

FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH
SHORT TERM BOND & MORTGAGE FUND***June 30, 2013***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this semi-annual management report of fund performance on August 14, 2013.

A Note on Forward-looking Statements

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

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

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

This semi-annual management report of fund performance ("MRFP") contains financial highlights but does not contain either the complete semi-annual financial statements or 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.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with relatively high yields and stability of capital by investing primarily in Canadian government and corporate bonds and multi-residential mortgages on property located in Canada in accordance with National Policy Statement No. 29. To achieve the Fund's investment objective, we invest in high-quality Canadian corporate bonds, government bonds, and up to 40% of the Fund's net assets in conventional first mortgages and mortgages guaranteed under the *National Housing Act* (Canada). We may also invest in asset-backed commercial paper. Securities purchased will generally not have a term to maturity exceeding seven years and three months, and the average term to maturity of the portfolio will generally be three years.

Results of Operations

The Fund's net asset value was \$3.6 billion as of June 30, 2013.

Over the past six months, the Fund's Series D units returned 0.2%. The Fund's return is after the deduction of fees and expenses. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of the other series, which may vary because of differences in management fees and expenses.

In an environment of sharply rising yields, we were able to mitigate the downside somewhat by positioning the Fund with a short duration relative to its benchmark, the DEX Short Term Bond Index, making it less sensitive to the negative effects of rising interest rates. We made a number of adjustments to the Fund's duration, adjusting the magnitude of the Fund's relative short duration to take advantage of heightened interest rate volatility. Offsetting the positive contribution from our duration strategy was the negative contribution from our yield curve positioning, where we held overweight positions in bonds with longer maturities (five to seven years) which underperformed. The spreads on corporate bonds tightened over the first half of the year, and the Fund's overweight position in corporate bonds and security selection within the corporate sector also added value. We held an underweight position in provincial bonds, which we do not currently find particularly attractive compared to other shorter-term credit alternatives. Mortgages represented approximately 15% of the Fund, and were an effective source of additional yield.

Recent Developments

The dramatic rise in interest rates brought them up to a level that we believe more closely reflects the economic environment. We now believe that interest rates and the economy are better aligned than before, and with this improved alignment, we have removed some of the Fund's short-duration strategy, leaving the Fund modestly short versus its benchmark. The Fund's overweight position in corporate bonds and out-of-benchmark position in mortgages are still in place. Corporate credit spreads remain wide by historical standards, and we are encouraged by the fundamentals for corporate bonds, which do well in a modestly growing economy. Mortgages continue to provide a reliable source of extra yield, and appear to be less volatile than other credit sectors.

Related-Party Transactions***Manager, Portfolio Advisor and Registrar***

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

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

Distributors

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

Trustee and Custodian

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

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

Other Related-Party Transactions

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

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND*Related-Party Trading Activities*

