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MANAGING THE ASSET MIX IN THE RBC SELECT PORTFOLIOS

Building an investment portfolio involves numerous decisions about asset allocation, geographic exposure, and the ongoing adjustment of both. As an investor in the RBC Select Portfolios, you can be confident that your investment is vigilantly monitored to keep you on track as you progress toward your financial goals.

Comprehensive research and analysis

Helping ensure that the RBC Select Portfolios are positioned to take advantage of opportunities while mitigating risk is a continuous process. The Portfolio Manager relies on the research conducted by the RBC Investment Strategy Committee (RISC), a team of investment experts from across RBC who provide extensive analysis of the global economy, capital markets, currencies, sectors, and bonds.¹ Armed with the RISC outlook, the Portfolio Manager monitors, revises, and rebalances the asset mix (allocation to cash, bonds, and stocks) to position the portfolios to respond to market conditions and seize potential future opportunities.

Equity diversification

Within the equity component of your portfolio, the allocation to specific geographic regions is also monitored to ensure an appropriate level of exposure to a diverse range of investment opportunities, be they in Canada, the U.S., or beyond these two countries. As the overall equity weight changes over time, the portion committed to each of these regions is considered and adjustments are made in line with the RISC perspective.

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¹The most recent investment outlook of the RBC Investment Strategy Committee (RISC) may be seen at <http://funds.rbcgam.com/investment-insights/investment-outlook>



A closer look at 2011

For example, as 2011 progressed, RISC concluded that the increased volatility in equity markets was going to continue. This outlook guided the Portfolio Manager to adjust the asset mix of the portfolios throughout the year so that both equity and fixed-income exposure decreased with the proceeds allocated to cash, helping protect the RBC Select Portfolios from the short-term volatility that equity markets were experiencing. Exposure to international equities accounted for the largest reduction within equities as uncertainty continued to weigh on Europe.

Target asset mix for the RBC Select Balanced Portfolio

	Cash	Bonds	EQUITY REGIONS			Total Equity
			Canadian Equity	U.S. Equity	International Equity	
Benchmark	5%	40%	20%	20%	15%	55%
January 2011	2.5% ↑	37.5% ↓	21.8%	22.2%	16.0%	60.0%
March 2011	2.5%	36.5%	22.2%	22.6%	16.3%	61.0%
May 2011	5.0%	36.5%	21.2%	21.9%	15.5%	58.5%
June 2011	5.0%	35.0%	21.6%	22.5%	15.9%	60.0%
August 2011	7.5%	35.0%	21.2%	21.6%	14.8%	57.5%
November 2011	7.5%	35.0% ↓	21.1%	22.0%	14.5% ↓	57.5% ↓

The prevailing trend in the direction of the allocation to each asset class is shown above. Tactical changes may have temporarily moved counter to this trend as a result of the RISC outlook at the time.

Constant Vigilance Unlocks Timely Opportunities

At least as important as these high-level asset mix changes is the daily monitoring that enables the Portfolio Manager to act on short-term opportunities. As funds flow into the RBC Select Portfolios, they are allocated according to changing market conditions.

Last September, for example, a positive trend in global equity markets carried the equity weight in the RBC Select Balanced Portfolio up to 58.5% from the target allocation of 57.5% that was set in August. Believing that the rally would be short-lived, RISC recommended rebalancing the equity allocation back to 57.5% with the proceeds moving to cash. This was a positive move for investors as markets gave back gains later in the fall.

While the overall asset mix of your RBC Select Portfolio is designed to align with your specific investor profile, the day-to-day management of this asset mix is working to help keep your investment on track.

QUARTER IN REVIEW

The opportunity for patient investors to reap the benefits of a normalizing environment for stocks and bonds remains compelling as equities and confidence have been trending higher since the start of 2012. The rollercoaster ride that was 2011, however, reminds us that even the most promising of beginnings can be derailed by adverse – and oftentimes unforeseeable – developments. Based on our outlook, we remain overweight equities and underweight fixed income relative to our benchmarks.

