



FIXED-INCOME ETF

**RBC TARGET 2020  
CORPORATE BOND INDEX ETF**

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December 31, 2017

**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, 2018.

**A Note on Forward-looking Statements**

This report may contain forward-looking statements about the ETF, its future performance, strategies or prospects, and possible future ETF 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 ETF 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 ETF. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

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

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*This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the ETF. You can get a copy of the financial statements at your request, and at no cost, by calling 1-855-RBC-ETFs (722-3837), by writing to us at RBC Global Asset Management Inc., P.O. Box 7500, Station A, Toronto, Ontario M5W 1P9, or by visiting our website at [www.rbcgam.com/etf/reports](http://www.rbcgam.com/etf/reports) or SEDAR at [www.sedar.com](http://www.sedar.com). Security holders may also contact us using one of these methods to request a copy of the ETF's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.*



## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The ETF seeks to provide income for a limited period of time ending on its termination date by replicating, to the extent possible, the investment results that correspond generally to the performance, before fees and expenses, of the FTSE TMX Canada 2020 Maturity Corporate Bond Index\*. The FTSE TMX Canada 2020 Maturity Corporate Bond Index is designed to represent the performance of a held-to-maturity portfolio consisting of, primarily, Canadian dollar-denominated investment grade corporate bonds with effective maturities in 2020.

The ETF intends to invest at least 90% of its assets in and hold the securities that comprise the FTSE TMX Canada 2020 Maturity Corporate Bond Index and/or securities that have economic characteristics that are substantially similar to those that comprise the index.

### Risk

There were no significant changes to the ETF that materially affected the ETF's overall level of risk during the reporting period. The risks of investing in the ETF and the suitability of the ETF for investors remain as discussed in the Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each ETF's risk rating on an annual basis or if there has been a material change to an ETF's investment objectives or investment strategies. Any changes to an ETF's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the ETF's risk rating during the reporting period.

### Results of Operations

The ETF's net asset value rose to \$129 million as of December 31, 2017, from \$94 million at the end of 2016. The increase was due to net inflows.

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Over the past year, the ETF's units gained 0.7%, which underperformed the 1.0% rise in the benchmark. The broad-based index rose 2.5%. The ETF's return is after the deduction of fees and 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 the ETF.

North American corporate bonds recorded gains as demand continued for investments offering excess yield over money-market or government bonds. Economic growth recovered strongly in Canada, as did oil and the Canadian dollar, enabling the Bank of Canada (the "BOC") to raise short-term rates for the first time in seven years. The U.S. Federal Reserve (the "Fed") boosted rates three times during 2017 amid a strengthening economy.

Corporate bonds with three years left until maturity had modest gains. Returns for corporate bonds were driven primarily by investor demand for the extra income offered by corporate bonds relative to government bonds. Short-term bonds with maturities between one and three years experienced the greatest move higher in yields, with short-term federal-government bonds recording losses as coupon payments were offset by declines in prices.

### Recent Developments

The portfolio manager believes that the macroeconomic backdrop of an expanding global economy and its positive impact on corporate earnings and corporate balance sheets support the outlook for corporate bonds. Passage of the U.S. tax plan will help extend an already long credit cycle. As a result, the BOC and the Fed will likely continue on the path of raising short-term interest rates. The results of the NAFTA renegotiation remain unknown for the BOC at this juncture, but stronger oil prices are a positive for the domestic economy.

The portfolio manager expects the first half of 2018 to be characterized by modest returns, higher short-term yields and the continued reduction in the excess yields on non-government bonds.

### Related-Party Transactions

#### *Manager, Trustee and Portfolio Manager*

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank of Canada ("Royal Bank") and is the manager, trustee and portfolio manager of the ETF. RBC GAM is responsible for the ETF's day-to-day operations, holds title to the ETF's property on behalf of its unitholders, and provides investment advice and portfolio management services to the ETF. RBC GAM is paid a management fee by the ETF as compensation for its services. The management fee is calculated and accrued on a daily basis and is based on a percentage of the net asset value of the ETF.



RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the ETF, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders buy and sell ETF units denominated in different currencies. The ETF may also maintain 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 ETF in the course of their normal businesses are discussed below.

***Custodian and Valuation Agent***

RBC Investor Services Trust (“RBC IS”) is the custodian and valuation agent and holds the assets of the ETF and provides administrative services to the ETF. RBC IS earns a variable fee based on the value of assets under custody and a fixed fee for other valuation and administrative services.

***Designated Broker***

RBC GAM has entered into an agreement with RBC Dominion Securities Inc., an affiliate of RBC GAM, to act as designated broker and/or authorized dealer for the distribution of units of the ETF, on terms and conditions that are comparable to arm’s length agreements in the ETF industry. The material terms and conditions of the agreement have been disclosed in the ETF’s Prospectus.

