



Global Asset  
Management

PHILLIPS, HAGER & NORTH FUNDS

# **2018 Annual Management Report of Fund Performance**

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**CONTACT US**

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MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN MONEY MARKET FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 a steady level of current income, capital preservation and liquidity by investing in a well-diversified portfolio of short-term Canadian money market securities with strong credit ratings. To achieve the Fund's investment objective, the portfolio manager invests in government or government guaranteed treasury bills, high-grade corporate notes, and asset-backed commercial paper. At the time of purchase, securities will generally have a term to maturity of less than 183 days and the portfolio's term to maturity will typically average 30 days. The Fund is conservatively managed and does not invest in foreign securities.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$2.0 billion as of December 31, 2018, from \$1.8 billion at the end of 2017. The increase was due to net inflows.

As of December 31, 2018, the current yields were 1.6% for Series A units, 1.6% for Advisor Series units, 1.5% for Series D units, 1.6% for Series F units and 2.1% for Series O units.

Over the past year, the Fund's Series O units returned 1.76%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

During the period, the portfolio manager allocated all of the Fund's assets to money-market instruments paying higher yields than Government of Canada Treasury bills. Such instruments included corporate notes, bank-sponsored asset-backed commercial paper and bankers' acceptances. The portfolio also had a small allocation to short-term floating-rate notes, whose payments adjust to changes in short-term interest rates.

The Bank of Canada (the "BOC") continued with its gradual approach to increasing the overnight rate to levels more consistent with those in the past. The BOC raised the rate by 0.25% three times in 2018 to end the period at 1.75%. The extra yield available on corporate notes with longer maturities remained attractive, and the portfolio manager therefore kept the Fund's average maturity close to the 60-day maximum. This strategy was helpful to relative performance during the period.

### Recent Developments

The portfolio manager expects the pace of interest-rate increases to slow, as the BOC's tone has turned more cautious amid weakening Canadian economic growth. One indicator of the weakness is that shorter-term interest rates have risen more quickly than longer-term rates, known as yield-curve flattening. At the beginning of 2019, the yield on 3-month federal bills was similar to yields on 1-month bills.

### 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 Investor Services Trust ("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 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.

***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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.17</b>	<b>(0.05)</b>	–	–	<b>0.12</b>	<b>(0.12)</b>	–	–	–	<b>(0.12)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2016	10.00	0.09	(0.05)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Dec. 31, 2015	10.00	0.10	(0.05)	–	–	0.05	(0.05)	–	–	–	(0.05)	10.00
Dec. 31, 2014	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.17</b>	<b>(0.05)</b>	–	–	<b>0.12</b>	<b>(0.12)</b>	–	–	–	<b>(0.12)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2016	10.00	0.09	(0.05)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Dec. 31, 2015	10.00	0.10	(0.05)	–	–	0.05	(0.05)	–	–	–	(0.05)	10.00
Dec. 31, 2014	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.18</b>	<b>(0.06)</b>	–	–	<b>0.12</b>	<b>(0.12)</b>	–	–	–	<b>(0.12)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.11	(0.06)	–	0.01	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2016	10.00	0.09	(0.05)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Dec. 31, 2015	10.00	0.09	(0.05)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Dec. 31, 2014	10.00	0.12	(0.06)	–	–	0.06	(0.07)	–	–	–	(0.07)	10.00
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.18</b>	<b>(0.05)</b>	–	–	<b>0.13</b>	<b>(0.13)</b>	–	–	–	<b>(0.13)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.11	(0.05)	–	0.02	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2016	10.00	0.09	(0.05)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Dec. 31, 2015	10.00	0.10	(0.05)	–	–	0.05	(0.05)	–	–	–	(0.05)	10.00
Dec. 31, 2014	10.00	0.12	(0.05)	–	–	0.07	(0.08)	–	–	–	(0.08)	10.00
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.17</b>	–	–	–	<b>0.17</b>	<b>(0.17)</b>	–	–	–	<b>(0.17)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.10	–	–	0.01	0.11	(0.11)	–	–	–	(0.11)	10.00
Dec. 31, 2016	10.00	0.09	–	–	–	0.09	(0.09)	–	–	–	(0.09)	10.00
Dec. 31, 2015	10.00	0.10	–	–	–	0.10	(0.10)	–	–	–	(0.10)	10.00
Dec. 31, 2014	10.00	0.12	–	–	–	0.12	(0.12)	–	–	–	(0.12)	10.00

<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>Dec. 31, 2018</b>	<b>10.00</b>	<b>5 725</b>	<b>573</b>	<b>0.54</b>	<b>0.75</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	4 843	484	0.54	0.75	n/a	—
Dec. 31, 2016	10.00	5 216	522	0.53	0.53	n/a	—
Dec. 31, 2015	10.00	6 575	658	0.54	0.54	n/a	—
Dec. 31, 2014	10.00	4 313	431	0.54	0.54	n/a	—
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>4 162</b>	<b>416</b>	<b>0.54</b>	<b>0.75</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	1 013	101	0.53	0.75	n/a	—
Dec. 31, 2016	10.00	1 433	143	0.53	0.53	n/a	—
Dec. 31, 2015	10.00	3 576	358	0.54	0.54	n/a	—
Dec. 31, 2014	10.00	3 327	333	0.54	0.54	n/a	—
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>218 047</b>	<b>21 805</b>	<b>0.57</b>	<b>0.57</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	348 026	34 800	0.56	0.56	n/a	—
Dec. 31, 2016	10.00	248 646	24 865	0.55	0.55	n/a	—
Dec. 31, 2015	10.00	519 426	51 943	0.55	0.55	n/a	—
Dec. 31, 2014	10.00	271 683	27 168	0.57	0.57	n/a	—
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>15 758</b>	<b>1 576</b>	<b>0.48</b>	<b>0.48</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	4 301	430	0.48	0.48	n/a	—
Dec. 31, 2016	10.00	2 706	271	0.48	0.48	n/a	—
Dec. 31, 2015	10.00	3 806	381	0.48	0.48	n/a	—
Dec. 31, 2014	10.00	5 237	524	0.48	0.48	n/a	—
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>1 795 204</b>	<b>179 520</b>	<b>0.02</b>	<b>0.02</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	1 403 144	140 304	0.02	0.02	n/a	—
Dec. 31, 2016	10.00	1 002 984	100 298	0.02	0.02	n/a	—
Dec. 31, 2015	10.00	1 022 721	102 272	0.03	0.03	n/a	—
Dec. 31, 2014	10.00	980 168	98 017	0.03	0.03	n/a	—

<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.



**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	0.65%	38%	62%
Advisor Series	0.65%	38%	62%
Series D	Note 1	23%	77%
Series F	0.40%	–	100%

Note 1 – 0.50% (decreasing to 0.40% on the net Series D asset value over \$200,000,000).

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.

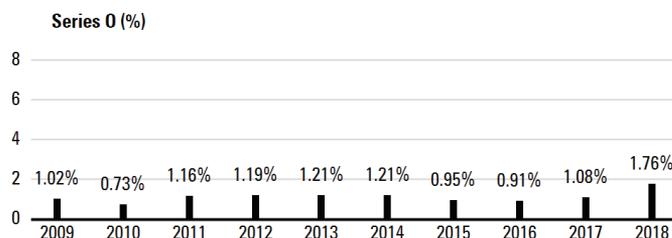
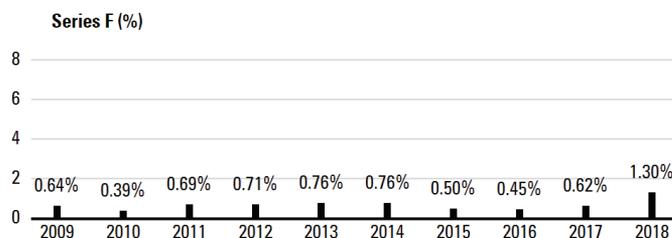
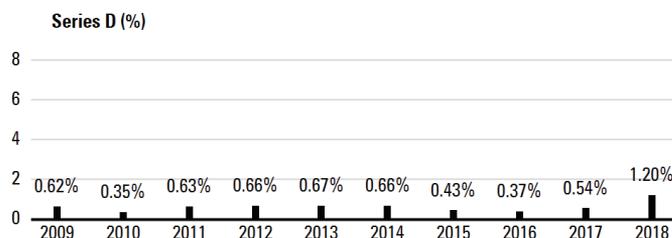
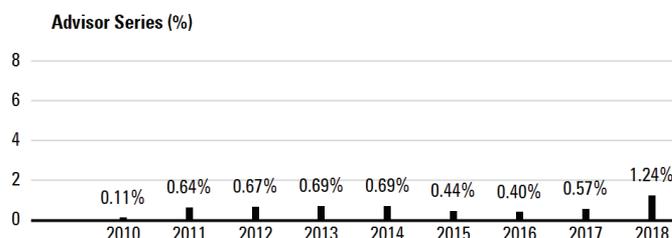
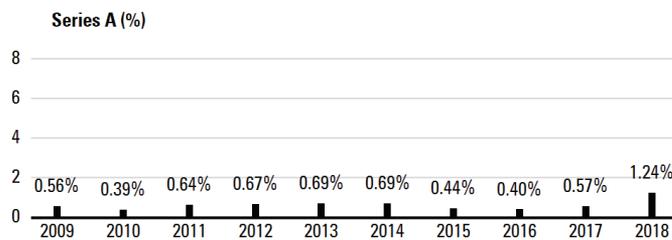
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



Advisor Series units have been available for sale to unitholders since October 2010.

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.



**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Corporate Notes	99.0
Cash/Other	1.0

**Top 25 Holdings**

	% of Net Asset Value
Canadian Imperial Bank of Commerce 2.252% Mar 29 2019	3.4
Canadian Imperial Bank of Commerce 2.280% May 23 2019	1.9
AltaLink LP 2.166% Jan 29 2019	1.7
Canadian Master Trust - Series A 2.321% May 30 2019	1.7
Clarity Trust 2.280% May 17 2019	1.5
SOUND Trust 1.967% Jan 7 2019	1.3
STABLE Trust 2.210% Mar 19 2019	1.3
Bank of Nova Scotia 2.159% Feb 28 2019	1.2
TMX Group Ltd. 2.161% Feb 12 2019	1.2
Fusion Trust 2.045% Jan 30 2019	1.2
Bank of Nova Scotia 2.084% Jan 3 2019	1.2
Canadian Imperial Bank of Commerce 2.206% Jan 28 2019	1.1
Canadian Master Trust - Series A 2.171% Apr 3 2019	1.1
Banner Trust 1.951% Jan 21 2019	1.1
Husky Energy Inc. 2.180% Jan 25 2019	1.1
Fusion Trust 2.091% Jan 21 2019	1.0
Enbridge Pipelines Inc. 2.200% Jan 7 2019	1.0
King Street Funding Trust 2.182% Mar 7 2019	1.0
King Street Funding Trust 2.280% Apr 26 2019	1.0
Alectra Inc. 2.209% Jan 9 2019	1.0
National Bank of Canada 2.135% Jan 17 2019	1.0
Caisse Centrale Desjardins 2.082% Jan 30 2019	1.0
Ridge Trust 1.951% Jan 4 2019	1.0
SOUND Trust 2.200% Mar 8 2019	1.0
Bank of Nova Scotia 2.050% Mar 6 2019	1.0
<b>Top 25 Holdings</b>	<b>32.0</b>

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).



MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH  
\$U.S. MONEY MARKET FUND**

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December 31, 2018

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

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**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 (in USD)

### Investment Objective and Strategies

The Fund seeks to provide investors with a steady level of current income while preserving capital by investing primarily in Canadian short-term debt instruments denominated in U.S. dollars. To achieve the Fund's investment objective, the portfolio manager invests in government or government-guaranteed treasury bills, asset-backed commercial paper and high-grade corporate notes. At the time of purchase, the portfolio's term to maturity will typically average 30 days. The Fund is managed within a conservative framework.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$115 million as of December 31, 2018, from \$71 million at the end of 2017. The increase was due to net inflows.

As of December 31, 2018, the current yields were 2.2% for Series A units, 2.2% for Advisor Series units, 2.2% for Series D units, 2.4% for Series F units and 2.6% for Series O units.

Over the past year, the Fund's Series O units returned 2.12%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

During the period, the portfolio manager allocated all of the Fund's assets to money-market instruments paying higher yields than U.S. Treasury bills, including U.S.-dollar-denominated corporate notes, bank-sponsored asset-backed commercial paper and bankers' acceptances. The Fund also had a small allocation to corporate short-term floating-rate notes, which provide payments that adjust to changes in short-term interest rates, and U.S.-dollar-denominated fixed and floating-rate notes issued by Canadian provinces.

The U.S. Federal Reserve (the "Fed") continued to raise the federal funds rate in 2018, ending the year with a target range of 2.25% to 2.50%. As a result, short-term rates increased. Longer-maturity corporate notes continued to provide attractive yields, and this, coupled with the Fund's investments in longer-than-benchmark maturities, contributed to relative performance in the period.

### Recent Developments

As 2019 got underway, the Fed was signaling additional rate hikes and the continued shrinking of its balance sheet, but its commitment appears tempered by signs that the U.S. economy is losing momentum. Assuming inflation pressures remain muted, the Fed could put off monetary tightening, particularly if the global economy continues to slow or if trade tensions with China boil over. In this environment, the portfolio manager expects to increase the Fund's exposure to longer-dated and higher-yielding money-market investments.

### 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 Investor Services Trust ("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 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.