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

Inter-Fund Trading

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

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

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE 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 six months (noted by June 30, 2013), and for the past five years or for the periods since inception. This information is derived from the Fund's unaudited semi-annual financial statements and audited annual financial statements. "Net Assets" are calculated in accordance with Canadian generally accepted accounting principles, which are used to prepare the financial statements (see table below). "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds' Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/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 C												
June 30, 2013	10.50	0.16	(0.06)	(0.01)	(0.09)	–	(0.09)	–	–	–	(0.09)	10.41
Dec. 31, 2012	10.53	0.32	(0.12)	(0.02)	(0.02)	0.16	(0.19)	–	–	–	(0.19)	10.50
Dec. 31, 2011	10.45	0.36	(0.12)	0.03	0.04	0.31	(0.23)	–	(0.01)	–	(0.24)	10.53
Dec. 31, 2010	10.47	0.41	(0.12)	0.06	(0.08)	0.27	(0.26)	–	(0.05)	–	(0.31)	10.45
Dec. 31, 2009	10.05	0.44	(0.11)	0.07	(0.07)	0.33	(0.27)	–	–	–	(0.27)	10.47
Dec. 31, 2008 ³	9.95 [†]	0.06	(0.02)	0.01	0.09	0.14	(0.01)	–	–	–	(0.01)	10.05
Advisor Series												
June 30, 2013	10.50	0.16	(0.06)	(0.01)	(0.09)	–	(0.09)	–	–	–	(0.09)	10.41
Dec. 31, 2012	10.53	0.32	(0.12)	(0.02)	(0.02)	0.16	(0.19)	–	–	–	(0.19)	10.50
Dec. 31, 2011	10.45	0.36	(0.12)	0.03	0.04	0.31	(0.23)	–	(0.01)	–	(0.24)	10.53
Dec. 31, 2010 ⁴	10.63 [†]	0.07	(0.02)	0.01	(0.01)	0.05	(0.05)	–	(0.05)	–	(0.10)	10.45
Series H												
June 30, 2013	10.51	0.16	(0.05)	(0.01)	(0.09)	0.01	(0.10)	–	–	–	(0.10)	10.41
Dec. 31, 2012 ⁵	10.54 [†]	0.14	(0.05)	(0.01)	(0.01)	0.07	(0.09)	–	–	–	(0.09)	10.51
Series D⁶												
June 30, 2013	10.47	0.16	(0.03)	(0.01)	(0.09)	0.03	(0.12)	–	–	–	(0.12)	10.37
Dec. 31, 2012	10.49	0.32	(0.06)	(0.02)	(0.02)	0.22	(0.25)	–	–	–	(0.25)	10.47
Dec. 31, 2011	10.42	0.36	(0.06)	0.03	0.04	0.37	(0.29)	–	(0.01)	–	(0.30)	10.49
Dec. 31, 2010	10.42	0.41	(0.06)	0.06	(0.08)	0.33	(0.31)	–	(0.05)	–	(0.36)	10.42
Dec. 31, 2009	10.00	0.45	(0.06)	0.12	0.20	0.71	(0.32)	–	–	–	(0.32)	10.42
Dec. 31, 2008	9.86	0.47	(0.07)	0.07	0.01	0.48	(0.34)	–	–	–	(0.34)	10.00
Series F												
June 30, 2013	10.45	0.16	(0.03)	(0.01)	(0.09)	0.03	(0.12)	–	–	–	(0.12)	10.35
Dec. 31, 2012	10.48	0.32	(0.06)	(0.02)	(0.02)	0.22	(0.25)	–	–	–	(0.25)	10.45
Dec. 31, 2011	10.40	0.36	(0.06)	0.03	0.04	0.37	(0.29)	–	(0.01)	–	(0.30)	10.48
Dec. 31, 2010	10.41	0.40	(0.06)	0.06	(0.08)	0.32	(0.31)	–	(0.05)	–	(0.36)	10.40
Dec. 31, 2009	9.99	0.44	(0.06)	0.08	(0.07)	0.39	(0.32)	–	–	–	(0.32)	10.41
Dec. 31, 2008	9.85	0.46	(0.06)	0.06	0.12	0.58	(0.33)	–	–	–	(0.33)	9.99
Series I												
June 30, 2013	10.45	0.16	(0.03)	(0.01)	(0.09)	0.03	(0.13)	–	–	–	(0.13)	10.34
Dec. 31, 2012 ⁵	10.48 [†]	0.14	(0.03)	(0.01)	(0.01)	0.09	(0.12)	–	–	–	(0.12)	10.45

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND
FINANCIAL HIGHLIGHTS (cont.)
Change in Net Assets Per Unit (\$) (cont.)

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 O												
June 30, 2013	10.17	0.15	–	(0.01)	(0.09)	0.05	(0.14)	–	–	–	(0.14)	10.08
Dec. 31, 2012	10.19	0.31	(0.01)	(0.02)	(0.02)	0.26	(0.30)	–	–	–	(0.30)	10.17
Dec. 31, 2011	10.11	0.35	(0.01)	0.03	0.04	0.41	(0.33)	–	(0.01)	–	(0.34)	10.19
Dec. 31, 2010	10.14	0.40	(0.01)	0.06	(0.07)	0.38	(0.38)	–	(0.05)	–	(0.43)	10.11
Dec. 31, 2009	9.78	0.43	–	0.12	0.20	0.75	(0.42)	–	–	–	(0.42)	10.14
Dec. 31, 2008	9.74	0.46	(0.01)	0.06	0.01	0.52	(0.48)	–	–	–	(0.48)	9.78

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.

³ From November 2008.

⁴ From October 2010.

⁵ From July 2012.