WHAT HAPPENED IN WORLD MARKETS LAST QUARTER	HOW YOUR MONEY IS BEING MANAGED BASED ON OUR OUTLOOK
 <h3>Fixed Income</h3> <p>Policymakers worldwide continued to appear committed to suppressing longer-term interest rates, at least in the near term. Current bond yields are only sustainable in the event that risks emerge or economic growth is dramatically reduced for an extended period.</p>	<p>Our view remains that while bond yields are expected to remain low in the near term, as current threats to the economy begin to fade, yields will eventually climb, perhaps sharply. In that scenario, government bonds are highly vulnerable to capital losses and, as a result, we remain modestly underweight fixed income.</p>
 <h3>Canadian Equities</h3> <p>Canadian markets gained this past quarter, benefiting from improvements in near-term economic data in the U.S., coupled with successful liquidity injections in Europe. However, the S&P/TSX Composite Index lagged its global peers' performance as gold stocks held back the index. The S&P/TSX Composite Total Return Index rose over 4% this quarter.</p>	<p>Overall, we remained overweight Canadian equities this past quarter. We have reduced exposure to Financials while increasing exposure to Information Technology. We have increased our overweight exposure to Industrials and remain overweight Consumer Discretionary and Consumer Staples relative to our benchmark. We remain underweight Materials, Health Care, and Telecom.</p>
 <h3>U.S. Equities</h3> <p>The U.S. has enjoyed an impressive rebound as the housing and job markets have begun to heal. Although the level of economic growth remains below historical averages, investor sentiment has improved thanks to better economic data. The S&P 500 Total Return Index increased by almost 10% in C\$ over the period.</p>	<p>Overall, we have increased exposure to U.S. equities. We moved from market weight to overweight positions in Industrials and Consumer Staples while remaining underweight Health Care and Utilities. Our overweight positions in Consumer Discretionary and Information Technology have been slightly reduced. We have reduced our exposure to Financials.</p>
 <h3>International Equities</h3> <p>Europe continues to remain the largest concern as it could be headed for recession in 2012. China is also worth watching as it has clearly lost a step over the past year; however, the economy now looks to be stabilizing. Asian markets have responded well to looser monetary policies in the region. Among these markets, Japan may present the biggest opportunity for surprises to the upside, as it has long underperformed. The MSCI EAFE Index and the MSCI Emerging Markets Index returned 8% and almost 12%, respectively, in C\$.</p>	<p>Overall, we remain underweight international equities and have reduced our position further. In Europe, we have increased our exposure to the Utilities and Financials sectors but remain underweight our benchmark. We have moved from overweight to underweight in Energy and have reduced our overweight positions in the Consumer Staples and Consumer Discretionary sectors.</p> <p>In Asia, we reduced our overweight positions in the Consumer Discretionary and Consumer Staples sectors. We have moved our underweight position in Materials to market weight and increased our overweight position in Industrials.</p>

Portfolio Rates of Return

(% RETURN TO MARCH 31, 2012)	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION	INCEPTION DATE
RBC Select Very Conservative Portfolio	3.53%	6.32%	–	–	6.93%	03-2009
RBC Select Conservative Portfolio	2.55%	7.32%	1.73%	3.97%	6.37%	12-1986
RBC Select Balanced Portfolio	1.20%	8.28%	0.42%	3.60%	6.22%	12-1986
RBC Select Growth Portfolio	-1.66%	8.32%	-1.18%	2.95%	5.49%	12-1986
RBC Select Aggressive Growth Portfolio	-3.72%	9.56%	-3.16%	–	-2.95%	01-2007

The indicated portfolio rates of return are the historical annual compounded total returns for Series A units for the periods ended March 31, 2012, including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns.



PORTFOLIO MANAGER VIEWPOINT

Sarah Riopelle, CFA

Vice President & Senior Portfolio Manager, Investment Solutions

Equities and confidence have been trending higher since the start of 2012 on the back of favourable economic data. Not only has the economy rebounded, but memories of last summer's crippling U.S. political dysfunction are beginning to fade, and Europe has managed a series of deft policy manoeuvres that have dialled back the intensity of its crisis. We remain slightly overweight equities as even relatively sluggish economic growth, accompanied by modest but positive profit growth and some further easing of investor risk aversion, would be sufficient to deliver attractive relative returns for equity investors over the longer term. We have maintained our underweight in fixed income as any reasonable longer-term view that assumes even a moderate pace of economic expansion would result in rising bond yields and, thus, capital losses for bond holders.

We thank you for your ongoing trust in continuing to hold **RBC Select Portfolios** as part of your investment plan. If you have any questions or comments, **please contact your advisor or RBC at:**

RBC Global Asset Management Inc.

P.O. Box 7500, Station "A"
Toronto, Ontario
Canada M5W1P9

Customer Service:

1-800-463-3863 Fax: 1-800-463-2926
Email: funds.investments@rbc.com

Visit our website at:

rbcgam.com

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