***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 (in USD)

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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

#### 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>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.22</b>	<b>(0.03)</b>	–	–	<b>0.19</b>	<b>(0.19)</b>	–	<b>(0.06)</b>	–	<b>(0.25)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.13	(0.03)	–	–	0.10	(0.10)	–	–	–	(0.10)	10.00
Dec. 31, 2016	10.00	0.07	(0.02)	–	–	0.05	(0.05)	–	–	–	(0.05)	10.00
Dec. 31, 2015	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.22</b>	<b>(0.03)</b>	–	–	<b>0.19</b>	<b>(0.19)</b>	–	<b>(0.06)</b>	–	<b>(0.25)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.13	(0.03)	–	–	0.10	(0.10)	–	–	–	(0.10)	10.00
Dec. 31, 2016	10.00	0.07	(0.02)	–	–	0.05	(0.05)	–	–	–	(0.05)	10.00
Dec. 31, 2015	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.22</b>	<b>(0.03)</b>	–	–	<b>0.19</b>	<b>(0.19)</b>	–	<b>(0.06)</b>	–	<b>(0.25)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.13	(0.03)	–	–	0.10	(0.10)	–	–	–	(0.10)	10.00
Dec. 31, 2016	10.00	0.07	(0.02)	–	–	0.05	(0.05)	–	–	–	(0.05)	10.00
Dec. 31, 2015	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.22</b>	<b>(0.03)</b>	–	–	<b>0.19</b>	<b>(0.19)</b>	–	<b>(0.06)</b>	–	<b>(0.25)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.13	(0.02)	–	(0.01)	0.10	(0.10)	–	–	–	(0.10)	10.00
Dec. 31, 2016	10.00	0.07	(0.02)	–	–	0.05	(0.05)	–	–	–	(0.05)	10.00
Dec. 31, 2015	10.00	0.03	(0.01)	–	–	0.02	(0.02)	–	–	–	(0.02)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>0.22</b>	<b>(0.01)</b>	–	–	<b>0.21</b>	<b>(0.21)</b>	–	–	–	<b>(0.21)</b>	<b>10.00</b>
Dec. 31, 2017	10.00	0.14	(0.01)	–	(0.01)	0.12	(0.12)	–	–	–	(0.12)	10.00
Dec. 31, 2016	10.00	0.08	(0.01)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2015	10.00	0.04	(0.01)	–	–	0.03	(0.03)	–	–	–	(0.03)	10.00
Dec. 31, 2014	10.00	0.02	(0.01)	–	–	0.01	(0.02)	–	–	–	(0.02)	10.00

<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 (in USD) (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>Dec. 31, 2018</b>	<b>10.00</b>	<b>2 615</b>	<b>261</b>	<b>0.29</b>	<b>0.89</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	1 209	121	0.27	0.88	n/a	—
Dec. 31, 2016	10.00	1 089	109	0.25	0.25	n/a	—
Dec. 31, 2015	10.00	1 469	147	0.12	0.12	n/a	—
Dec. 31, 2014	10.00	1 930	193	0.12	0.12	n/a	—
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>451</b>	<b>45</b>	<b>0.29</b>	<b>0.89</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	54	5	0.27	0.88	n/a	—
Dec. 31, 2016	10.00	54	5	0.24	0.24	n/a	—
Dec. 31, 2015	10.00	69	7	0.11	0.11	n/a	—
Dec. 31, 2014	10.00	93	9	0.12	0.12	n/a	—
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>20 019</b>	<b>2 002</b>	<b>0.29</b>	<b>0.61</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	19 096	1 909	0.27	0.60	n/a	—
Dec. 31, 2016	10.00	15 180	1 518	0.25	0.25	n/a	—
Dec. 31, 2015	10.00	13 985	1 399	0.11	0.11	n/a	—
Dec. 31, 2014	10.00	16 354	1 635	0.11	0.11	n/a	—
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>42 266</b>	<b>4 227</b>	<b>0.25</b>	<b>0.61</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	1 408	141	0.22	0.62	n/a	—
Dec. 31, 2016	10.00	819	82	0.19	0.19	n/a	—
Dec. 31, 2015	10.00	2 735	273	0.12	0.12	n/a	—
Dec. 31, 2014	10.00	3 035	303	0.12	0.12	n/a	—
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>10.00</b>	<b>49 504</b>	<b>4 950</b>	<b>0.06</b>	<b>0.06</b>	<b>n/a</b>	<b>—</b>
Dec. 31, 2017	10.00	49 439	4 943	0.05	0.05	n/a	—
Dec. 31, 2016	10.00	34 364	3 436	0.06	0.06	n/a	—
Dec. 31, 2015	10.00	33 533	3 353	0.06	0.06	n/a	—
Dec. 31, 2014	10.00	34 032	3 403	0.06	0.06	n/a	—

<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.



**FINANCIAL HIGHLIGHTS (in USD) (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	0.75%	33%	67%
Advisor Series	0.75%	33%	67%
Series D	0.50%	20%	80%
Series F	0.50%	—	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.

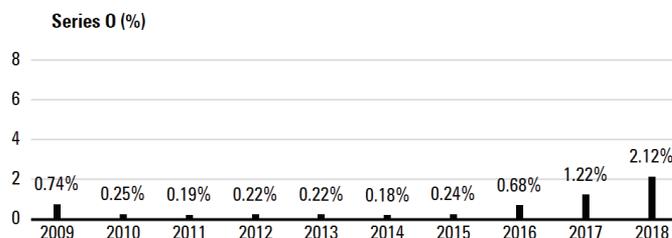
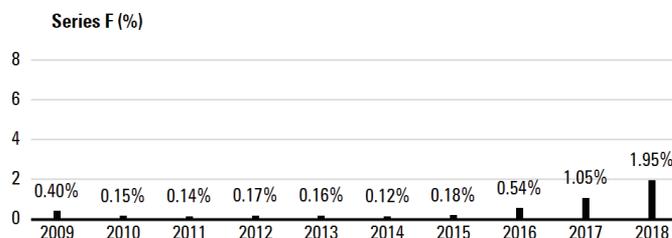
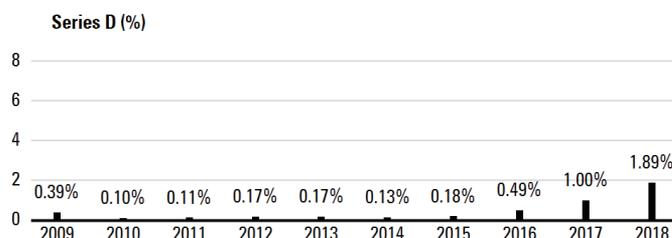
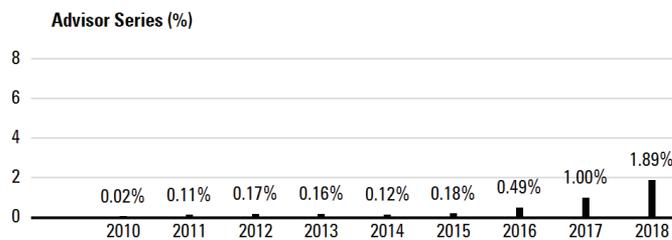
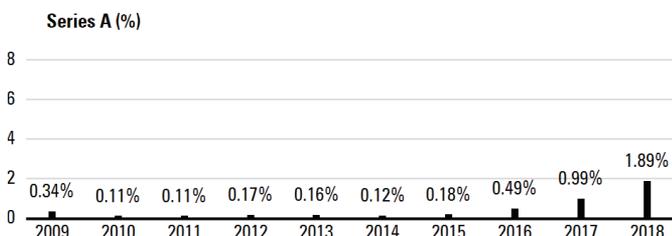
\* Includes all costs related to management, investment advisory services, general administration and profit.

**PAST PERFORMANCE (in USD)**

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.



Advisor Series units have been available for sale to unitholders since October 2010.

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.



**SUMMARY OF INVESTMENT PORTFOLIO (in USD)**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Corporate Notes	71.0
Government Notes	28.6
Cash/Other	0.4

**Top 25 Holdings**

	% of Net Asset Value
Province of Alberta 2.455% Jan 16 2019	8.7
Province of Alberta 2.670% Mar 19 2019	5.8
Toronto-Dominion Bank 2.260% Jan 3 2019	4.1
Bank of Nova Scotia 2.454% Jan 16 2019	3.4
Bank of Montreal 2.373% Jan 3 2019	3.2
Prime Trust - Senior Notes 2.832% Jan 24 2019	3.1
Export Development Canada Corp. 2.211% Jan 8 2019	2.8
Province of Alberta 2.397% Jan 7 2019	2.7
Fusion Trust 2.762% Feb 4 2019	2.7
Toronto-Dominion Bank 2.409% Jan 25 2019	2.7
Merit Trust - Senior Notes 2.682% Jan 16 2019	2.6
SAFE Trust - Series 1996-1 2.781% Jan 22 2019	2.6
Export Development Canada Corp. 2.800% May 31 2019	2.6
Ridge Trust 2.601% Jan 14 2019	2.6
Banner Trust 2.852% Jan 28 2019	2.5
Canadian Master Trust - Series A 2.789% Jan 22 2019	2.3
Zeus Receivables Trust - Senior Notes 2.826% Jan 18 2019	2.2
Enbridge Pipelines Inc. 2.899% Jan 3 2019	2.2
Clarity Trust 2.673% Jan 11 2019	2.1
OMERS Realty Corp. 2.680% Mar 1 2019	2.1
Caisse Centrale Desjardins 2.492% Jan 22 2019	2.0
Clarity Trust 2.762% Feb 8 2019	1.9
Province of Alberta 2.511% Jan 30 2019	1.8
SOUND Trust 2.822% Jan 14 2019	1.7
STABLE Trust 2.781% Jan 22 2019	1.7
<b>Top 25 Holdings</b>	<b>72.1</b>

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).



FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
SHORT TERM BOND & MORTGAGE FUND**

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December 31, 2018

**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 11, 2019.

**A Note on Forward-looking Statements**

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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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*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 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. Investments are made in accordance with National Policy Statement No. 29, a set of regulatory guidelines covering mortgage purchases by mutual funds. To achieve the Fund's investment objective, the portfolio manager invests 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). The portfolio manager 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.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$6.9 billion as of December 31, 2018, from \$6.4 billion at the end of 2017. The increase was due to a combination of net inflows and investment returns.

Over the past year, the Fund's Series O units gained 2.0%, which outperformed the 1.9% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Domestic bond yields rose for most of 2018 in response to interest-rate hikes from the Bank of Canada (the "BOC") and faster global economic growth, but yields fell toward the end of the year as investors flocked to the relative safety of government fixed income amid declines in equity markets. Canadian bonds outperformed U.S. bonds on expectations that relatively fast U.S. growth would prompt the U.S. Federal Reserve to raise benchmark interest rates at a quicker pace than the BOC.

Short-term bonds recorded gains in 2018, as interest income offset slight declines in prices. The portfolio manager's efforts to add value through adjustments to the Fund's maturity profile had a slight negative impact on the Fund's performance relative to the benchmark.

The Fund maintained a significant bias towards federal agency bonds, specifically government-guaranteed Canada Housing Trust ("CHT") bonds. CHT bonds offer an attractive yield over comparable Government of Canada securities without undue risk. This strategy was not a meaningful contributor to relative performance over the period.

The Fund's allocation to mortgages aided returns significantly.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

### Recent Developments

A commitment from central banks in Canada and the U.S. to raise benchmark interest rates helped drive bond yields higher for much of 2018. However, concerns about Canadian competitiveness, trade uncertainty, falling energy prices and high household-debt levels have prompted the BOC to reassess the pace of rate increases from the current rate of 1.75%. It is even possible that the BOC will not raise rates at all in 2019.

### 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 Investor Services Trust ("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 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.

**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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>10.25</b>	<b>0.26</b>	<b>(0.11)</b>	<b>(0.15)</b>	<b>0.08</b>	<b>0.08</b>	<b>(0.15)</b>	–	–	–	<b>(0.15)</b>	<b>10.20</b>
Dec. 31, 2017	10.42	0.24	(0.11)	(0.05)	(0.11)	(0.03)	(0.13)	–	–	–	(0.13)	10.25
Dec. 31, 2016	10.49	0.27	(0.12)	(0.03)	(0.07)	0.05	(0.15)	–	–	–	(0.15)	10.42
Dec. 31, 2015	10.50	0.29	(0.12)	0.02	(0.02)	0.17	(0.16)	–	(0.02)	–	(0.18)	10.49
Dec. 31, 2014	10.42	0.30	(0.12)	0.02	0.06	0.26	(0.17)	–	–	–	(0.17)	10.50
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>10.25</b>	<b>0.26</b>	<b>(0.11)</b>	<b>(0.15)</b>	<b>0.09</b>	<b>0.09</b>	<b>(0.15)</b>	–	–	–	<b>(0.15)</b>	<b>10.20</b>
Dec. 31, 2017	10.42	0.24	(0.11)	(0.05)	(0.11)	(0.03)	(0.13)	–	–	–	(0.13)	10.25
Dec. 31, 2016	10.49	0.27	(0.12)	(0.03)	(0.04)	0.08	(0.15)	–	–	–	(0.15)	10.42
Dec. 31, 2015	10.50	0.29	(0.12)	0.02	(0.02)	0.17	(0.17)	–	(0.01)	–	(0.18)	10.49
Dec. 31, 2014	10.42	0.30	(0.12)	0.02	0.06	0.26	(0.18)	–	–	–	(0.18)	10.50
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>10.21</b>	<b>0.26</b>	<b>(0.06)</b>	<b>(0.14)</b>	<b>0.07</b>	<b>0.13</b>	<b>(0.20)</b>	–	–	–	<b>(0.20)</b>	<b>10.16</b>
Dec. 31, 2017	10.38	0.23	(0.06)	(0.05)	(0.12)	–	(0.17)	–	–	–	(0.17)	10.21
Dec. 31, 2016	10.45	0.27	(0.06)	(0.03)	(0.05)	0.13	(0.20)	–	–	–	(0.20)	10.38
Dec. 31, 2015	10.45	0.29	(0.06)	0.02	(0.02)	0.23	(0.23)	–	(0.01)	–	(0.24)	10.45
Dec. 31, 2014	10.38	0.30	(0.06)	0.02	0.06	0.32	(0.24)	–	–	–	(0.24)	10.45
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>10.19</b>	<b>0.26</b>	<b>(0.05)</b>	<b>(0.14)</b>	<b>0.07</b>	<b>0.14</b>	<b>(0.21)</b>	–	–	–	<b>(0.21)</b>	<b>10.14</b>
Dec. 31, 2017	10.36	0.23	(0.05)	(0.05)	(0.11)	0.02	(0.18)	–	–	–	(0.18)	10.19
Dec. 31, 2016	10.43	0.26	(0.06)	(0.03)	(0.06)	0.11	(0.20)	–	–	–	(0.20)	10.36
Dec. 31, 2015	10.43	0.28	(0.06)	0.02	(0.02)	0.22	(0.22)	–	(0.01)	–	(0.23)	10.43
Dec. 31, 2014	10.36	0.30	(0.06)	0.02	0.06	0.32	(0.24)	–	–	–	(0.24)	10.43
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>9.92</b>	<b>0.25</b>	<b>(0.01)</b>	<b>(0.14)</b>	<b>0.10</b>	<b>0.20</b>	<b>(0.24)</b>	–	–	–	<b>(0.24)</b>	<b>9.88</b>
Dec. 31, 2017	10.09	0.23	(0.01)	(0.05)	(0.11)	0.06	(0.22)	–	–	–	(0.22)	9.92
Dec. 31, 2016	10.16	0.26	(0.01)	(0.03)	(0.04)	0.18	(0.25)	–	–	–	(0.25)	10.09
Dec. 31, 2015	10.17	0.28	(0.01)	0.02	(0.02)	0.27	(0.27)	–	(0.02)	–	(0.29)	10.16
Dec. 31, 2014	10.08	0.29	(0.01)	0.02	0.05	0.35	(0.28)	–	–	–	(0.28)	10.17