***Other Related-Party Transactions***

Pursuant to applicable securities legislation, the ETF 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 debt securities from or sales of debt securities to a related-party dealer, where it acted as principal.

The applicable standing instructions require that Related-Party Trading Activities 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 ETF, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the ETF.



## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance for the past five years or for the periods since inception. This information is derived from the ETF'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 RBC 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/<br>Period Ended | Net Assets<br>Beginning of Year/Period | Increase (Decrease) from Operations <sup>1</sup> |                   |                               |                                 |             | Annual Distributions <sup>2</sup>          |                   |                          |                      | Net Assets<br>End of<br>Year/Period |              |
|-------------------------------|--|--|-------------------|-------------------------------|---------------------------------|-------------|--|-------------------|--------------------------|----------------------|-------------------------------------|--------------|
|                               |  | Total<br>Revenue<br>(Loss)                       | Total<br>Expenses | Realized<br>Gains<br>(Losses) | Unrealized<br>Gains<br>(Losses) | Total       | From<br>Income<br>(Excluding<br>Dividends) | From<br>Dividends | From<br>Capital<br>Gains | Return<br>of Capital |                                     |              |
| <b>Dec. 31, 2017</b>          | <b>20.47</b>                           | <b>0.61</b>                                      | <b>(0.06)</b>     | <b>(0.10)</b>                 | <b>(0.34)</b>                   | <b>0.11</b> | <b>(0.55)</b>                              | –                 | –                        | –                    | <b>(0.55)</b>                       | <b>20.07</b> |
| Dec. 31, 2016                 | 20.52                                  | 0.63   | (0.06)            | (0.01)                        | (0.11)                          | 0.45        | (0.56)                                     | –                 | –                        | –                    | (0.56)                              | 20.47        |
| Dec. 31, 2015                 | 20.49                                  | 0.70   | (0.06)            | (0.06)                        | (0.26)                          | 0.32        | (0.63)                                     | –                 | –                        | –                    | (0.63)                              | 20.52        |
| Dec. 31, 2014                 | 19.81                                  | 0.84   | (0.06)            | (0.03)                        | 0.62                            | 1.37        | (0.76)                                     | –                 | –                        | –                    | (0.76)                              | 20.49        |
| Dec. 31, 2013                 | 20.55                                  | 0.88   | (0.07)            | (0.10)                        | (0.69)                          | 0.02        | (0.80)                                     | –                 | –                        | –                    | (0.80)                              | 19.77        |

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

<sup>2</sup> Distributions are either paid in cash, reinvested in additional units of the ETF, or both.

## Ratios and Supplemental Data

| As at                | Net Asset Value<br>(\$000s) | Number of Units<br>Outstanding (000s) | Management<br>Expense Ratio (%) <sup>1</sup> | MER Before<br>Absorption (%) <sup>1</sup> | Trading<br>Expense Ratio (%) <sup>2</sup> | Portfolio<br>Turnover Rate (%) <sup>3</sup> | Net Asset Value<br>Per Unit (\$) | Closing<br>Market Price (\$) |
|----------------------|-----------------------------|---------------------------------------|--|---|---|---|----------------------------------|------------------------------|
| <b>Dec. 31, 2017</b> | <b>129 464</b>              | <b>6 450</b>                          | <b>0.28</b>                                  | <b>0.28</b>                               | –   | <b>24.90</b>                                | <b>20.07</b>                     | <b>20.08</b>                 |
| Dec. 31, 2016        | 94 176                      | 4 600                                 | 0.28   | 0.28                                      | –   | 14.05                                       | 20.47                            | 20.45                        |
| Dec. 31, 2015        | 58 490                      | 2 850                                 | 0.29   | 0.29                                      | –   | 49.49                                       | 20.52                            | 20.51                        |
| Dec. 31, 2014        | 14 343                      | 700                                   | 0.29   | 0.29                                      | –   | 31.67                                       | 20.49                            | 20.51                        |
| Dec. 31, 2013        | 9 904                       | 500                                   | 0.34   | 0.34                                      | –   | 43.34                                       | 19.81                            | 19.85                        |

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

<sup>2</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

<sup>3</sup> The ETF'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 ETF buying and selling all of the securities in its portfolio once in the course of the year. The higher the ETF's portfolio turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the ETF.

