



PORTFOLIO SOLUTION

## RBC TARGET 2015 EDUCATION FUND

---

June 30, 2014

**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 12, 2014.

### **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 1-800-463-FUND (3863), 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/funds](http://www.rbcgam.com/funds) 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 Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.*



## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The Fund is an asset allocation fund specifically designed to meet the changing needs of investors who are saving money for the purpose of funding their child's post-secondary education that commences around 2015. The Fund gradually shifts its asset mix from an emphasis on equity funds in its early years, to an emphasis on money market funds as its "target" year of 2015 approaches. The Fund invests its assets primarily in units of other funds managed by RBC GAM or an affiliate.

Over the life of the Fund, its portfolio will shift from a focus on funds with growth potential to a focus on funds that preserve capital.

### Results of Operations

The Fund's net asset value was \$381 million as of June 30, 2014.

Over the past six months, the Fund's units gained 1.0%. 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 other series, if any, which may vary because of differences in management fees and expenses.

Led by North America and other developed markets, the global economy has continued to gain traction. While some risks have faded, such as the threat of deflation, geopolitical risks have mounted and emerging-market credit excesses remain largely unaddressed. Equity markets recorded more modest returns in the first half of 2014, following last year's significant gains in developed markets, and global bond markets rallied. Speculation abounded that the U.S. Federal Reserve (the "Fed") was drawing closer to raising short-term interest rates, leading to a greater degree of comfort that the economy is indeed improving and the global financial crisis is finally behind us.

As the first half of 2014 came to a close, the major central banks had diverging views on the path for monetary policy. Some countries such as the U.K. and the U.S. will look to tighten monetary policy in the next year. However, in the Eurozone and Japan, the course of monetary policy continues to be towards more, rather than less, stimulus in an effort to boost inflation and economic growth.

U.S. bond yields started 2014 near their highest levels in almost three years after signs the Fed would begin scaling back measures aimed at helping the economy recover from the financial crisis. Since then, yields have trended lower, held down by demand for the relative safety of Treasuries amid geopolitical risks and concerns about the tepid pace of U.S. economic growth. Also holding down yields was demand for fixed income from pension funds and bank demand for government bonds fulfilling new regulatory changes. The RBC Canadian Short-Term Income Fund and the RBC Global Bond Fund contributed to returns.

Stock indexes continued their trend higher, but with far less enthusiasm than in 2013. Canada's S&P/TSX Composite Index outpaced most other developed-market indexes during the first half of 2014, including the S&P 500. The Energy sector was the driving force behind the strong Canadian performance, as rising prices for oil and natural gas boosted profits in a sector that had lagged in recent years. U.S. stocks rose amid continued earnings growth and low interest rates. After a strong start to the year, Eurozone equities dropped in February on concern that deflation was starting to take root. This prompted the European Central Bank to hint that it would take steps to bolster asset prices, and these measures were delivered in June. Asian markets remained fairly volatile over the period, particularly Japan and China, which were weak in the first quarter but bounced back in the subsequent three months. The Fund matures next year and therefore had a negligible allocation to equities.

### Recent Developments

The portfolio manager continues to subscribe to an economic-normalization thesis, with the revival of risk appetite in 2013 and the abatement of fiscal austerity in 2014 enabling materially faster growth for the rest of this year and beyond. Bond yields should gradually rise as the economy continues to normalize. The portfolio manager recognizes that rising bond yields will likely lead to low total returns. As the recovery gains traction, higher growth should translate into expanding sales and earnings, supporting the stock market's next move higher.

### Related-Party Transactions

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

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank of Canada ("Royal Bank") and is the manager, trustee and portfolio advisor of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, holds title to the Fund's property on behalf of its unitholders, provides investment advice and portfolio management services to the Fund and appoints distributors for 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, Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of the units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series A units.

#### *Custodian*

RBC Investor Services Trust ("RBC IS") is the custodian and holds the assets of the Fund.



