

U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH  
U.S. GROWTH FUND**

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June 30, 2018

**Portfolio Manager** RBC Global Asset Management Inc. ("RBC GAM")

The Board of Directors of RBC Global Asset Management Inc. approved this interim management report of fund performance on August 9, 2018.

**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.

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*This interim management report of fund performance ("MRFP") contains financial highlights but does not contain either the complete interim 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](http://www.rbcgam.com/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 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 by investing primarily in a well-diversified portfolio of shares of large-capitalization, high-quality North American companies, with an emphasis on U.S. stocks. Where applicable, Canadian and Mexican securities that possess particularly attractive fundamentals will be added to the portfolio. However, the Fund's assets are primarily allocated to U.S. securities. To achieve the Fund's investment objective, the portfolio manager invests in businesses that they believe have a sustainable competitive advantage, promising growth opportunities, a history of profitability, a solid financial position, and a capable management team.

### Results of Operations

The Fund's net asset value was \$115 million as of June 30, 2018.

Over the past six months, the Fund's Series O units gained 7.1%. The Fund's return is after the deduction of expenses. 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.

U.S. equity markets posted modest gains in the first half of 2018, with most of the increase coming at the beginning of the period. Stocks were volatile through June, as euphoria over the late-2017 U.S. tax cuts yielded to concerns over weaker economic growth and rising protectionism. Robust earnings growth was a positive for stocks. However, sustained economic growth and robust earnings were accompanied by higher interest rates and faster inflation, which weighed on valuations. Against this backdrop, equities struggled to make the kind of headway that came so easily last year.

Security selection was strong in the first half of the year, with an overweight to Amazon contributing significantly to the Fund's returns. Amazon continues to benefit from the ramping-up of same-day deliveries and has diversified its revenue mix with high-growth, high-margin internet-marketing services. The absence in the portfolio of General Electric, which performed poorly, was also a positive for the Fund. Conversely, an overweight position in Mohawk Industries held back returns as the company has been stepping up capital expenditures. The success of this investment may start to show in near-term earnings.

### Recent Developments

Expanding valuations have been a significant source of gains for stocks during the decade-long rally, but sustained earnings growth will be critical to drive equities even higher. Earnings have indeed been growing rapidly, helped by U.S. tax cuts, and the positive trend in profits is expected to persist. The key point is that as long as economic growth continues and the U.S. Federal Reserve raises rates gradually, stocks are likely to offer decent returns for the rest of 2018.

### 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 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 Investor Services Trust ("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.

***Brokers and Dealers***

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$1,000 (2017 – \$8,000), or 5% (2017 – 13%) of the total transaction costs paid for this 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.