<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>Dec. 31, 2018</b>	<b>10.20</b>	<b>72 403</b>	<b>7 101</b>	<b>1.04</b>	<b>1.04</b>	<b>201.63</b>	—
Dec. 31, 2017	10.25	109 271	10 664	1.04	1.04	166.33	—
Dec. 31, 2016	10.42	172 864	16 593	1.10	1.10	185.85	—
Dec. 31, 2015	10.49	144 831	13 808	1.16	1.16	200.13	—
Dec. 31, 2014	10.50	172 126	16 394	1.16	1.16	213.40	—
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>10.20</b>	<b>10 722</b>	<b>1 051</b>	<b>1.04</b>	<b>1.04</b>	<b>201.63</b>	—
Dec. 31, 2017	10.25	13 688	1 335	1.04	1.04	166.33	—
Dec. 31, 2016	10.42	20 873	2 003	1.11	1.11	185.85	—
Dec. 31, 2015	10.49	27 136	2 586	1.16	1.16	200.13	—
Dec. 31, 2014	10.50	26 702	2 544	1.16	1.16	213.40	—
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>10.16</b>	<b>161 775</b>	<b>15 929</b>	<b>0.60</b>	<b>0.60</b>	<b>201.63</b>	—
Dec. 31, 2017	10.21	199 889	19 577	0.60	0.60	166.33	—
Dec. 31, 2016	10.38	214 040	20 621	0.60	0.60	185.85	—
Dec. 31, 2015	10.45	220 901	21 137	0.60	0.60	200.13	—
Dec. 31, 2014	10.45	227 660	21 775	0.60	0.60	213.40	—
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>10.14</b>	<b>99 473</b>	<b>9 813</b>	<b>0.49</b>	<b>0.49</b>	<b>201.63</b>	—
Dec. 31, 2017	10.19	133 584	13 111	0.49	0.49	166.33	—
Dec. 31, 2016	10.36	145 710	14 067	0.54	0.54	185.85	—
Dec. 31, 2015	10.43	101 384	9 720	0.61	0.61	200.13	—
Dec. 31, 2014	10.43	115 516	11 071	0.61	0.61	213.40	—
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>9.88</b>	<b>6 546 964</b>	<b>662 833</b>	<b>0.06</b>	<b>0.06</b>	<b>201.63</b>	—
Dec. 31, 2017	9.92	5 940 235	598 459	0.05	0.05	166.33	—
Dec. 31, 2016	10.09	5 186 690	514 114	0.06	0.06	185.85	—
Dec. 31, 2015	10.16	4 507 824	443 659	0.06	0.06	200.13	—
Dec. 31, 2014	10.17	4 033 918	396 757	0.06	0.06	213.40	—

<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.

Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series 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 – 1.05%, Advisor Series – 1.05% and Series F – 0.49%.



**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	0.90%	56%	44%
Advisor Series	0.90%	56%	44%
Series D	0.50%	30%	70%
Series F	0.40%	—	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.

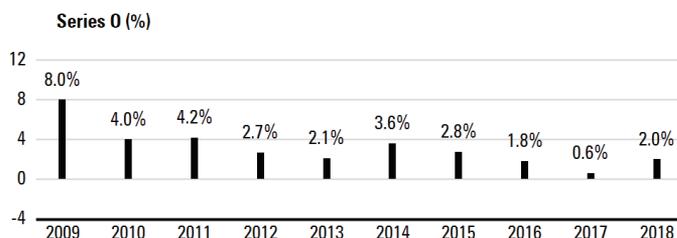
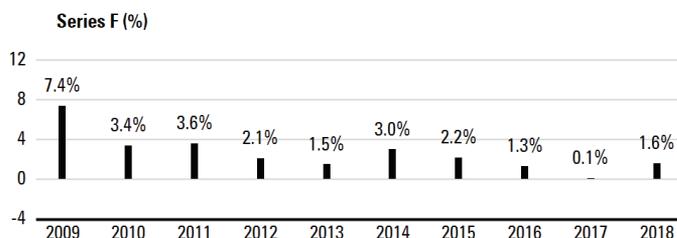
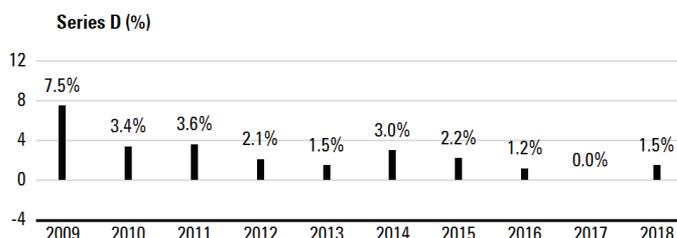
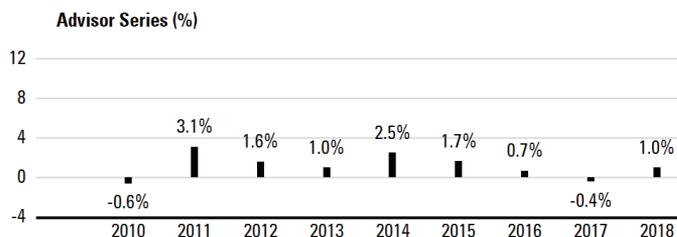
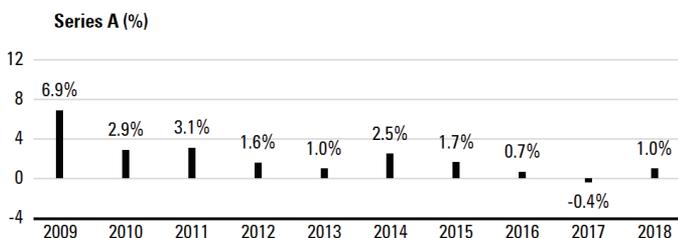
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





## PAST PERFORMANCE (cont.)

### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

#### FTSE Canada Short Term Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	1.0	0.4	1.1	2.1	–
Benchmark	1.9	1.0	1.7	2.5	–
Advisor Series	1.0	0.4	1.1	–	1.3
Benchmark	1.9	1.0	1.7	–	2.0
Series D	1.5	0.9	1.6	2.6	–
Benchmark	1.9	1.0	1.7	2.5	–
Series F	1.6	1.0	1.6	2.6	–
Benchmark	1.9	1.0	1.7	2.5	–
Series O	2.0	1.4	2.1	3.2	–
Benchmark	1.9	1.0	1.7	2.5	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016.

### INDEX DESCRIPTION

**FTSE Canada Short Term Bond Index\*** This index is a measure of the performance of Canadian bonds with terms to maturity of one to five years and is a good proxy for a short-term fixed-income investment.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Corporate Bonds	40.2
Federal Bonds	35.4
Provincial Bonds	9.3
Mortgages	7.0
Mortgage-Backed Bonds	5.8
Cash/Other	2.3

### Top 25 Holdings

	% of Net Asset Value
Government of Canada 2.250% Feb 1 2021	7.6
Canada Housing Trust No. 1 2.350% Jun 15 2023	4.6
Canada Housing Trust No. 1 1.450% Jun 15 2020	3.9
Canada Housing Trust No. 1 1.250% Dec 15 2020	3.8
Canada Housing Trust No. 1 2.550% Dec 15 2023	3.2
Canada Housing Trust No. 1 2.400% Dec 15 2022	3.0
Province of Ontario 2.600% Sep 8 2023	2.6
Government of Canada 2.000% Sep 1 2023	2.5
Toronto-Dominion Bank 1.680% Jun 8 2021	2.4
Province of Ontario 2.850% Jun 2 2023	2.2
Government of Canada 4.250% Dec 1 2021	2.2
Cash & Cash Equivalents	1.9
Province of Ontario 3.150% Jun 2 2022	1.8
Royal Bank of Canada 2.030% Mar 15 2021	1.5
Government of Canada 0.500% Mar 1 2022	1.3
Province of Ontario 4.000% Jun 2 2021	1.3
Enbridge Gas Distribution Inc. 4.040% Nov 23 2020	1.2
Bank of Montreal 1.610% Oct 28 2021	1.1
Canadian Mortgage Pools 1.890% Sep 1 2022	1.1
North West Redwater Partnership 2.100% Feb 23 2022	1.0
Canada Housing Trust No. 1 1.500% Dec 15 2021	1.0
AT&T Inc. CAD 4.000% Nov 25 2025	0.9
Brookfield Renewable Energy Partners ULC 5.140% Oct 13 2020	0.9
Hydro One Inc. 1.840% Feb 24 2021	0.8
Bank of Montreal 2.100% Oct 6 2020	0.8
Top 25 Holdings	54.6

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).



FIXED-INCOME FUND

## PHILLIPS, HAGER & NORTH BOND FUND

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December 31, 2018

**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 11, 2019.

### **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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 relatively high yields and stability of capital by investing in a well-diversified portfolio of fixed-income securities issued primarily by Canadian governments and corporations. Through a mix of interest income and capital appreciation, the Fund aims to provide a competitive rate of return while controlling the interest rate and credit risks to which it is exposed. To achieve the Fund's investment objective, the portfolio manager invests primarily in high-quality Canadian corporate and government bonds issued in either Canadian or U.S. dollars. The portfolio manager may also invest in asset-backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, and typically falls between seven and 12 years.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$9.3 billion as of December 31, 2018, from \$9.7 billion at the end of 2017. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 1.5%, which outperformed the 1.4% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Domestic bond yields rose for most of 2018 in response to interest-rate hikes from the Bank of Canada (the "BOC") and faster global economic growth, but yields fell toward the end of the year as investors flocked to the relative safety of government fixed income amid declines in equity markets. Canadian bonds outperformed U.S. bonds on expectations that relatively fast U.S. growth would prompt the U.S. Federal Reserve to raise benchmark interest rates at a quicker pace than the BOC.

The portfolio manager's preference for bonds of higher-quality companies that were less sensitive to changes in economic growth had a significantly positive impact on relative returns. This approach was due to the portfolio manager's view that the extra yields available on lower-quality corporate bonds weren't sufficient to compensate for the risk of higher exposure. The portfolio manager was also able to take advantage of the short-term price fluctuations over the year by adjusting the Fund's overall maturity, adding to relative returns.

During 2018, the Fund maintained underweight exposure to provincial bonds in favour of federally guaranteed mortgage bonds, which offer higher yields than Government of Canada bonds without undue risk.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

### Recent Developments

A commitment from central banks in Canada and the U.S. to raise benchmark interest rates helped drive bond yields higher for much of 2018. However, concerns about Canadian competitiveness, trade uncertainty, falling energy prices and high household-debt levels have prompted the BOC to reassess the pace of rate increases from the current rate of 1.75%. It is even possible that the BOC will not raise rates at all in 2019.

Effective March 8, 2019, the Fund was reopened to new investors after being closed to new investors effective July 4, 2016.

### 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 Investor Services Trust ("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 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.

