



BALANCED FUND

**PHILLIPS, HAGER & NORTH
BALANCED PENSION TRUST**

December 31, 2018

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 11, 2019.

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 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 fell to \$1.2 billion as of December 31, 2018, from \$1.3 billion at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 2.5%, which underperformed the 2.4% decline in the benchmark. The broad-based index 1 rose 1.4% and the broad-based index 2 declined 8.9%. 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 big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the "EU"), while in Italy the formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU.

In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

The Fund's overweight position in equities and underweight position in fixed income had a negative impact on performance. Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by a weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the "Fed") boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. The Fund's sole fixed-income holding, the Phillips, Hager & North Bond Fund, had a positive impact on performance.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Overall, the Fund's equity positions were a drag on portfolio performance, led by the Phillips, Hager & North Canadian Equity Underlying Fund.

Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect. The Fund's asset mix remains underweight fixed income and overweight stocks.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.

Effective June 28, 2018, Series A units were renamed 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. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributors

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

Registrars

RBC GAM, RBC Investor Services Trust ("RBC IS") or Royal Bank (or a combination thereof) are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Trustee and Custodian

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

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Securities Lending Agent

To the extent the Fund may engage in securities lending transactions, RBC IS may act as the Fund's securities lending agent. Any revenue earned on such securities lending is split between the Fund and the securities lending agent.

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.

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 F												
Dec. 31, 2018	20.54	0.56	(0.12)	0.66	(1.61)	(0.51)	(0.17)	(0.25)	(0.54)	–	(0.96)	18.94
Dec. 31, 2017	19.70	0.54	(0.12)	0.90	0.68	2.00	(0.17)	(0.27)	(0.63)	–	(1.07)	20.54
Dec. 31, 2016	19.01	0.54	(0.11)	0.64	0.42	1.49	(0.19)	(0.25)	(0.37)	–	(0.81)	19.70
Dec. 31, 2015	19.38	0.57	(0.12)	1.04	(0.48)	1.01	(0.20)	(0.27)	(0.90)	–	(1.37)	19.01
Dec. 31, 2014	18.46	0.51	(0.11)	1.76	0.04	2.20	(0.19)	(0.24)	(0.85)	–	(1.28)	19.38
Series O												
Dec. 31, 2018	20.38	0.55	–	0.65	(1.71)	(0.51)	(0.22)	(0.32)	(0.54)	–	(1.08)	18.78
Dec. 31, 2017	19.53	0.54	–	0.89	0.53	1.96	(0.21)	(0.32)	(0.63)	–	(1.16)	20.38
Dec. 31, 2016	18.86	0.53	–	0.64	0.42	1.59	(0.24)	(0.31)	(0.37)	–	(0.92)	19.53
Dec. 31, 2015	19.23	0.57	–	1.03	(0.48)	1.12	(0.25)	(0.34)	(0.89)	–	(1.48)	18.86
Dec. 31, 2014	18.30	0.51	–	1.75	0.04	2.30	(0.23)	(0.28)	(0.85)	–	(1.36)	19.23

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.

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 F							
Dec. 31, 2018	18.94	186 183	9 831	0.60	0.60	10.63	0.04
Dec. 31, 2017	20.54	245 278	11 943	0.61	0.61	9.46	0.07
Dec. 31, 2016	19.70	382 349	19 414	0.60	0.60	13.63	0.08
Dec. 31, 2015	19.01	364 023	19 147	0.61	0.61	21.97	0.07
Dec. 31, 2014	19.38	357 027	18 425	0.60	0.60	40.26	0.07
Series O							
Dec. 31, 2018	18.78	1 031 577	54 920	0.04	0.04	10.63	0.04
Dec. 31, 2017	20.38	1 047 872	51 418	0.04	0.04	9.46	0.07
Dec. 31, 2016	19.53	814 076	41 684	0.04	0.04	13.63	0.08
Dec. 31, 2015	18.86	896 919	47 554	0.04	0.04	21.97	0.07
Dec. 31, 2014	19.23	956 262	49 722	0.04	0.04	40.26	0.07

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 an annualized 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 F	0.50%	–	100%

Series 0 – 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.

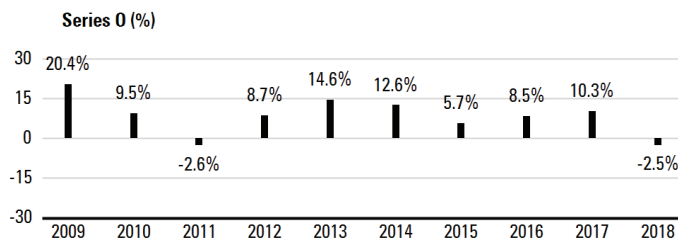
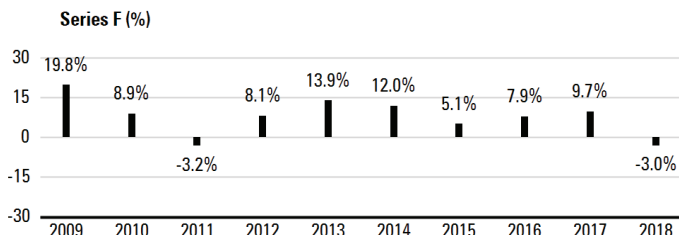
* Includes all costs related to management, investment advisory services, general administration and profit.

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, 2018, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 38% FTSE 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 Canada 30 Day TBill Index

The following are the broad-based indexes:

- Broad-based index 1 – FTSE Canada Universe Bond Index
- Broad-based index 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series F	-3.0	4.7	6.2	7.7	–
Benchmark	-2.4	4.6	5.6	7.3	–
Broad-based index 1	1.4	1.9	3.5	4.2	–
Broad-based index 2	-8.9	6.4	4.1	7.9	–
Series 0	-2.5	5.3	6.8	8.3	–
Benchmark	-2.4	4.6	5.6	7.3	–
Broad-based index 1	1.4	1.9	3.5	4.2	–
Broad-based index 2	-8.9	6.4	4.1	7.9	–

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 indexes.

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

All outstanding Series A units were renamed Series F units effective June 28, 2018.



PAST PERFORMANCE (cont.)

INDEX DESCRIPTIONS

FTSE 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, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, 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 Canada 30 Day TBill Index* This index is a measure of the performance of Canadian short-term cash investments.

* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

Investment Mix

	% of Net Asset Value
Bonds	37.2
Canadian Equities	32.0
Global Equities	30.4
Cash/Other	0.4

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	37.2
Phillips, Hager & North Canadian Equity Underlying Fund	30.4
RBC QUBE Global Equity Fund	13.2
RBC Global Equity Focus Fund	13.1
RBC Emerging Markets Equity Fund	4.1
Phillips, Hager & North Canadian Money Market Fund	1.5
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 and a quarterly update is available at www.rbcgam.com/funds.

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