## 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, 2018), and for the past five years or for the periods since inception. This information is derived from the Fund's unaudited interim 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 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 <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, 2018</b>	<b>25.35</b>	<b>0.21</b>	<b>(0.24)</b>	<b>0.93</b>	<b>0.61</b>	<b>1.51</b>	—	—	—	—	—	<b>26.90</b>
Dec. 31, 2017	22.22	0.35	(0.44)	2.62	0.37	2.90	—	—	—	—	—	25.35
Dec. 31, 2016	21.82	0.47	(0.40)	0.06	(0.45)	(0.32)	—	(0.08)	—	—	(0.08)	22.22
Dec. 31, 2015	18.79	0.28	(0.41)	5.91	(2.66)	3.12	—	—	—	—	—	21.82
Dec. 31, 2014	16.08	0.19	(0.34)	2.34	0.49	2.68	—	—	—	—	—	18.79
Dec. 31, 2013	11.62	0.18	(0.27)	1.21	3.35	4.47	—	—	—	—	—	16.07
<b>Advisor Series</b>												
<b>June 30, 2018</b>	<b>25.35</b>	<b>0.21</b>	<b>(0.24)</b>	<b>0.93</b>	<b>0.55</b>	<b>1.45</b>	—	—	—	—	—	<b>26.90</b>
Dec. 31, 2017	22.22	0.35	(0.44)	2.62	0.74	3.27	—	—	—	—	—	25.35
Dec. 31, 2016	21.82	0.47	(0.39)	0.06	0.46	0.60	—	(0.08)	—	—	(0.08)	22.22
Dec. 31, 2015	18.78	0.28	(0.41)	5.88	(2.64)	3.11	—	—	—	—	—	21.82
Dec. 31, 2014	16.08	0.19	(0.34)	2.34	0.49	2.68	—	—	—	—	—	18.78
Dec. 31, 2013	11.62	0.17	(0.28)	1.17	3.26	4.32	—	—	—	—	—	16.08
<b>Series D</b>												
<b>June 30, 2018</b>	<b>26.16</b>	<b>0.22</b>	<b>(0.14)</b>	<b>0.96</b>	<b>0.68</b>	<b>1.72</b>	—	—	—	—	—	<b>27.87</b>
Dec. 31, 2017	22.85	0.36	(0.25)	2.70	0.61	3.42	—	(0.13)	—	—	(0.13)	26.16
Dec. 31, 2016	22.44	0.48	(0.23)	0.07	0.19	0.51	—	(0.27)	—	—	(0.27)	22.85
Dec. 31, 2015	19.18	0.28	(0.25)	6.06	(2.72)	3.37	—	(0.02)	—	—	(0.02)	22.44
Dec. 31, 2014	16.29	0.20	(0.21)	2.38	0.50	2.87	—	—	—	—	—	19.18
Dec. 31, 2013	11.70	0.18	(0.16)	1.21	3.36	4.59	—	(0.03)	—	—	(0.03)	16.29
<b>Series F</b>												
<b>June 30, 2018</b>	<b>26.45</b>	<b>0.22</b>	<b>(0.10)</b>	<b>0.97</b>	<b>0.66</b>	<b>1.75</b>	—	—	—	—	—	<b>28.22</b>
Dec. 31, 2017	23.10	0.37	(0.19)	2.74	0.49	3.41	—	(0.20)	—	—	(0.20)	26.45
Dec. 31, 2016	22.70	0.49	(0.19)	0.07	1.40	1.77	—	(0.34)	—	—	(0.34)	23.10
Dec. 31, 2015	19.41	0.29	(0.21)	6.14	(2.76)	3.46	—	(0.07)	—	—	(0.07)	22.70
Dec. 31, 2014	16.47	0.20	(0.17)	2.41	0.50	2.94	—	(0.03)	—	—	(0.03)	19.41
Dec. 31, 2013	11.83	0.18	(0.13)	1.23	3.42	4.70	—	(0.07)	—	—	(0.07)	16.47
<b>Series O</b>												
<b>June 30, 2018</b>	<b>26.73</b>	<b>0.22</b>	<b>(0.01)</b>	<b>0.98</b>	<b>0.71</b>	<b>1.90</b>	—	—	—	—	—	<b>28.62</b>
Dec. 31, 2017	23.35	0.37	(0.02)	2.77	0.68	3.80	(0.01)	(0.38)	—	—	(0.39)	26.73
Dec. 31, 2016	22.93	0.50	(0.02)	0.07	0.05	0.60	—	(0.51)	—	—	(0.51)	23.35
Dec. 31, 2015	19.60	0.29	(0.02)	6.21	(2.79)	3.69	—	(0.27)	—	—	(0.27)	22.93
Dec. 31, 2014	16.63	0.20	(0.01)	2.45	0.51	3.15	—	(0.20)	—	—	(0.20)	19.60
Dec. 31, 2013	11.95	0.18	(0.01)	1.26	3.48	4.91	—	(0.21)	—	—	(0.21)	16.63