⁶ Series D was known as Series A prior to November 17, 2008.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series C							
June 30, 2013	10.42	276 185	26 508	1.15	1.15	306.41	–
Dec. 31, 2012	10.51	298 468	30 262	1.15	1.15	236.97	–
Dec. 31, 2011	10.54	334 540	31 740	1.15	1.15	316.04	–
Dec. 31, 2010	10.46	293 873	28 085	1.13	1.13	321.53	–
Dec. 31, 2009	10.48	174 348	16 640	1.12 ⁴	1.13	181.88	–
Dec. 31, 2008 ⁵	10.06	799	79	1.17	1.59	192.71	–
Advisor Series							
June 30, 2013	10.42	32 221	3 092	1.15	1.15	306.41	–
Dec. 31, 2012	10.51	56 322	3 489	1.15	1.15	236.97	–
Dec. 31, 2011	10.54	27 700	2 628	1.15	1.15	316.04	–
Dec. 31, 2010 ⁶	10.46	7 659	732	1.13	1.13	321.53	–
Series H							
June 30, 2013	10.42	39 923	3 832	1.03	1.03	306.41	–
Dec. 31, 2012 ⁷	10.52	42 687	4 060	1.04	1.04	236.97	–
Series D⁸							
June 30, 2013	10.38	234 586	22 604	0.60	0.60	306.41	–
Dec. 31, 2012	10.47	270 195	25 799	0.61	0.61	236.97	–
Dec. 31, 2011	10.50	290 682	27 674	0.61	0.61	316.04	–
Dec. 31, 2010	10.43	272 713	26 142	0.59	0.59	321.53	–
Dec. 31, 2009	10.43	284 489	27 264	0.60 ⁴	0.60	181.88	–
Dec. 31, 2008	10.01	195 641	19 539	0.63	0.63	192.71	–

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data (cont.)

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							
June 30, 2013	10.36	107 087	10 337	0.61	0.61	306.41	—
Dec. 31, 2012	10.46	115 079	11 007	0.61	0.61	236.97	—
Dec. 31, 2011	10.49	121 186	11 557	0.61	0.61	316.04	—
Dec. 31, 2010	10.41	103 749	9 962	0.59	0.59	321.53	—
Dec. 31, 2009	10.42	31 635	3 035	0.60 ⁴	0.61	181.88	—
Dec. 31, 2008	10.00	471	47	0.63	1.38	192.71	—
Series I							
June 30, 2013	10.35	20 340	1 964	0.50	0.50	306.41	—
Dec. 31, 2012 ⁷	10.45	19 544	1 869	0.51	0.51	236.97	—
Series O							
June 30, 2013	10.09	2 862 749	283 859	0.06	0.06	306.41	—
Dec. 31, 2012	10.17	2 693 820	264 796	0.06	0.06	236.97	—
Dec. 31, 2011	10.20	2 006 961	196 807	0.06	0.06	316.04	—
Dec. 31, 2010	10.12	1 322 295	130 633	0.05	0.05	321.53	—
Dec. 31, 2009	10.15	919 031	90 533	0.05 ⁴	0.05	181.88	—
Dec. 31, 2008	9.79	634 317	64 767	0.06	0.06	192.71	—

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

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

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

⁴ Effective November 1, 2009, a fixed administration fee was introduced in respect of each series of the Fund. If the fixed administration fee would have been in effect throughout 2009, the adjusted MER for each series of the Fund would be: Series C – 1.10%, Series D – 0.58%, Series F – 0.58%, Series O – 0.05%.

⁵ From November 2008.

⁶ From October 2010.

⁷ From July 2012.

⁸ Series D was known as Series A prior to November 17, 2008.

Management Fees

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

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series C	1.00%	50%	50%
Advisor Series	1.00%	50%	50%
Series H	0.90%	56%	44%
Series D	0.50%	30%	70%
Series F	0.50%	—	100%
Series I	0.40%	—	100%

