

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.

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

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

**PHILLIPS, HAGER & NORTH COMMUNITY
VALUES BALANCED FUND**
MANAGEMENT DISCUSSION OF FUND PERFORMANCE
Investment Objective and Strategies

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

Risk

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.

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

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

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series 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 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	Total	
Series A												
Dec. 31, 2016	14.55	0.38	(0.30)	0.35	0.50	0.93	(0.01)	(0.04)	(0.24)	—	(0.29)	15.19
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
Advisor Series												
Dec. 31, 2016	14.56	0.38	(0.30)	0.35	0.59	1.02	(0.01)	(0.05)	(0.23)	—	(0.29)	15.20
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
Series D												
Dec. 31, 2016	14.35	0.38	(0.14)	0.35	0.52	1.11	(0.04)	(0.19)	(0.23)	—	(0.46)	14.97
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
Series F												
Dec. 31, 2016	14.55	0.38	(0.14)	0.35	0.57	1.16	(0.04)	(0.19)	(0.23)	—	(0.46)	15.18
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
Series O												
Dec. 31, 2016	14.39	0.38	(0.02)	0.35	0.50	1.21	(0.06)	(0.30)	(0.23)	—	(0.59)	15.01
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

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 BALANCED FUND**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2016	15.19	10 057	662	2.14	2.14	14.06	0.08
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
Advisor Series							
Dec. 31, 2016	15.20	8 012	527	2.14	2.14	14.06	0.08
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
Series D							
Dec. 31, 2016	14.97	22 819	1 525	1.03	1.03	14.06	0.08
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
Series F							
Dec. 31, 2016	15.18	6 469	426	1.04	1.04	14.06	0.08
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
Series O							
Dec. 31, 2016	15.01	28 577	1 904	0.22	0.22	14.06	0.08
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

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.

**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.

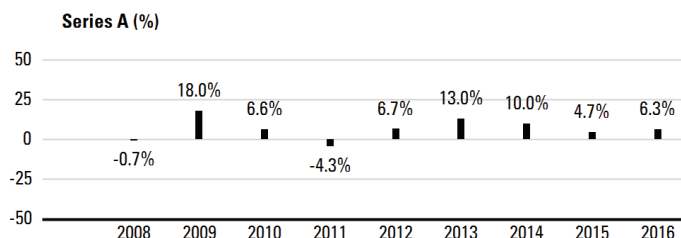
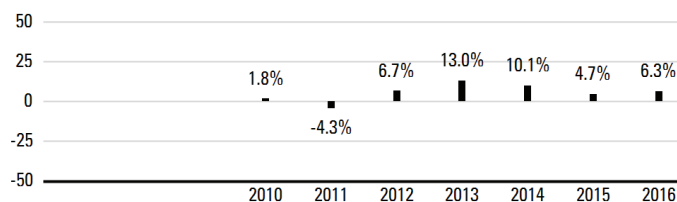
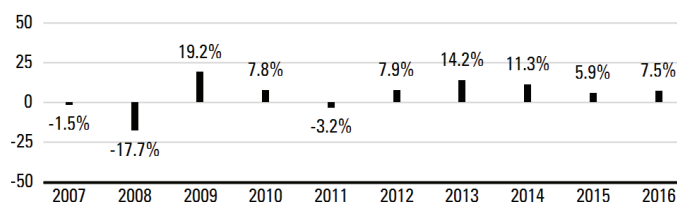
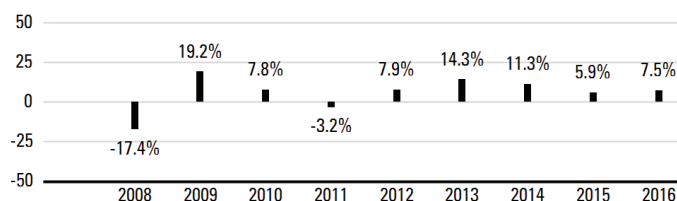
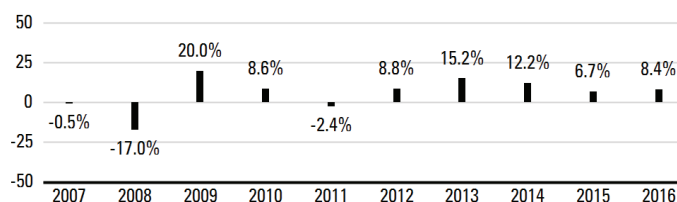
* Includes all costs related to management, investment advisory services, general administration and profit.

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.


Advisor Series (%)

Series D (%)

Series F (%)

Series O (%)


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

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 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, or by emailing us at info@phn.com.

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