***Registrars***

Royal Bank and RBC IS are the registrars of the Fund and keep records of who owns the units 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:

***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.



## 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, 2014), 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. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in accordance 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" 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/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>				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		
<b>Series A</b>												
<b>June 30, 2014</b>	<b>11.56</b>	<b>0.11</b>	<b>(0.06)</b>	<b>0.17</b>	<b>(0.11)</b>	<b>0.11</b>	–	–	–	–	–	<b>11.67</b>
Dec. 31, 2013	11.81	0.30	(0.12)	0.41	(0.28)	0.31	(0.16)	(0.02)	(0.38)	–	–	11.56
Dec. 31, 2012	11.54	0.37	(0.19)	0.06	0.21	0.45	(0.13)	(0.05)	–	–	–	11.81
Dec. 31, 2011	11.37	0.38	(0.18)	0.06	0.11	0.37	(0.19)	–	–	–	–	11.54
Dec. 31, 2010	10.92	0.38	(0.17)	(0.09)	0.54	0.66	(0.14)	(0.05)	–	–	–	11.37
Dec. 31, 2009	10.07	0.39	(0.18)	(0.01)	0.88	1.08	(0.15)	(0.05)	–	–	–	10.92

<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 reinvested in additional units of the Fund or paid in cash.



**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series A</b>							
<b>June 30, 2014</b>	<b>11.67</b>	<b>381 408</b>	<b>32 679</b>	<b>1.05</b>	<b>1.05</b>	<b>21.32</b>	<b>—</b>
Dec. 31, 2013	11.56	382 510	33 101	1.05	1.05	67.95	0.01
Dec. 31, 2012	11.81	369 983	31 332	1.63	1.63	7.83	0.04
Dec. 31, 2011	11.54	329 609	28 563	1.63	1.63	12.09	0.07
Dec. 31, 2010	11.37	283 871	24 967	1.59	1.59	11.10	0.09
Dec. 31, 2009	10.92	219 483	20 098	1.75	1.75	1.77	0.13

<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 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 a high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

<sup>3</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. Effective January 1, 2008, the trading expense ratio is calculated for fund-on-fund transactions.

**Management Fees**

RBC GAM is the manager, trustee and portfolio advisor of the Fund. The management fee payable in respect of each series of the Fund is a variable fee and is determined on a basis such that all fees and expenses that comprise the management expense ratio ("MER"), other than the additional cost of the GST/HST, will be equal to a specified percentage of the average net asset value of each series of the Fund ("Specified Percentage"). The Specified Percentage includes the management fee, administration fee, taxes (other than the additional cost of the GST/HST), other fund costs and any fees and expenses of the underlying funds. Since the additional cost of the GST/HST was not included in the Specified Percentage prior to July 1, 2010, the MER is higher than the Specified Percentage by the additional cost of the GST/HST.

The MER paid by each series of the Fund is calculated at the applicable annual Specified Percentage of the daily net asset value of each series of the Fund, plus the additional cost of the GST/HST as of July 1, 2010. The breakdown of the services received in consideration of the management fee component of the MER for each series, as a percentage of the management fees, is as follows:

Management Fees*	Breakdown of Services	
	Distribution	Other <sup>†</sup>
Series A	46%	54%

\* Management fees represent the actual average management fee rate for the period ended June 30, 2014.

<sup>†</sup> Includes all costs related to management, trustee, investment advisory services, general administration and profit.

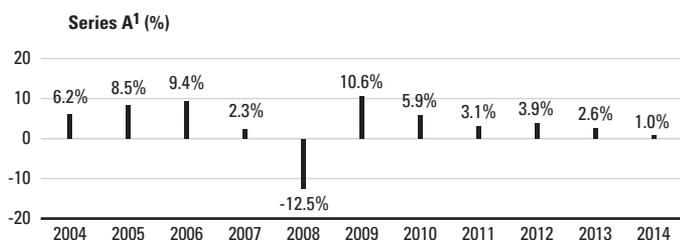


**PAST PERFORMANCE**

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 or interim period.



<sup>1</sup> Inception date August 23, 2004.

For the 12-month periods ended December 31 and the six-month period ended June 30, 2014.

**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*

*As at June 30, 2014*

**Investment Mix**

	% of Net Asset Value
Income Funds	99.9
Cash/Other	0.1

**Top 25 Holdings\***

	% of Net Asset Value
RBC Canadian Money Market Fund	54.7
RBC Canadian Short-Term Income Fund	30.1
RBC Global Bond Fund	10.1
Phillips, Hager & North Short Term Bond & Mortgage Fund	5.0
Cash & Cash Equivalents	0.1
<b>Total</b>	<b>100.0</b>

\* 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](http://www.rbcgam.com/funds).

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at [www.sedar.com](http://www.sedar.com).