<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, 2018</b>	<b>26.90</b>	<b>2 328</b>	<b>87</b>	<b>1.84</b>	<b>1.84</b>	<b>61.17</b>	<b>0.04</b>
Dec. 31, 2017	25.35	2 064	81	1.84	1.84	82.34	0.08
Dec. 31, 2016	22.22	1 532	69	1.91 <sup>4</sup>	1.91	66.58	0.07
Dec. 31, 2015	21.82	2 289	105	1.98	1.98	124.55	0.09
Dec. 31, 2014	18.79	2 171	116	1.97	1.97	42.63	0.06
Dec. 31, 2013	16.08	2 007	125	2.00	2.00	18.69	0.05
<b>Advisor Series</b>							
<b>June 30, 2018</b>	<b>26.90</b>	<b>318</b>	<b>12</b>	<b>1.84</b>	<b>1.84</b>	<b>61.17</b>	<b>0.04</b>
Dec. 31, 2017	25.35	277	11	1.84	1.84	82.34	0.08
Dec. 31, 2016	22.22	190	9	1.91 <sup>4</sup>	1.91	66.58	0.07
Dec. 31, 2015	21.82	166	8	1.98	1.98	124.55	0.09
Dec. 31, 2014	18.78	281	15	1.97	1.97	42.63	0.06
Dec. 31, 2013	16.08	274	17	2.00	2.00	18.69	0.05
<b>Series D</b>							
<b>June 30, 2018</b>	<b>27.87</b>	<b>42 766</b>	<b>1 534</b>	<b>1.02</b>	<b>1.02</b>	<b>61.17</b>	<b>0.04</b>
Dec. 31, 2017	26.16	41 137	1 573	1.02	1.02	82.34	0.08
Dec. 31, 2016	22.85	39 450	1 726	1.10 <sup>4</sup>	1.10	66.58	0.07
Dec. 31, 2015	22.44	43 208	1 925	1.18	1.18	124.55	0.09
Dec. 31, 2014	19.18	37 146	1 936	1.18	1.18	42.63	0.06
Dec. 31, 2013	16.29	34 628	2 125	1.18	1.18	18.69	0.05
<b>Series F</b>							
<b>June 30, 2018</b>	<b>28.22</b>	<b>2 815</b>	<b>100</b>	<b>0.76</b>	<b>0.76</b>	<b>61.17</b>	<b>0.04</b>
Dec. 31, 2017	26.45	2 622	99	0.76	0.76	82.34	0.08
Dec. 31, 2016	23.10	2 268	98	0.86 <sup>4</sup>	0.86	66.58	0.07
Dec. 31, 2015	22.70	764	34	0.95	0.95	124.55	0.09
Dec. 31, 2014	19.41	536	28	0.95	0.95	42.63	0.06
Dec. 31, 2013	16.47	430	26	0.94	0.94	18.69	0.05
<b>Series O</b>							
<b>June 30, 2018</b>	<b>28.62</b>	<b>67 145</b>	<b>2 346</b>	<b>0.07</b>	<b>0.07</b>	<b>61.17</b>	<b>0.04</b>
Dec. 31, 2017	26.73	65 327	2 444	0.08	0.08	82.34	0.08
Dec. 31, 2016	23.35	66 230	2 836	0.08	0.08	66.58	0.07
Dec. 31, 2015	22.93	77 521	3 381	0.08	0.08	124.55	0.09
Dec. 31, 2014	19.60	81 811	4 174	0.08	0.08	42.63	0.06
Dec. 31, 2013	16.63	75 114	4 516	0.08	0.08	18.69	0.05

<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 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.

<sup>4</sup> Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series, Series D and Series F units of the Fund. If the changes to the management fees would have been in effect throughout 2016, the adjusted MER for each series of the Fund would be: Series A – 1.82%, Advisor Series – 1.82%, Series D – 1.02% and Series F – 0.78%.

**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	1.60%	63%	37%
Advisor Series	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	—	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.