### **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>10.27</b>	<b>0.31</b>	<b>(0.11)</b>	<b>(0.13)</b>	<b>(0.05)</b>	<b>0.02</b>	<b>(0.21)</b>	–	–	–	<b>(0.21)</b>	<b>10.11</b>
Dec. 31, 2017	10.32	0.31	(0.11)	(0.06)	0.03	0.17	(0.21)	–	–	–	(0.21)	10.27
Dec. 31, 2016	10.51	0.34	(0.12)	0.11	(0.18)	0.15	(0.22)	–	(0.12)	–	(0.34)	10.32
Dec. 31, 2015	10.74	0.37	(0.13)	0.23	(0.18)	0.29	(0.24)	–	(0.27)	–	(0.51)	10.51
Dec. 31, 2014	10.21	0.37	(0.12)	0.17	0.42	0.84	(0.24)	–	(0.04)	–	(0.28)	10.74
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>10.28</b>	<b>0.31</b>	<b>(0.11)</b>	<b>(0.13)</b>	<b>(0.05)</b>	<b>0.02</b>	<b>(0.21)</b>	–	–	–	<b>(0.21)</b>	<b>10.12</b>
Dec. 31, 2017	10.32	0.31	(0.11)	(0.06)	0.03	0.17	(0.21)	–	–	–	(0.21)	10.28
Dec. 31, 2016	10.52	0.34	(0.12)	0.11	(0.19)	0.14	(0.22)	–	(0.12)	–	(0.34)	10.32
Dec. 31, 2015	10.74	0.37	(0.13)	0.23	(0.18)	0.29	(0.24)	–	(0.27)	–	(0.51)	10.52
Dec. 31, 2014	10.21	0.38	(0.12)	0.17	0.42	0.85	(0.24)	–	(0.04)	–	(0.28)	10.74
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>10.19</b>	<b>0.31</b>	<b>(0.06)</b>	<b>(0.13)</b>	<b>(0.04)</b>	<b>0.08</b>	<b>(0.26)</b>	–	–	–	<b>(0.26)</b>	<b>10.02</b>
Dec. 31, 2017	10.23	0.31	(0.06)	(0.05)	0.01	0.21	(0.25)	–	–	–	(0.25)	10.19
Dec. 31, 2016	10.43	0.34	(0.06)	0.11	(0.19)	0.20	(0.27)	–	(0.12)	–	(0.39)	10.23
Dec. 31, 2015	10.65	0.37	(0.07)	0.23	(0.18)	0.35	(0.31)	–	(0.26)	–	(0.57)	10.43
Dec. 31, 2014	10.12	0.37	(0.06)	0.17	0.41	0.89	(0.30)	–	(0.04)	–	(0.34)	10.65
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>10.24</b>	<b>0.31</b>	<b>(0.05)</b>	<b>(0.13)</b>	<b>(0.06)</b>	<b>0.07</b>	<b>(0.27)</b>	–	–	–	<b>(0.27)</b>	<b>10.07</b>
Dec. 31, 2017	10.28	0.31	(0.05)	(0.06)	0.02	0.22	(0.26)	–	–	–	(0.26)	10.24
Dec. 31, 2016	10.48	0.34	(0.06)	0.11	(0.21)	0.18	(0.28)	–	(0.12)	–	(0.40)	10.28
Dec. 31, 2015	10.70	0.37	(0.07)	0.23	(0.18)	0.35	(0.30)	–	(0.27)	–	(0.57)	10.48
Dec. 31, 2014	10.17	0.38	(0.06)	0.17	0.42	0.91	(0.30)	–	(0.04)	–	(0.34)	10.70
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>10.20</b>	<b>0.31</b>	–	<b>(0.13)</b>	<b>(0.03)</b>	<b>0.15</b>	<b>(0.31)</b>	–	–	–	<b>(0.31)</b>	<b>10.04</b>
Dec. 31, 2017	10.24	0.31	–	(0.06)	0.02	0.27	(0.31)	–	–	–	(0.31)	10.20
Dec. 31, 2016	10.44	0.34	–	0.11	(0.23)	0.22	(0.34)	–	(0.12)	–	(0.46)	10.24
Dec. 31, 2015	10.67	0.37	–	0.23	(0.18)	0.42	(0.36)	–	(0.27)	–	(0.63)	10.44
Dec. 31, 2014	10.15	0.37	–	0.17	0.41	0.95	(0.38)	–	(0.04)	–	(0.42)	10.67

<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>Dec. 31, 2018</b>	<b>10.11</b>	<b>60 323</b>	<b>5 967</b>	<b>1.05</b>	<b>1.05</b>	<b>138.32</b>	—
Dec. 31, 2017	10.27	80 316	7 818	1.05	1.05	103.50	—
Dec. 31, 2016	10.32	101 217	9 809	1.10	1.10	133.52	—
Dec. 31, 2015	10.51	112 560	10 707	1.16	1.16	243.23	—
Dec. 31, 2014	10.74	117 482	10 944	1.16	1.16	232.92	—
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>10.12</b>	<b>28 621</b>	<b>2 829</b>	<b>1.05</b>	<b>1.05</b>	<b>138.32</b>	—
Dec. 31, 2017	10.28	38 041	3 701	1.05	1.05	103.50	—
Dec. 31, 2016	10.32	46 859	4 539	1.10	1.10	133.52	—
Dec. 31, 2015	10.52	44 408	4 222	1.16	1.16	243.23	—
Dec. 31, 2014	10.74	35 732	3 328	1.16	1.16	232.92	—
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>10.02</b>	<b>483 795</b>	<b>48 262</b>	<b>0.60</b>	<b>0.60</b>	<b>138.32</b>	—
Dec. 31, 2017	10.19	548 269	53 814	0.60	0.60	103.50	—
Dec. 31, 2016	10.23	600 761	58 716	0.60	0.60	133.52	—
Dec. 31, 2015	10.43	616 099	59 095	0.60	0.60	243.23	—
Dec. 31, 2014	10.65	622 449	58 463	0.60	0.60	232.92	—
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>10.07</b>	<b>67 107</b>	<b>6 663</b>	<b>0.49</b>	<b>0.49</b>	<b>138.32</b>	—
Dec. 31, 2017	10.24	94 337	9 215	0.49	0.49	103.50	—
Dec. 31, 2016	10.28	104 591	10 172	0.54	0.54	133.52	—
Dec. 31, 2015	10.48	94 082	8 981	0.60	0.60	243.23	—
Dec. 31, 2014	10.70	78 952	7 380	0.60	0.60	232.92	—
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>10.04</b>	<b>8 678 937</b>	<b>864 588</b>	<b>0.02</b>	<b>0.02</b>	<b>138.32</b>	—
Dec. 31, 2017	10.20	8 983 009	880 544	0.02	0.02	103.50	—
Dec. 31, 2016	10.24	9 531 479	930 497	0.02	0.02	133.52	—
Dec. 31, 2015	10.44	8 009 643	767 022	0.02	0.02	243.23	—
Dec. 31, 2014	10.67	7 782 781	729 576	0.02	0.02	232.92	—

<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.

Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series 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 – 1.05%, Advisor Series – 1.05% and Series F – 0.49%.



**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	0.90%	56%	44%
Advisor Series	0.90%	56%	44%
Series D	0.50% <sup>†</sup>	30%	70%
Series F	0.40%	–	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.

† Management fees are calculated at the annual rate of 0.50% of the Series D net asset value, provided that the aggregate of all fees and other expenses (excluding the taxes included therein and commissions incurred in connection with portfolio transactions) paid or payable by Series D does not exceed an amount computed with reference to the following percentages of the net asset value of Series D.

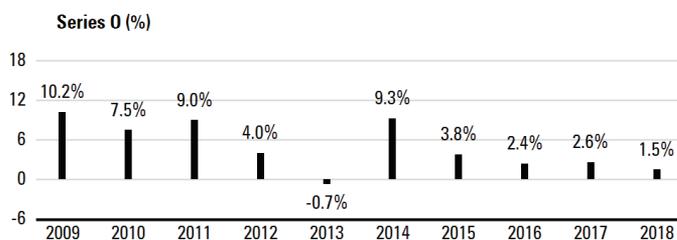
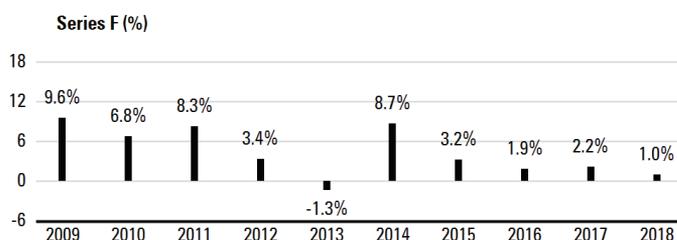
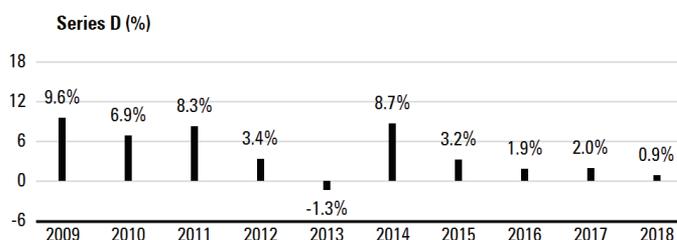
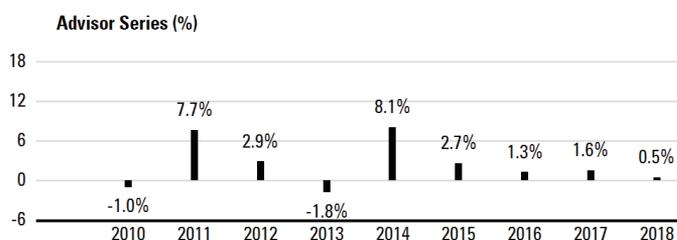
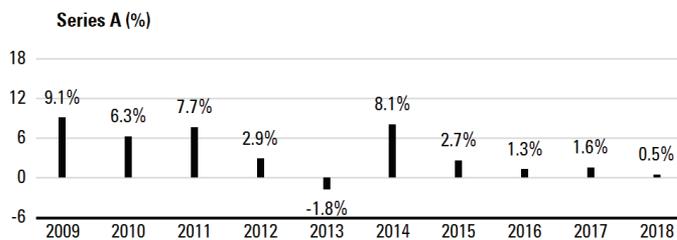
Net Asset Value of Series D	Percentage
Up to \$1 000 000	2.00
From \$1 000 001 up to \$3 000 000	1.75
From \$3 000 001 up to \$5 000 000	1.50
From \$5 000 001 up to \$10 000 000	1.25
From \$10 000 001 up to \$100 000 000	1.00
Over \$100 000 000	0.75

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**FTSE Canada Universe Bond Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	0.5	1.1	2.8	3.8	–
Benchmark	1.4	1.9	3.5	4.2	–
Advisor Series	0.5	1.1	2.8	–	2.6
Benchmark	1.4	1.9	3.5	–	3.5
Series D	0.9	1.6	3.3	4.3	–
Benchmark	1.4	1.9	3.5	4.2	–
Series F	1.0	1.7	3.4	4.3	–
Benchmark	1.4	1.9	3.5	4.2	–
Series O	1.5	2.2	3.9	4.9	–
Benchmark	1.4	1.9	3.5	4.2	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010. Effective March 8, 2019, the Fund was reopened to new investors after being closed to new investors effective July 4, 2016.

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.

**INDEX DESCRIPTION**

**FTSE 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.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2018

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	35.3
Provincial Bonds	31.8
Federal Bonds	25.1
Municipal Bonds	0.9
Mortgages	0.4
Cash/Other	6.5

**Top 25 Holdings**

	% of Net Asset Value
Cash & Cash Equivalents	6.0
Government of Canada 2.750% Dec 1 2048	4.2
Canada Housing Trust No. 1 2.400% Dec 15 2022	3.0
Province of Ontario 6.200% Jun 2 2031	2.7
Province of Ontario 3.500% Jun 2 2043	2.4
Province of Ontario 5.600% Jun 2 2035	2.4
Province of Ontario 4.600% Jun 2 2039	2.1
Canada Housing Trust No. 1 1.750% Jun 15 2022	2.0
Province of Ontario 2.900% Jun 2 2049	1.8
Province of Ontario 3.500% Jun 2 2024	1.6
Canada Housing Trust No. 1 2.350% Jun 15 2023	1.5
Government of Canada 1.000% Jun 1 2027	1.4
Government of Canada 2.000% Sep 1 2023	1.4
Province of Ontario 8.500% Dec 2 2025	1.3
Royal Bank of Canada 2.860% Mar 4 2021	1.3
Bank of Montreal 1.610% Oct 28 2021	1.3
Canada Housing Trust No. 1 1.500% Dec 15 2021	1.3
Province of Quebec 8.500% Apr 1 2026	1.2
Government of Canada 3.250% Jun 1 2021	1.2
Canada Housing Trust No. 1 1.250% Jun 15 2021	1.0
Province of Ontario 2.600% Jun 2 2025	0.9
Province of Manitoba 2.850% Sep 5 2046	0.9
Canada Housing Trust No. 1 2.650% Dec 15 2028	0.9
Province of Ontario 2.600% Jun 2 2027	0.8
Ontario Electricity Financial Corp. 8.250% Jun 22 2026	0.8
<b>Top 25 Holdings</b>	<b>45.4</b>

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).



FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
TOTAL RETURN BOND FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 stability of capital by investing primarily in a well-diversified portfolio of fixed-income securities issued primarily by Canadian governments and corporations. It also invests in derivatives. Through a mix of interest income and capital appreciation, the Fund aims to provide a competitive rate of return while controlling the interest rate and credit risks to which it is exposed. To achieve the Fund's investment objective, the portfolio manager invests primarily in medium- to high-quality corporate bonds and government bonds of Canadian, U.S. and other foreign issuers. The Fund may also invest in asset-backed commercial paper to enhance its return (the Fund's weighting in high-yield bonds is generally restricted to a maximum of 20% of its total assets). The average term to maturity of the portfolio is managed within strict guidelines, and typically falls between seven and 12 years.

### Risk

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

### Results of Operations

The Fund's net asset value was \$8.4 billion as of December 31, 2018, unchanged from the end of 2017.

Over the past year, the Fund's Series O units gained 1.5%, which outperformed the 1.4% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Domestic bond yields rose for most of 2018 in response to interest-rate hikes from the Bank of Canada (the "BOC") and faster global economic growth, but yields fell toward the end of the year as investors flocked to the relative safety of government fixed income amid declines in equity markets. Canadian bonds outperformed U.S. bonds on expectations that relatively fast U.S. growth would prompt the U.S. Federal Reserve to raise benchmark interest rates at a quicker pace than the BOC.