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

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

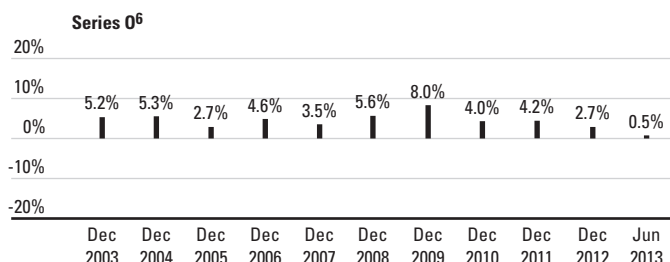
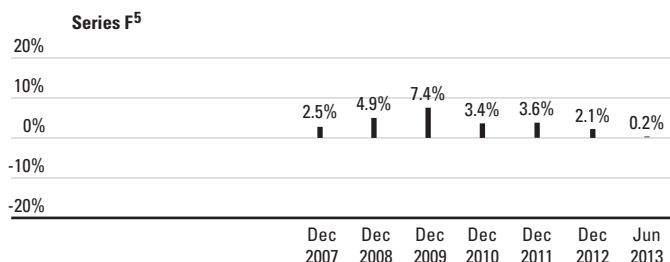
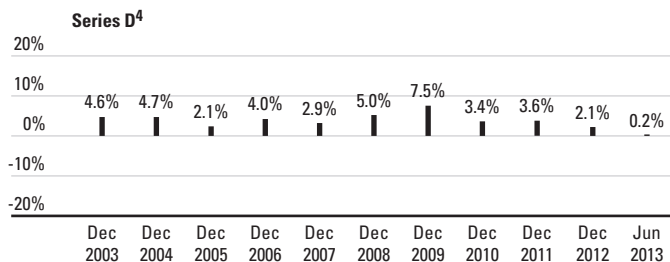
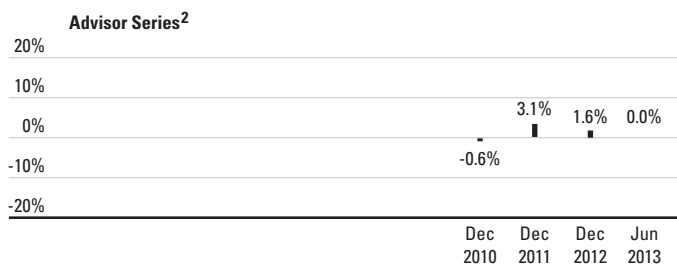
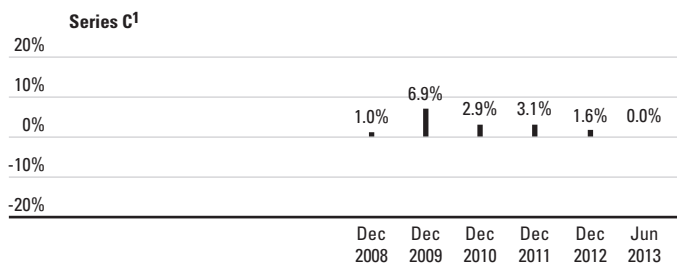
PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

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 or interim period.



¹ Inception date November 2008.

² Inception date October 2010.

³ Inception date July 2012.

⁴ Inception date December 1993.

⁵ Inception date June 2007.

⁶ Inception date October 2002.

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

For the 12-month periods ended December 31 and the six-month period ended June 30, 2013.

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND**SUMMARY OF INVESTMENT PORTFOLIO***(after consideration of derivative products, if any)**As at June 30, 2013***Investment Mix**

	% of Net Asset Value
Corporate Bonds	51.7
Mortgages	15.9
Federal Bonds	8.9
Mortgage-Backed Bonds	4.7
Provincial Bonds	3.6
Cash/Other	15.2

Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	16.9
Canada Housing Trust No. 1 1.700% Dec 15 17	4.6
Cards II Trust 1.984% Jan 15 16	2.0
Cadillac Fairview Finance Trust 3.240% Jan 25 16	1.7
Royal Bank of Canada 2.260% Mar 12 18	1.7
Province of Ontario 1.900% Sep 8 17	1.6
Canadian Imperial Bank of Commerce 4.110% Apr 30 20	1.5
Canada Housing Trust No. 1 1.750% Jun 15 18	1.4
Canadian Imperial Bank of Commerce 2.650% Nov 8 16	1.3
National Bank of Canada 2.231% Jan 30 15	1.2
Canadian Imperial Bank of Commerce 2.220% Mar 7 18	1.2
Province of Ontario 2.100% Sep 8 18	1.2
Bank of Montreal 2.960% Aug 2 16	1.1
Bank of Montreal 3.103% Mar 10 16	1.1
Bank of Nova Scotia 2.242% Mar 22 18	1.1
National Grid Electricity Transmission Plc. CAD 2.730% Sep 20 17	1.1
Bank of Nova Scotia 1.800% May 9 16	1.0
Anheuser-Busch InBev Worldwide Inc. CAD 3.650% Jan 15 16	1.0
Canadian Credit Card Trust 2.306% Apr 24 15	0.9
OMERS Realty Corp. 2.498% Jun 5 18	0.9
HSBC Bank Canada 2.572% Nov 23 15	0.9
Teranet Holdings LP 3.531% Dec 16 15	0.9
HSBC Bank Canada 2.901% Jan 13 17	0.8
Shaw Communications Inc. 7.500% Nov 20 13	0.8
FortisBC Holdings Inc. 5.560% Sep 15 14	0.8
Top 25 Holdings	48.7

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.