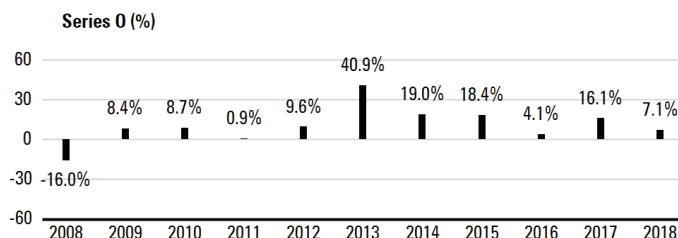
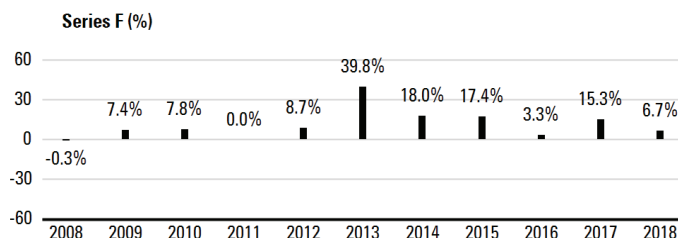
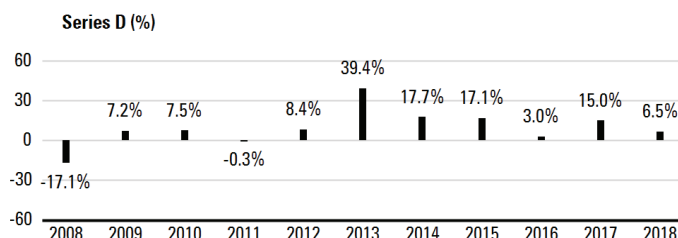
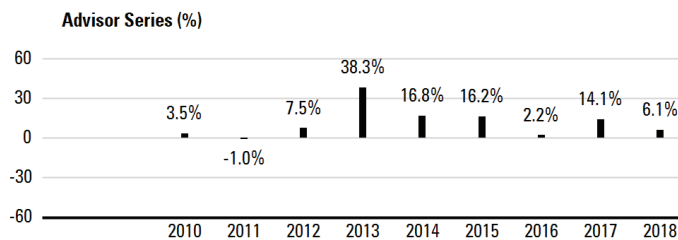
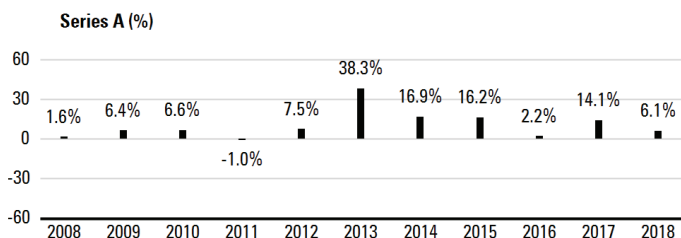
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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 or interim period.



Advisor Series units have been available for sale to unitholders since October 2010, Series A units since November 2008, and Series F units since October 2008.

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.

For the 12-month periods ended December 31 and the six-month period ended June 30, 2018.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at June 30, 2018

### Investment Mix

	% of Net Asset Value
Information Technology	26.9
Health Care	14.1
Financials	13.9
Consumer Discretionary	13.7
Industrials	8.5
Energy	7.2
Consumer Staples	6.5
Real Estate	2.7
Utilities	2.5
Materials	2.2
Telecommunication Services	0.4
Underlying Funds	0.3
Cash/Other	1.1

### Top 25 Holdings

	% of Net Asset Value
Amazon.com, Inc.	4.7
Apple Inc.	4.1
Microsoft Corp.	3.9
Alphabet Inc., Class C	3.5
JPMorgan Chase & Co.	2.1
Facebook Inc., Class A	2.0
Bank of America Corp.	1.7
Johnson & Johnson	1.7
UnitedHealth Group Incorporated	1.7
Home Depot Inc.	1.6
Chevron Corp.	1.6
Berkshire Hathaway Inc., Class B	1.6
Visa Inc., Class A	1.4
Boeing Co.	1.3
Cisco Systems Inc.	1.3
Union Pacific Corp.	1.3
DowDuPont Inc.	1.1
Cash & Cash Equivalents	1.1
Comcast Corp., Class A	1.1
Abbott Laboratories	1.1
Wells Fargo & Company	1.1
Exxon Mobil Corp.	1.1
Medtronic Plc.	1.1
ConocoPhillips	1.0
Intel Corp.	1.0
Top 25 Holdings	45.2

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](http://www.rbcgam.com/funds), or by emailing us at [info@phn.com](mailto:info@phn.com).