The portfolio manager's preference for bonds of higher-quality companies that were less sensitive to changes in economic growth had a significantly positive impact on relative returns. This approach was due to the portfolio manager's view that the extra yields available on lower-quality corporate bonds weren't sufficient to compensate for the risk of higher exposure. The Fund also benefited modestly from adjustments that took advantage of fluctuations in short-term interest rates.

The Fund has held high-yield bonds in the past but held virtually none during 2018, given the portfolio manager's view that such higher-risk securities weren't offering sufficient extra yield to warrant investing in. The portfolio manager maintained an underweight allocation to provincial bonds in favour of federally guaranteed mortgage bonds, which offer higher yields than Government of Canada bonds without undue risk.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

### Recent Developments

A commitment from central banks in Canada and the U.S. to raise benchmark interest rates helped drive bond yields higher for much of 2018. However, concerns about Canadian competitiveness, trade uncertainty, falling energy prices and high household-debt levels have prompted the BOC to reassess the pace of rate increases from the current rate of 1.75%. It is even possible that the BOC will not raise rates at all in 2019.

### 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 Investor Services Trust ("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 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.

### ***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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>11.30</b>	<b>0.34</b>	<b>(0.12)</b>	<b>(0.13)</b>	<b>(0.06)</b>	<b>0.03</b>	<b>(0.22)</b>	–	–	–	<b>(0.22)</b>	<b>11.13</b>
Dec. 31, 2017	11.34	0.35	(0.12)	(0.06)	0.02	0.19	(0.23)	–	–	–	(0.23)	11.30
Dec. 31, 2016	11.52	0.38	(0.13)	0.12	(0.22)	0.15	(0.24)	–	(0.14)	–	(0.38)	11.34
Dec. 31, 2015	11.69	0.40	(0.14)	0.16	(0.17)	0.25	(0.25)	–	(0.22)	–	(0.47)	11.52
Dec. 31, 2014	11.12	0.47	(0.13)	0.15	0.46	0.95	(0.27)	–	(0.05)	–	(0.32)	11.69
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>11.31</b>	<b>0.34</b>	<b>(0.12)</b>	<b>(0.13)</b>	<b>(0.05)</b>	<b>0.04</b>	<b>(0.22)</b>	–	–	–	<b>(0.22)</b>	<b>11.14</b>
Dec. 31, 2017	11.35	0.35	(0.12)	(0.06)	0.01	0.18	(0.23)	–	–	–	(0.23)	11.31
Dec. 31, 2016	11.53	0.38	(0.13)	0.12	(0.22)	0.15	(0.24)	–	(0.14)	–	(0.38)	11.35
Dec. 31, 2015	11.69	0.40	(0.14)	0.16	(0.17)	0.25	(0.25)	–	(0.21)	–	(0.46)	11.53
Dec. 31, 2014	11.13	0.46	(0.13)	0.15	0.46	0.94	(0.26)	–	(0.05)	–	(0.31)	11.69
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>11.31</b>	<b>0.34</b>	<b>(0.07)</b>	<b>(0.13)</b>	<b>(0.05)</b>	<b>0.09</b>	<b>(0.27)</b>	–	–	–	<b>(0.27)</b>	<b>11.13</b>
Dec. 31, 2017	11.34	0.35	(0.07)	(0.06)	0.02	0.24	(0.28)	–	–	–	(0.28)	11.31
Dec. 31, 2016	11.52	0.38	(0.07)	0.12	(0.19)	0.24	(0.30)	–	(0.14)	–	(0.44)	11.34
Dec. 31, 2015	11.69	0.40	(0.07)	0.16	(0.17)	0.32	(0.32)	–	(0.21)	–	(0.53)	11.52
Dec. 31, 2014	11.12	0.46	(0.07)	0.15	0.46	1.00	(0.33)	–	(0.05)	–	(0.38)	11.69
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>11.32</b>	<b>0.34</b>	<b>(0.06)</b>	<b>(0.13)</b>	<b>(0.06)</b>	<b>0.09</b>	<b>(0.28)</b>	–	–	–	<b>(0.28)</b>	<b>11.15</b>
Dec. 31, 2017	11.36	0.35	(0.06)	(0.06)	–	0.23	(0.29)	–	–	–	(0.29)	11.32
Dec. 31, 2016	11.53	0.37	(0.06)	0.12	(0.32)	0.11	(0.31)	–	(0.14)	–	(0.45)	11.36
Dec. 31, 2015	11.70	0.40	(0.07)	0.16	(0.17)	0.32	(0.32)	–	(0.21)	–	(0.53)	11.53
Dec. 31, 2014	11.13	0.47	(0.07)	0.15	0.47	1.02	(0.33)	–	(0.05)	–	(0.38)	11.70
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>11.25</b>	<b>0.34</b>	–	<b>(0.13)</b>	<b>(0.04)</b>	<b>0.17</b>	<b>(0.34)</b>	–	–	–	<b>(0.34)</b>	<b>11.07</b>
Dec. 31, 2017	11.29	0.35	–	(0.06)	0.01	0.30	(0.34)	–	–	–	(0.34)	11.25
Dec. 31, 2016	11.47	0.37	–	0.12	(0.17)	0.32	(0.37)	–	(0.15)	–	(0.52)	11.29
Dec. 31, 2015	11.63	0.40	–	0.16	(0.17)	0.39	(0.39)	–	(0.20)	–	(0.59)	11.47
Dec. 31, 2014	11.06	0.40	–	0.12	0.39	0.91	(0.39)	–	(0.05)	–	(0.44)	11.63

<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>Dec. 31, 2018</b>	<b>11.13</b>	<b>124 054</b>	<b>11 147</b>	<b>1.05</b>	<b>1.05</b>	<b>141.40</b>	—
Dec. 31, 2017	11.30	146 640	12 974	1.05	1.05	99.33	—
Dec. 31, 2016	11.34	169 245	14 922	1.10	1.10	132.94	—
Dec. 31, 2015	11.52	153 976	13 367	1.16	1.16	218.83	—
Dec. 31, 2014	11.69	166 803	14 272	1.16	1.16	256.07	—
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>11.14</b>	<b>101 429</b>	<b>9 103</b>	<b>1.05</b>	<b>1.05</b>	<b>141.40</b>	—
Dec. 31, 2017	11.31	108 975	9 631	1.05	1.05	99.33	—
Dec. 31, 2016	11.35	111 224	9 796	1.10	1.10	132.94	—
Dec. 31, 2015	11.53	94 165	8 167	1.16	1.16	218.83	—
Dec. 31, 2014	11.69	98 269	8 404	1.16	1.16	256.07	—
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>11.13</b>	<b>528 637</b>	<b>47 484</b>	<b>0.58</b>	<b>0.58</b>	<b>141.40</b>	—
Dec. 31, 2017	11.31	575 829	50 929	0.58	0.58	99.33	—
Dec. 31, 2016	11.34	583 467	51 440	0.58	0.58	132.94	—
Dec. 31, 2015	11.52	543 855	47 207	0.58	0.58	218.83	—
Dec. 31, 2014	11.69	527 221	45 109	0.59	0.59	256.07	—
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>11.15</b>	<b>819 298</b>	<b>73 501</b>	<b>0.50</b>	<b>0.50</b>	<b>141.40</b>	—
Dec. 31, 2017	11.32	921 153	81 375	0.50	0.50	99.33	—
Dec. 31, 2016	11.36	801 893	70 615	0.55	0.55	132.94	—
Dec. 31, 2015	11.53	462 345	40 085	0.61	0.61	218.83	—
Dec. 31, 2014	11.70	339 951	29 051	0.61	0.61	256.07	—
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>11.07</b>	<b>6 846 559</b>	<b>618 289</b>	<b>0.02</b>	<b>0.02</b>	<b>141.40</b>	—
Dec. 31, 2017	11.25	6 692 283	594 987	0.02	0.02	99.33	—
Dec. 31, 2016	11.29	6 316 953	559 740	0.02	0.02	132.94	—
Dec. 31, 2015	11.47	6 103 380	532 024	0.02	0.02	218.83	—
Dec. 31, 2014	11.63	4 777 705	410 781	0.02	0.02	256.07	—

<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.

Effective June 30, 2016, the management fees were changed in respect of Series A, Advisor Series 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 – 1.05%, Advisor Series – 1.05% and Series F – 0.50%.



**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	0.90%	56%	44%
Advisor Series	0.90%	56%	44%
Series D	0.50%	30%	70%
Series F	0.40%	—	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.

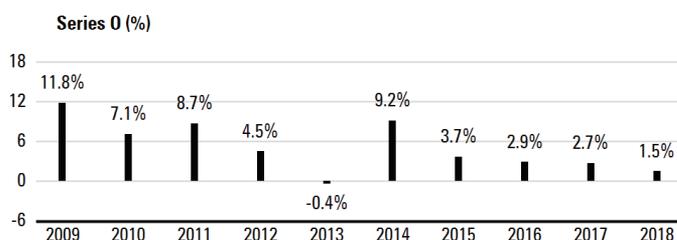
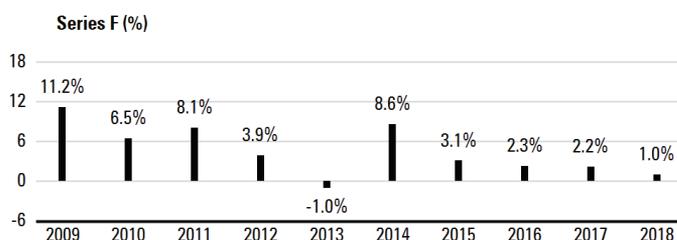
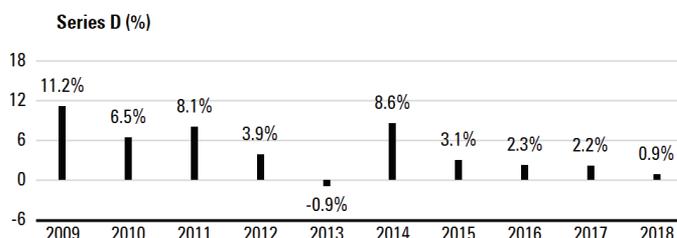
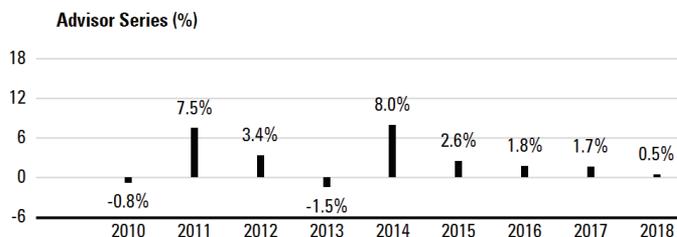
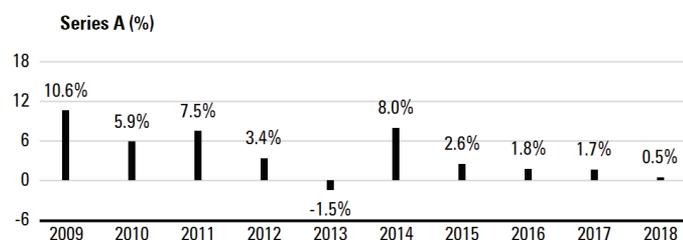
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





## PAST PERFORMANCE (cont.)

### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

#### FTSE Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	0.5	1.3	2.9	4.0	–
Benchmark	1.4	1.9	3.5	4.2	–
Advisor Series	0.5	1.3	2.9	–	2.8
Benchmark	1.4	1.9	3.5	–	3.5
Series D	0.9	1.8	3.4	4.5	–
Benchmark	1.4	1.9	3.5	4.2	–
Series F	1.0	1.9	3.4	4.5	–
Benchmark	1.4	1.9	3.5	4.2	–
Series O	1.5	2.4	4.0	5.1	–
Benchmark	1.4	1.9	3.5	4.2	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016.

### INDEX DESCRIPTION

**FTSE 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.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Corporate Bonds	35.5
Provincial Bonds	31.8
Federal Bonds	26.2
Municipal Bonds	0.9
Mortgages	0.2
Cash/Other	5.4

### Top 25 Holdings

	% of Net Asset Value
Cash & Cash Equivalents	5.0
Government of Canada 2.750% Dec 1 2048	4.4
Canada Housing Trust No. 1 2.400% Dec 15 2022	3.3
Canada Housing Trust No. 1 1.750% Jun 15 2022	3.0
Government of Canada 2.250% Feb 1 2021	2.8
Province of Ontario 6.200% Jun 2 2031	2.5
Province of Ontario 3.500% Jun 2 2043	2.4
Province of Ontario 4.600% Jun 2 2039	2.2
Province of Ontario 3.500% Jun 2 2024	2.0
Province of Ontario 5.600% Jun 2 2035	1.7
Province of Ontario 2.900% Jun 2 2049	1.6
Province of Quebec 8.500% Apr 1 2026	1.6
Canada Housing Trust No. 1 2.350% Jun 15 2023	1.5
Government of Canada 3.250% Jun 1 2021	1.2
Government of Canada 2.000% Sep 1 2023	1.1
Government of Canada 1.000% Jun 1 2027	1.1
Canada Housing Trust No. 1 1.500% Dec 15 2021	1.0
Province of Alberta 2.200% Jun 1 2026	1.0
Province of Ontario 8.500% Dec 2 2025	0.9
Province of Manitoba 2.850% Sep 5 2046	0.9
Province of Ontario 2.900% Dec 2 2046	0.9
Province of Ontario 2.600% Jun 2 2025	0.9
Canada Housing Trust No. 1 2.650% Mar 15 2022	0.8
Province of Alberta 3.300% Dec 1 2046	0.8
Royal Bank of Canada 2.030% Mar 15 2021	0.8
<b>Top 25 Holdings</b>	<b>45.4</b>

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).



FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
INFLATION-LINKED BOND FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 generate inflation-protected interest income to help investors preserve their real (or inflation-adjusted) purchasing power over the long term. To achieve the Fund's investment objective, the portfolio manager invests primarily in real return bonds and inflation-linked bonds issued or guaranteed by Canadian and foreign governments and corporations, including Canadian Real Return Bonds ("RRBs") and U.S. issued Treasury Inflation Protected Securities ("TIPs").

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$111 million as of December 31, 2018, from \$93 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund's Series O units gained 0.2%, which outperformed the benchmark, which was unchanged. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Yields on long-term real-return bonds ended 2018 higher than where they started the year, resulting in price declines, as bond prices and yields move in opposite directions.

Real-return yields rose for most of 2018 on the back of global and Canadian economic momentum. However, bond yields dropped across the board late in the year as plunging oil prices and concern about slowing economic growth prompted investors to seek safety in government bonds, pulling long-term real-return yields lower.

Bonds in the portfolio are tied to Canada's main inflation gauge, the Consumer Price Index (CPI), which rose 1.7% through November 2018 on a year-over-year basis. At this level, the trend in the CPI continues to be in line with the Bank of Canada's target range of between 1% and 3%.

The portfolio manager's active management of positions across different bond maturities had a positive impact on the Fund's performance relative to its benchmark. The Fund's real (inflation-adjusted) yield ended 2018 at 0.8%, up from 0.6% a year ago but still low by historical standards. Such a level of yields makes investors more susceptible to losses should yields move higher.

Portfolio turnover was high during the period as the portfolio manager sought to take advantage of investment opportunities.

### Recent Developments

A commitment from central banks in Canada and the U.S. to raise benchmark interest rates helped drive bond yields higher for much of 2018. However, concerns about Canadian competitiveness, trade uncertainty, falling energy prices and high household-debt levels are prompting the BOC to reassess the pace of rate increases from the current rate of 1.75%. It is even possible that the BOC will not raise rates at all in 2019.

### 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 Investor Services Trust ("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 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.

***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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>8.94</b>	<b>0.38</b>	<b>(0.08)</b>	<b>(0.14)</b>	<b>(0.23)</b>	<b>(0.07)</b>	<b>(0.28)</b>	–	–	–	<b>(0.28)</b>	<b>8.61</b>
Dec. 31, 2017	11.27	2.63	(0.10)	(0.28)	(2.20)	0.05	(0.29)	–	–	(2.11)	(2.40)	8.94
Dec. 31, 2016	11.13	0.25	(0.11)	0.23	(0.07)	0.30	(0.15)	–	–	–	(0.15)	11.27
Dec. 31, 2015	10.99	0.31	(0.11)	(0.36)	0.46	0.30	(0.21)	–	–	–	(0.21)	11.13
Dec. 31, 2014	10.24	0.71	(0.10)	(1.00)	1.82	1.43	(0.61)	–	–	–	(0.61)	10.99
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>8.94</b>	<b>0.37</b>	<b>(0.08)</b>	<b>(0.14)</b>	<b>(0.23)</b>	<b>(0.08)</b>	<b>(0.28)</b>	–	–	–	<b>(0.28)</b>	<b>8.61</b>
Dec. 31, 2017	11.28	2.64	(0.10)	(0.28)	(2.21)	0.05	(0.29)	–	–	(2.12)	(2.41)	8.94
Dec. 31, 2016	11.13	0.25	(0.11)	0.23	(0.10)	0.27	(0.15)	–	–	–	(0.15)	11.28
Dec. 31, 2015	10.99	0.31	(0.11)	(0.36)	0.46	0.30	(0.20)	–	–	–	(0.20)	11.13
Dec. 31, 2014	10.24	0.71	(0.10)	(1.00)	1.82	1.43	(0.61)	–	–	–	(0.61)	10.99
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>9.00</b>	<b>0.38</b>	<b>(0.05)</b>	<b>(0.14)</b>	<b>(0.23)</b>	<b>(0.04)</b>	<b>(0.31)</b>	–	–	–	<b>(0.31)</b>	<b>8.66</b>
Dec. 31, 2017	11.33	2.65	(0.06)	(0.28)	(2.21)	0.10	(0.30)	–	–	(2.15)	(2.45)	9.00
Dec. 31, 2016	11.17	0.25	(0.06)	0.23	(0.12)	0.30	(0.18)	–	–	–	(0.18)	11.33
Dec. 31, 2015	11.03	0.31	(0.06)	(0.36)	0.47	0.36	(0.25)	–	–	–	(0.25)	11.17
Dec. 31, 2014	10.29	0.72	(0.06)	(1.01)	1.85	1.50	(0.67)	–	–	–	(0.67)	11.03
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>8.98</b>	<b>0.38</b>	<b>(0.03)</b>	<b>(0.14)</b>	<b>(0.31)</b>	<b>(0.10)</b>	<b>(0.33)</b>	–	–	–	<b>(0.33)</b>	<b>8.65</b>
Dec. 31, 2017	11.31	2.63	(0.04)	(0.28)	(2.16)	0.15	(0.30)	–	–	(2.16)	(2.46)	8.98
Dec. 31, 2016	11.15	0.25	(0.04)	0.23	(0.17)	0.27	(0.20)	–	–	–	(0.20)	11.31
Dec. 31, 2015	11.01	0.31	(0.04)	(0.36)	0.47	0.38	(0.27)	–	–	–	(0.27)	11.15
Dec. 31, 2014	10.27	0.71	(0.04)	(1.00)	1.82	1.49	(0.69)	–	–	–	(0.69)	11.01
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>9.07</b>	<b>0.38</b>	–	<b>(0.14)</b>	<b>(0.25)</b>	<b>(0.01)</b>	<b>(0.36)</b>	–	–	–	<b>(0.36)</b>	<b>8.73</b>
Dec. 31, 2017	11.41	2.65	–	(0.28)	(2.14)	0.23	(0.30)	–	–	(2.21)	(2.51)	9.07
Dec. 31, 2016	11.25	0.25	–	0.23	(0.13)	0.35	(0.24)	–	–	–	(0.24)	11.41
Dec. 31, 2015	11.10	0.31	–	(0.36)	0.47	0.42	(0.31)	–	–	–	(0.31)	11.25
Dec. 31, 2014	10.35	0.72	–	(1.01)	1.85	1.56	(0.73)	–	–	–	(0.73)	11.10

<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>Dec. 31, 2018</b>	<b>8.61</b>	<b>8 211</b>	<b>954</b>	<b>0.93</b>	<b>0.93</b>	<b>2 800.17</b>	—
Dec. 31, 2017	8.94	11 693	1 307	0.93	0.93	7 114.30	—
Dec. 31, 2016	11.27	13 503	1 198	0.93	0.93	7 750.88	—
Dec. 31, 2015	11.13	14 992	1 347	0.93	0.93	1 690.92	—
Dec. 31, 2014	10.99	18 486	1 751	0.94	0.94	836.48	—
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>8.61</b>	<b>1 502</b>	<b>175</b>	<b>0.93</b>	<b>0.93</b>	<b>2 800.17</b>	—
Dec. 31, 2017	8.94	1 640	183	0.93	0.93	7 114.30	—
Dec. 31, 2016	11.28	2 043	181	0.93	0.93	7 750.88	—
Dec. 31, 2015	11.13	1 927	173	0.93	0.93	1 690.92	—
Dec. 31, 2014	10.99	2 094	198	0.94	0.94	836.48	—
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>8.66</b>	<b>13 376</b>	<b>1 545</b>	<b>0.55</b>	<b>0.55</b>	<b>2 800.17</b>	—
Dec. 31, 2017	9.00	12 403	1 379	0.55	0.55	7 114.30	—
Dec. 31, 2016	11.33	15 645	1 381	0.55	0.55	7 750.88	—
Dec. 31, 2015	11.17	14 665	1 312	0.55	0.55	1 690.92	—
Dec. 31, 2014	11.03	15 239	1 438	0.55	0.55	836.48	—
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>8.65</b>	<b>6 979</b>	<b>807</b>	<b>0.37</b>	<b>0.37</b>	<b>2 800.17</b>	—
Dec. 31, 2017	8.98	8 934	994	0.37	0.37	7 114.30	—
Dec. 31, 2016	11.31	8 423	745	0.38	0.38	7 750.88	—
Dec. 31, 2015	11.15	8 174	733	0.38	0.38	1 690.92	—
Dec. 31, 2014	11.01	7 793	737	0.39	0.39	836.48	—
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>8.73</b>	<b>80 512</b>	<b>9 224</b>	<b>0.02</b>	<b>0.02</b>	<b>2 800.17</b>	—
Dec. 31, 2017	9.07	58 740	6 477	0.02	0.02	7 114.30	—
Dec. 31, 2016	11.41	43 870	3 846	0.03	0.03	7 750.88	—
Dec. 31, 2015	11.25	35 289	3 139	0.03	0.03	1 690.92	—
Dec. 31, 2014	11.10	18 250	1 711	0.03	0.03	836.48	—

<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.



**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	0.80%	63%	37%
Advisor Series	0.80%	63%	37%
Series D	0.45%	33%	67%
Series F	0.30%	—	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.

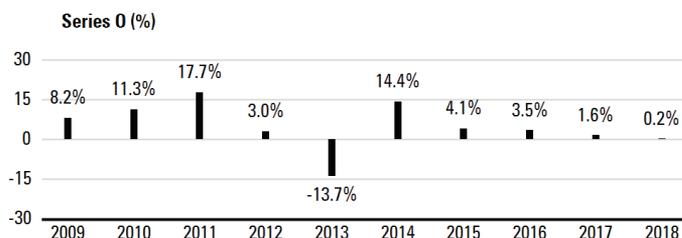
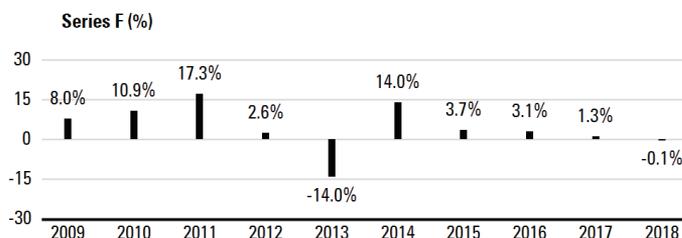
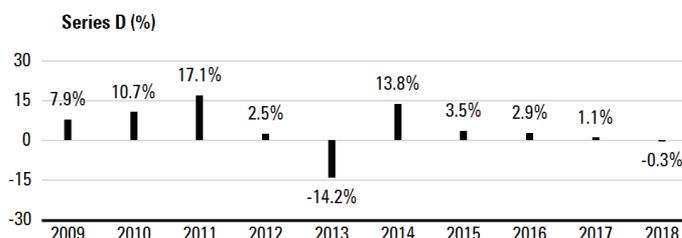
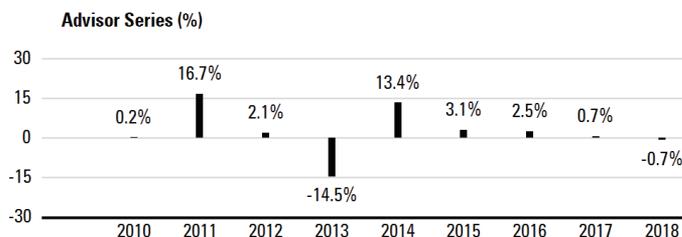
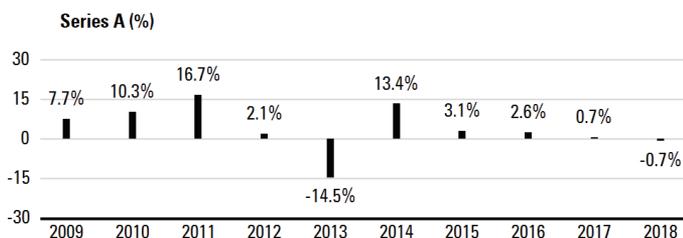
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**FTSE Canada Real Return Bond Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-0.7	0.8	3.7	—	4.0
Benchmark	0.0	1.2	3.8	—	4.6
Advisor Series	-0.7	0.8	3.7	—	2.5
Benchmark	0.0	1.2	3.8	—	3.1
Series D	-0.3	1.2	4.1	—	4.4
Benchmark	0.0	1.2	3.8	—	4.6
Series F	-0.1	1.4	4.3	—	4.6
Benchmark	0.0	1.2	3.8	—	4.6
Series O	0.2	1.8	4.6	—	4.9
Benchmark	0.0	1.2	3.8	—	4.6

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A, Series D, Series F and Series O units since June 2009.

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.

**INDEX DESCRIPTION**

**FTSE Canada Real Return Bond Index\*** This index is a broad measure of the performance of Canadian inflation-indexed real return bonds.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2018

**Investment Mix**

	% of Net Asset Value
Federal Bonds	74.6
Provincial Bonds	24.7
Cash/Other	0.7

**Top 25 Holdings\***

	% of Net Asset Value
Government of Canada 4.000% Dec 1 2031	22.4
Province of Quebec 4.500% Dec 1 2021	17.3
Government of Canada 0.500% Dec 1 2050	13.1
Government of Canada 1.250% Dec 1 2047	11.2
Government of Canada 1.500% Dec 1 2044	10.6
Government of Canada 2.000% Dec 1 2041	10.2
Government of Canada 4.250% Dec 1 2021	7.2
Province of Ontario 2.000% Dec 1 2036	3.4
Province of Quebec 4.250% Dec 1 2031	2.2
Province of Quebec 4.500% Dec 1 2026	1.8
Cash & Cash Equivalents	0.6
Government of Canada 2.750% Dec 1 2048	—
Government of Canada 3.500% Dec 1 2045	—
Government of Canada 0.750% Sep 1 2021	—
Government of Canada 1.500% Jun 1 2026	—
<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).



