
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

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 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.

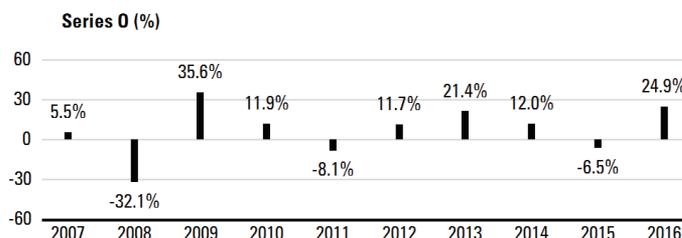
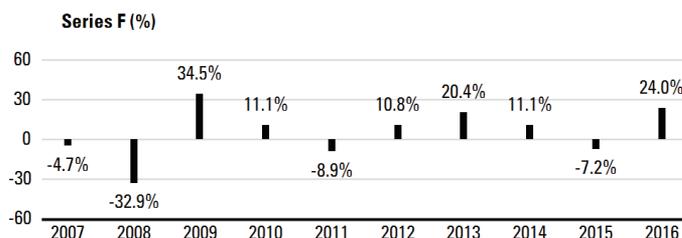
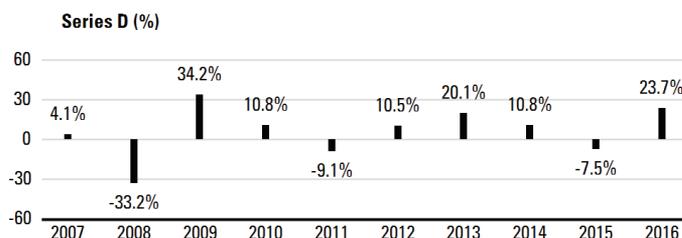
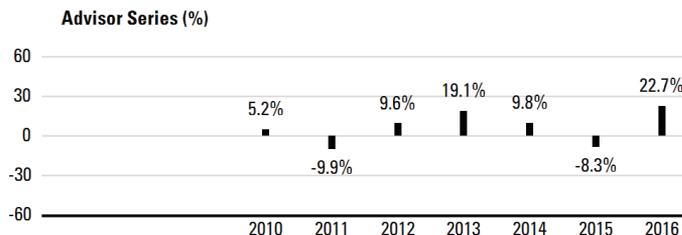
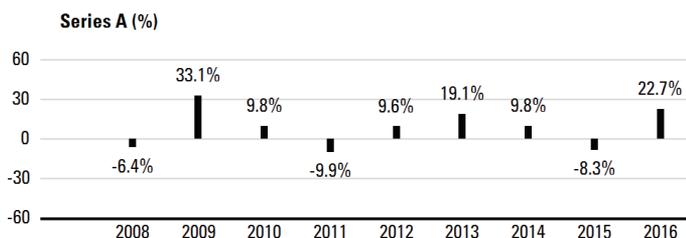
* Includes all costs related to management, investment advisory services, general administration and profit.

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