## Management Fees

RBC GAM is the manager, trustee and portfolio manager of the ETF. The management fee of the ETF is calculated at the annual percentage, before GST/HST, of the daily net asset value of the ETF.

| Management Fees                          |       |
|--|-------|
| RBC Target 2020 Corporate Bond Index ETF | 0.25% |

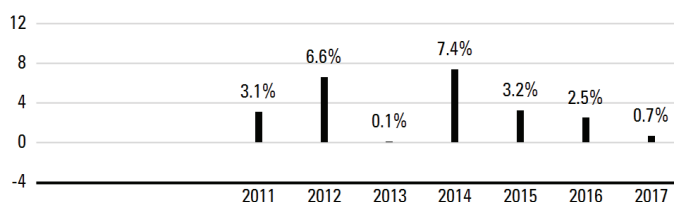


## PAST PERFORMANCE

The performance information shown assumes that all distributions made by the ETF in the periods shown were reinvested in additional units of the ETF 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 ETF 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 ETF's performance for each of the years shown, and illustrates how the ETF'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 of the ETF for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

#### FTSE TMX Canada 2020 Maturity Corporate Bond 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 |
|-------------------|-----------|--------------|--------------|---------------|-----------------|
| ETF               | 0.7       | 2.2          | 2.8          | —             | 3.7             |
| Benchmark         | 1.0       | 2.5          | 3.1          | —             | 4.1             |
| Broad-based index | 2.5       | 2.6          | 3.0          | —             | 3.4             |

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.

The ETF's units have been available for sale to unitholders since September 15, 2011.

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

## INDEX DESCRIPTIONS

**FTSE TMX Canada 2020 Maturity Corporate Bond Index** This index is designed to measure the performance of a held-to-maturity portfolio consisting primarily of Canadian-dollar-denominated investment-grade corporate bonds maturing in 2020.

**FTSE TMX Canada Universe Bond Index** This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

### Investment Mix

|                  | % of Net Asset Value |
|------------------|----------------------|
| Corporate Bonds  |                      |
| Financials       | 72.6                 |
| Energy           | 9.7                  |
| Communication    | 8.1                  |
| Industrials      | 3.9                  |
| Infrastructure   | 3.2                  |
| Real Estate      | 1.6                  |
| Other Net Assets | 0.9                  |

### Top 25 Holdings

|   | % of Net Asset Value |
|---|----------------------|
| Royal Bank of Canada 1.920% Jul 17, 2020                    | 7.6                  |
| Canadian Imperial Bank of Commerce 1.660% Jan 20, 2020      | 7.6                  |
| Caisse Centrale Desjardins 1.748% Mar 02, 2020              | 6.8                  |
| Bank of Nova Scotia 2.270% Jan 13, 2020                     | 6.2                  |
| Toronto-Dominion Bank 2.563% Jun 24, 2020                   | 5.8                  |
| Bank of Montreal 2.840% Jun 04, 2020                        | 5.7                  |
| HSBC Bank Canada 2.938% Jan 14, 2020                        | 5.4                  |
| National Bank of Canada 1.742% Mar 03, 2020                 | 5.0                  |
| Capital Desjardins Inc. 5.187% May 05, 2020                 | 4.9                  |
| Canadian Natural Resources Ltd. 2.050% Jun 01, 2020         | 4.5                  |
| Great-West Lifeco Inc. 4.650% Aug 13, 2020                  | 2.7                  |
| Thomson Reuters Corp. 4.350% Sep 30, 2020                   | 2.7                  |
| Enbridge Inc. 4.530% Mar 09, 2020                           | 2.7                  |
| General Motors Financial of Canada Ltd. 3.080% May 22, 2020 | 2.6                  |
| Nissan Canada Financial Services Inc. 2.420% Oct 19, 2020   | 2.5                  |
| Sun Life Financial Inc., FRN 2.600% Sep 25, 2025            | 2.5                  |
| BMW Canada Inc. 1.880% Dec 11, 2020                         | 2.5                  |
| Rogers Communications Inc. 4.700% Sep 29, 2020              | 2.4                  |
| Enbridge Pipelines Inc. 4.450% Apr 06, 2020                 | 1.9                  |
| Nissan Canada Financial Services Inc. 1.750% Apr 09, 2020   | 1.8                  |
| 407 International Inc. 4.990% Jun 16, 2020                  | 1.6                  |
| TELUS Corp. 5.050% Jul 23, 2020                             | 1.6                  |
| Hydro One Inc. 4.400% Jun 01, 2020                          | 1.6                  |
| Bank of Nova Scotia 2.090% Sep 09, 2020                     | 1.6                  |
| OMERS Realty Corp. 3.203% Jul 24, 2020                      | 1.6                  |
| <b>Top 25 Holdings</b>                                      | <b>91.8</b>          |

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the ETF and a quarterly update is available at [www.rbcgam.com/etfs](http://www.rbcgam.com/etfs).