FIXED-INCOME FUND

**PHILLIPS, HAGER & NORTH  
HIGH YIELD BOND FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 a high level of income and the opportunity for capital appreciation by investing primarily in medium quality Canadian and/or foreign corporate bonds, convertible bonds, preferred shares and government bonds issued or traded in Canadian and U.S. dollars. In addition, the portfolio manager may also invest in asset backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, typically between three and 10 years.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$3.8 billion as of December 31, 2018, from \$4.0 billion at the end of 2017. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 1.6%, which outperformed the 1.4% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

High-yield bond prices increased gradually through the first three quarters of 2018, due primarily to limited supply and an expanding global economy. However, the high-yield bond market plunged in the fourth quarter, along with the broad market, amid concern about slowing economic growth, trade disputes and rapidly declining oil prices.

The Fund outperformed its benchmark, given the portfolio manager's decision to hold cash and focus on short-term bond holdings that shielded investors from the negative impact of rising interest rates while offering attractive income. This defensive orientation offered decent performance during the first three quarters of 2018, when valuations were high, and enabled the Fund to largely sidestep the late-year sell-off when it occurred.

### Recent Developments

The portfolio manager has constructed a portfolio that it believes can protect investor capital and generate reasonable risk-adjusted returns in a higher-risk macroeconomic environment. The Fund has a large allocation to cash and cash substitutes, short-term investment-grade bonds and higher-yielding bonds that are likely to be called in the short term. In addition, the portfolio manager has invested in bonds of Canadian issuers whose businesses are less exposed to a slowdown in economic growth.

A commitment from central banks in Canada and the U.S. to raise benchmark interest rates helped drive bond yields higher for much of 2018. However, concerns about Canadian competitiveness, trade uncertainty, falling energy prices and high household-debt levels are prompting the Bank of Canada (the "BOC") to reassess the pace of rate increases from the current rate of 1.75%. It is even possible that the BOC will not raise rates at all in 2019.

### 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 Investor Services Trust ("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 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.

**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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>11.99</b>	<b>0.67</b>	<b>(0.17)</b>	<b>(0.18)</b>	<b>(0.29)</b>	<b>0.03</b>	<b>(0.50)</b>	–	–	–	<b>(0.50)</b>	<b>11.52</b>
Dec. 31, 2017	12.16	0.68	(0.18)	0.32	(0.17)	0.65	(0.51)	–	(0.30)	–	(0.81)	11.99
Dec. 31, 2016	10.97	0.72	(0.17)	0.25	0.99	1.79	(0.53)	–	(0.09)	–	(0.62)	12.16
Dec. 31, 2015	11.97	0.77	(0.17)	(0.05)	(0.95)	(0.40)	(0.60)	–	–	–	(0.60)	10.97
Dec. 31, 2014	12.18	0.81	(0.18)	(0.06)	(0.18)	0.39	(0.62)	–	–	–	(0.62)	11.97
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>11.99</b>	<b>0.67</b>	<b>(0.17)</b>	<b>(0.18)</b>	<b>(0.30)</b>	<b>0.02</b>	<b>(0.50)</b>	–	–	–	<b>(0.50)</b>	<b>11.52</b>
Dec. 31, 2017	12.16	0.68	(0.18)	0.32	(0.17)	0.65	(0.51)	–	(0.31)	–	(0.82)	11.99
Dec. 31, 2016	10.97	0.71	(0.17)	0.25	1.10	1.89	(0.53)	–	(0.09)	–	(0.62)	12.16
Dec. 31, 2015	11.97	0.77	(0.17)	(0.05)	(0.95)	(0.40)	(0.60)	–	–	–	(0.60)	10.97
Dec. 31, 2014	12.18	0.80	(0.18)	(0.06)	(0.17)	0.39	(0.62)	–	–	–	(0.62)	11.97
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>11.85</b>	<b>0.66</b>	<b>(0.10)</b>	<b>(0.18)</b>	<b>(0.29)</b>	<b>0.09</b>	<b>(0.56)</b>	–	–	–	<b>(0.56)</b>	<b>11.38</b>
Dec. 31, 2017	12.02	0.67	(0.11)	0.32	(0.17)	0.71	(0.58)	–	(0.30)	–	(0.88)	11.85
Dec. 31, 2016	10.85	0.71	(0.10)	0.25	0.98	1.84	(0.59)	–	(0.09)	–	(0.68)	12.02
Dec. 31, 2015	11.84	0.77	(0.10)	(0.05)	(0.94)	(0.32)	(0.67)	–	–	–	(0.67)	10.85
Dec. 31, 2014	12.06	0.80	(0.11)	(0.06)	(0.18)	0.45	(0.69)	–	–	–	(0.69)	11.84
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>11.91</b>	<b>0.66</b>	<b>(0.10)</b>	<b>(0.18)</b>	<b>(0.29)</b>	<b>0.09</b>	<b>(0.56)</b>	–	–	–	<b>(0.56)</b>	<b>11.44</b>
Dec. 31, 2017	12.09	0.67	(0.11)	0.32	(0.17)	0.71	(0.58)	–	(0.30)	–	(0.88)	11.91
Dec. 31, 2016	10.91	0.71	(0.10)	0.25	1.09	1.95	(0.60)	–	(0.09)	–	(0.69)	12.09
Dec. 31, 2015	11.91	0.77	(0.11)	(0.05)	(0.95)	(0.34)	(0.67)	–	–	–	(0.67)	10.91
Dec. 31, 2014	12.12	0.81	(0.11)	(0.06)	(0.18)	0.46	(0.69)	–	–	–	(0.69)	11.91
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>11.43</b>	<b>0.64</b>	–	<b>(0.17)</b>	<b>(0.30)</b>	<b>0.17</b>	<b>(0.64)</b>	–	–	–	<b>(0.64)</b>	<b>10.98</b>
Dec. 31, 2017	11.59	0.65	–	0.30	(0.17)	0.78	(0.65)	–	(0.29)	–	(0.94)	11.43
Dec. 31, 2016	10.47	0.68	–	0.24	1.06	1.98	(0.67)	–	(0.09)	–	(0.76)	11.59
Dec. 31, 2015	11.43	0.74	–	(0.04)	(0.91)	(0.21)	(0.74)	–	–	–	(0.74)	10.47
Dec. 31, 2014	11.64	0.78	–	(0.06)	(0.17)	0.55	(0.77)	–	–	–	(0.77)	11.43

<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>Dec. 31, 2018</b>	<b>11.52</b>	<b>211 657</b>	<b>18 373</b>	<b>1.43</b>	<b>1.43</b>	<b>61.87</b>	—
Dec. 31, 2017	11.99	248 583	20 724	1.43	1.43	116.27	—
Dec. 31, 2016	12.16	276 968	22 771	1.44	1.44	65.06	—
Dec. 31, 2015	10.97	281 732	25 678	1.44	1.44	108.96	—
Dec. 31, 2014	11.97	390 812	32 643	1.44	1.44	92.99	—
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>11.52</b>	<b>47 050</b>	<b>4 085</b>	<b>1.43</b>	<b>1.43</b>	<b>61.87</b>	—
Dec. 31, 2017	11.99	60 375	5 035	1.43	1.43	116.27	—
Dec. 31, 2016	12.16	86 418	7 106	1.43	1.43	65.06	—
Dec. 31, 2015	10.97	56 717	5 169	1.44	1.44	108.96	—
Dec. 31, 2014	11.97	57 002	4 761	1.45	1.45	92.99	—
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>11.38</b>	<b>624 097</b>	<b>54 845</b>	<b>0.87</b>	<b>0.87</b>	<b>61.87</b>	—
Dec. 31, 2017	11.85	681 016	57 473	0.87	0.87	116.27	—
Dec. 31, 2016	12.02	666 947	55 478	0.87	0.87	65.06	—
Dec. 31, 2015	10.85	610 061	56 237	0.87	0.87	108.96	—
Dec. 31, 2014	11.84	701 096	59 194	0.87	0.87	92.99	—
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>11.44</b>	<b>548 187</b>	<b>47 914</b>	<b>0.88</b>	<b>0.88</b>	<b>61.87</b>	—
Dec. 31, 2017	11.91	611 556	51 333	0.88	0.88	116.27	—
Dec. 31, 2016	12.09	584 954	48 394	0.88	0.88	65.06	—
Dec. 31, 2015	10.91	385 236	35 317	0.89	0.89	108.96	—
Dec. 31, 2014	11.91	395 716	33 229	0.88	0.88	92.99	—
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>10.98</b>	<b>2 403 129</b>	<b>218 948</b>	<b>0.03</b>	<b>0.03</b>	<b>61.87</b>	—
Dec. 31, 2017	11.43	2 375 053	207 730	0.03	0.03	116.27	—
Dec. 31, 2016	11.59	2 527 124	217 973	0.03	0.03	65.06	—
Dec. 31, 2015	10.47	1 864 376	178 093	0.03	0.03	108.96	—
Dec. 31, 2014	11.43	2 004 105	175 361	0.03	0.03	92.99	—

<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.



**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	1.25%	40%	60%
Advisor Series	1.25%	40%	60%
Series D	0.75%	20%	80%
Series F	0.75%	—	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.

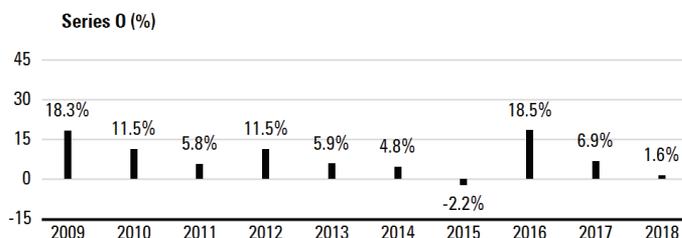
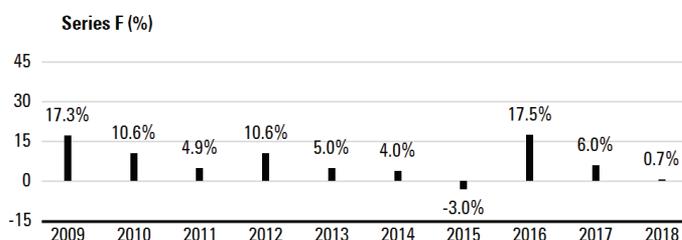
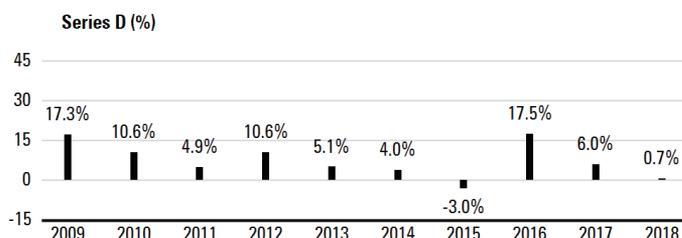
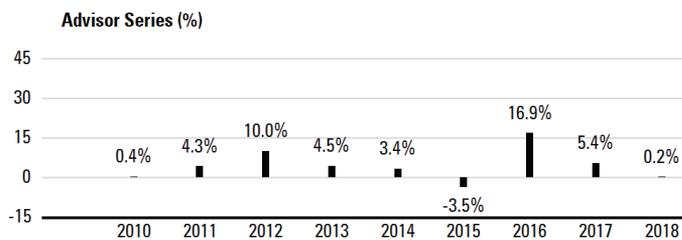
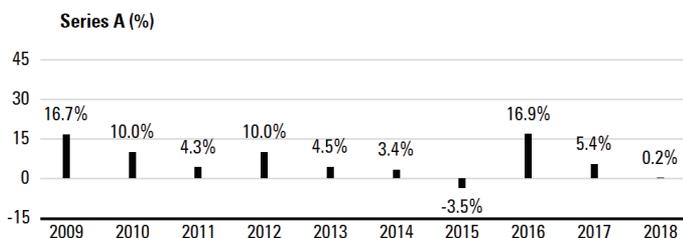
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

FTSE Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	0.2	7.3	4.2	6.6	–
Benchmark	1.4	1.9	3.5	4.2	–
Advisor Series	0.2	7.3	4.2	–	4.9
Benchmark	1.4	1.9	3.5	–	3.5
Series D	0.7	7.9	4.8	7.2	–
Benchmark	1.4	1.9	3.5	4.2	–
Series F	0.7	7.8	4.8	7.2	–
Benchmark	1.4	1.9	3.5	4.2	–
Series O	1.6	8.8	5.7	8.1	–
Benchmark	1.4	1.9	3.5	4.2	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010. Effective April 7, 2016, units of the Fund are no longer available for purchase by new investors.

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.

**INDEX DESCRIPTION**

**FTSE 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.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2018

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	79.2
Cash/Other	20.8

**Top 25 Holdings**

	% of Net Asset Value
Cash & Cash Equivalents	19.7
Neptune Finco Corp. 10.125% Jan 15 2023	9.0
Seven Generations Energy Ltd. USD 6.750% May 1 2023	6.8
Icahn Enterprises LP 6.000% Aug 1 2020	6.0
Quebecor Media Inc. 6.625% Jan 15 2023	5.9
Teine Energy Ltd. USD 6.875% Sep 30 2022	4.6
Baytex Energy Corp. USD 5.625% Jun 1 2024	4.5
Baytex Energy Corp. 6.625% Jul 19 2022	4.2
Trilogy International Partners LLC 8.875% May 1 2022	2.9
Brookfield Property Finance ULC 4.115% Oct 19 2021	2.4
Enbridge Inc. 5.375% Sep 27 2077	2.2
Crombie Real Estate Investment Trust 3.962% Jun 1 2021	2.0
Crew Energy Inc. 6.500% Mar 14 2024	2.0
Paramount Resources Ltd. USD 6.875% Jun 30 2023	1.7
Atlantic Power LP 5.950% Jun 23 2036	1.6
Parkland Fuel Corp. 6.000% Nov 21 2022	1.5
CES Energy Solutions Corp. 6.375% Oct 21 2024	1.4
Morguard Corp. 4.333% Sep 15 2022	1.3
The Manitowoc Co. Inc. 12.750% Aug 15 2021	1.3
Crombie Real Estate Investment Trust 4.800% Jan 31 2025	1.3
AutoCanada Inc. 5.625% May 25 2021	1.3
Superior Plus Corp. USD 7.000% Jul 15 2026	1.2
Gibson Energy Inc. 5.375% Jul 15 2022	1.1
Baytex Energy Corp. USD 5.125% Jun 1 2021	1.0
Cominar Real Estate Investment Trust 4.941% Jul 27 2020	1.0
<b>Top 25 Holdings</b>	<b>87.9</b>

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).



FIXED-INCOME FUND

## PHILLIPS, HAGER & NORTH LONG INFLATION-LINKED BOND FUND

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December 31, 2018

**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 11, 2019.

### **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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 generate interest income that is hedged against inflation by investing primarily in longer-term real-return bonds and inflation-linked bonds issued by Canadian and foreign governments and corporations.

To achieve the Fund's investment objectives, the portfolio manager invests primarily in the above-mentioned securities. The Fund's portfolio will include various longer-term maturities that are intended to match longer-term liabilities and to manage the interest-rate risk of the Phillips, Hager & North LifeTime Funds, which may hold the Fund in their portfolios. The Fund may also invest in asset-backed securities, including mortgage-backed securities and may invest all or a portion of the Fund's assets in one or more securities as permitted by securities legislation.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$109 million as of December 31, 2018, from \$90 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund's Series O units lost 2.4%, which underperformed the benchmark, which was unchanged. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

Yields on long-term real-return bonds ended 2018 higher than where they started the year, resulting in price declines, as bond prices and yields move in opposite directions. The Fund began the year with a real yield of 0.6%, which increased to 0.8% by year-end.

Real-return yields rose for most of 2018 on the back of global and Canadian economic momentum. However, bond yields dropped across the board late in the year as plunging oil prices and concern about slowing economic growth prompted investors to seek safety in government bonds, pulling long-term real-return yields lower.

Bonds in the portfolio are tied to Canada's main inflation gauge, the Consumer Price Index (CPI), which rose 1.7% through November 2018 on a year-over-year basis. At this level, the trend in the CPI continues to be in line with the Bank of Canada's target range of between 1% and 3%.

The Fund invests in the longest-term Government of Canada real-return bonds, which mature between 2044 and 2050.

### Recent Developments

The portfolio manager believes that the purchasing power of investors in the Fund is likely to be protected over the long term regardless of the magnitude of inflation, thanks to the linkage to consumer prices. The Fund's performance will depend entirely on the performance of the one or two bonds typically held in the portfolio.

Inflation-adjusted interest rates remain low by historical standards, and are below levels that reflect the portfolio manager's expectations for Canada's economic growth rate over the long term. As a result, the portfolio manager expects that real yields will ultimately rise, and given the long-term nature of the Fund, any rise could lead to significant investor losses.

### 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 Investor Services Trust ("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 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.

**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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>11.57</b>	<b>0.35</b>	–	<b>0.02</b>	<b>(0.76)</b>	<b>(0.39)</b>	<b>(0.31)</b>	–	–	–	<b>(0.31)</b>	<b>10.89</b>
Dec. 31, 2017	11.75	0.47	–	(0.48)	0.40	0.39	(0.43)	–	–	–	(0.43)	11.57
Dec. 31, 2016	11.35	0.32	–	0.07	0.19	0.58	(0.26)	–	(0.02)	–	(0.28)	11.75
Dec. 31, 2015	11.63	0.24	–	0.31	(0.42)	0.13	(0.20)	–	(0.27)	–	(0.47)	11.35
Dec. 31, 2014	9.91	0.35	–	0.01	1.57	1.93	(0.29)	–	(0.02)	–	(0.31)	11.63

<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.

### 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>Dec. 31, 2018</b>	<b>10.89</b>	<b>108 664</b>	<b>9 976</b>	<b>0.02</b>	<b>0.02</b>	<b>9.77</b>	–
Dec. 31, 2017	11.57	89 864	7 765	0.02	0.02	111.16	–
Dec. 31, 2016	11.75	70 635	6 007	0.03	0.03	37.57	–
Dec. 31, 2015	11.35	49 142	4 330	0.02	0.03	57.72	–
Dec. 31, 2014	11.63	34 454	2 964	0.02	0.03	7.14	–

<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.

### Management Fees

RBC GAM is the manager and portfolio manager of the Fund. 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.

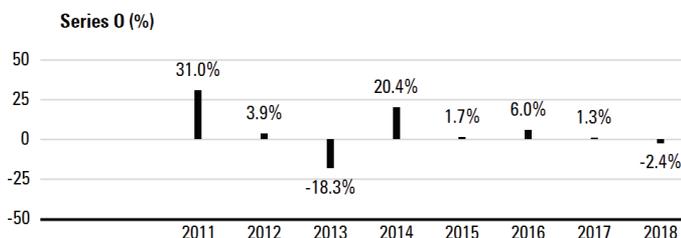


**PAST PERFORMANCE**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**FTSE Canada Real Return Bond Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0	-2.4	1.6	5.1	—	4.6
Benchmark	0.0	1.2	3.8	—	3.6

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series 0 units have been available for sale to unitholders since January 2011.

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

**INDEX DESCRIPTION**

**FTSE Canada Real Return Bond Index\*** This index is a broad measure of the performance of Canadian inflation-indexed real return bonds.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Federal Bonds	99.3
Cash/Other	0.7

**Top 25 Holdings\***

	% of Net Asset Value
Government of Canada 0.500% Dec 1 2050	99.3
Cash & Cash Equivalents	0.7
Total	100.0

\* 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).



BALANCED FUND

**PHILLIPS, HAGER & NORTH  
MONTHLY INCOME FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 monthly income that may consist of dividend income, interest income, realized capital gains and return of capital. Investors in the Fund will also have the potential for modest capital growth. To achieve the Fund's investment objective, the portfolio manager primarily invests in a well-diversified balanced portfolio of income-producing equity securities, including, but not limited to, common shares of dividend-paying Canadian companies and income trusts. The Fund may also invest in fixed-income securities such as preferred shares, government and corporate bonds, debentures and notes, asset backed commercial paper, mortgage backed securities and other income-generating securities.

The Fund's target weightings for each asset class are 50% for fixed income and 50% for equities. The target weightings for each asset class may be adjusted based on changes in the market outlook for each asset class.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$1.7 billion as of December 31, 2018, from \$2.2 billion at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series 0 units lost 4.4%, which underperformed the 4.1% decline in the benchmark. The broad-based index 1 gained 1.4% and the broad-based index 2 declined 8.9%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

In 2018, the Fund made monthly distributions of 4.70 cents per Series 0 unit. For the year, the Fund made total distributions of approximately 56 cents per Series 0 unit, consisting of 20 cents per unit of dividends, 7 cents of capital gains and 29 cents of return of capital.

The Fund was positioned at the beginning of 2018 to benefit from expectations of higher bond yields. This view was supported by reasonably strong corporate earnings, low unemployment levels, higher inflation and the Bank of Canada rhetoric indicating that future rate hikes were on the horizon. However, bond yields decreased in the

last part of the year in response to global market stress and a sharp decline in oil prices. In this environment, the Fund benefited from the corporate-bond component of the portfolio, as it was positioned with a bias towards higher-quality issuers that were beneficial during the financial-market declines.

In the equity portion of the portfolio, a position in Dollarama held back the Fund's returns during the year. The Energy sector had a negative impact on performance, with positions in Whitecap Resources and ARC Resources holding back returns. On the positive side, Quebecor added significantly to returns in the Communication Services sector. Positions in the Information Technology sector also aided performance, with a large contribution from a holding in CGI.

### Recent Developments

A slowdown in the global economic expansion is among the variables that will influence equity and other financial markets in 2019. Growth has been kept afloat by the U.S. in recent quarters, but stock declines have many investors questioning whether a global recession might soon unfold.

### 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 Investor Services Trust ("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 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 \$215,000 (2017 – \$159,000), or 13% (2017 – 7%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>9.62</b>	<b>0.32</b>	<b>(0.18)</b>	<b>0.03</b>	<b>(0.73)</b>	<b>(0.56)</b>	–	<b>(0.17)</b>	<b>(0.06)</b>	<b>(0.25)</b>	<b>(0.48)</b>	<b>8.57</b>
Dec. 31, 2017	9.72	0.31	(0.19)	0.32	(0.06)	0.38	–	(0.09)	(0.30)	(0.10)	(0.49)	9.62
Dec. 31, 2016	9.08	0.34	(0.18)	0.13	0.81	1.10	(0.07)	(0.18)	(0.08)	(0.13)	(0.46)	9.72
Dec. 31, 2015	10.03	0.37	(0.19)	(0.07)	(0.53)	(0.42)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.08
Dec. 31, 2014	10.45	0.36	(0.21)	0.71	(0.24)	0.62	(0.08)	(0.17)	(0.86)	–	(1.11)	10.03
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>9.63</b>	<b>0.32</b>	<b>(0.18)</b>	<b>0.03</b>	<b>(0.73)</b>	<b>(0.56)</b>	–	<b>(0.17)</b>	<b>(0.06)</b>	<b>(0.25)</b>	<b>(0.48)</b>	<b>8.57</b>
Dec. 31, 2017	9.72	0.31	(0.18)	0.32	(0.07)	0.38	–	(0.09)	(0.30)	(0.10)	(0.49)	9.63
Dec. 31, 2016	9.08	0.34	(0.18)	0.13	0.83	1.12	(0.07)	(0.18)	(0.08)	(0.13)	(0.46)	9.72
Dec. 31, 2015	10.03	0.37	(0.19)	(0.07)	(0.53)	(0.42)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.08
Dec. 31, 2014	10.45	0.37	(0.20)	0.73	(0.25)	0.65	(0.08)	(0.17)	(0.86)	–	(1.11)	10.03
<b>Series H</b>												
<b>Dec. 31, 2018</b>	<b>9.73</b>	<b>0.32</b>	<b>(0.16)</b>	<b>0.03</b>	<b>(0.71)</b>	<b>(0.52)</b>	–	<b>(0.18)</b>	<b>(0.06)</b>	<b>(0.25)</b>	<b>(0.49)</b>	<b>8.68</b>
Dec. 31, 2017	9.81	0.32	(0.17)	0.33	(0.08)	0.40	–	(0.09)	(0.30)	(0.10)	(0.49)	9.73
Dec. 31, 2016	9.15	0.34	(0.15)	0.14	0.70	1.03	(0.07)	(0.18)	(0.08)	(0.13)	(0.46)	9.81
Dec. 31, 2015	10.08	0.37	(0.17)	(0.07)	(0.53)	(0.40)	(0.01)	(0.19)	(0.04)	(0.26)	(0.50)	9.15
Dec. 31, 2014	10.48	0.37	(0.19)	0.73	(0.25)	0.66	(0.08)	(0.17)	(0.86)	–	(1.11)	10.08
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>10.33</b>	<b>0.35</b>	<b>(0.11)</b>	<b>0.03</b>	<b>(0.80)</b>	<b>(0.53)</b>	–	<b>(0.19)</b>	<b>(0.06)</b>	<b>(0.27)</b>	<b>(0.52)</b>	<b>9.28</b>
Dec. 31, 2017	10.35	0.34	(0.11)	0.34	(0.07)	0.50	–	(0.09)	(0.32)	(0.11)	(0.52)	10.33
Dec. 31, 2016	9.58	0.36	(0.11)	0.14	0.86	1.25	(0.08)	(0.18)	(0.08)	(0.14)	(0.48)	10.35
Dec. 31, 2015	10.49	0.38	(0.11)	(0.07)	(0.56)	(0.36)	(0.01)	(0.21)	(0.04)	(0.27)	(0.53)	9.58
Dec. 31, 2014	10.82	0.39	(0.12)	0.76	(0.26)	0.77	(0.08)	(0.18)	(0.88)	–	(1.14)	10.49
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>10.56</b>	<b>0.35</b>	<b>(0.08)</b>	<b>0.03</b>	<b>(0.81)</b>	<b>(0.51)</b>	–	<b>(0.18)</b>	<b>(0.07)</b>	<b>(0.28)</b>	<b>(0.53)</b>	<b>9.51</b>
Dec. 31, 2017	10.55	0.34	(0.09)	0.35	(0.06)	0.54	–	(0.09)	(0.33)	(0.11)	(0.53)	10.56
Dec. 31, 2016	9.74	0.37	(0.08)	0.15	0.76	1.20	(0.08)	(0.19)	(0.08)	(0.14)	(0.49)	10.55
Dec. 31, 2015	10.64	0.39	(0.09)	(0.07)	(0.57)	(0.34)	(0.01)	(0.20)	(0.04)	(0.28)	(0.53)	9.74
Dec. 31, 2014	10.94	0.39	(0.09)	0.77	(0.26)	0.81	(0.08)	(0.18)	(0.89)	–	(1.15)	10.64
<b>Series I</b>												
<b>Dec. 31, 2018</b>	<b>10.66</b>	<b>0.36</b>	<b>(0.07)</b>	<b>0.03</b>	<b>(0.77)</b>	<b>(0.45)</b>	–	<b>(0.18)</b>	<b>(0.07)</b>	<b>(0.28)</b>	<b>(0.53)</b>	<b>9.62</b>
Dec. 31, 2017	10.64	0.35	(0.07)	0.35	(0.09)	0.54	–	(0.09)	(0.33)	(0.11)	(0.53)	10.66
Dec. 31, 2016	9.81	0.37	(0.06)	0.15	0.83	1.29	(0.08)	(0.19)	(0.08)	(0.14)	(0.49)	10.64
Dec. 31, 2015	10.69	0.39	(0.07)	(0.07)	(0.56)	(0.31)	(0.01)	(0.20)	(0.04)	(0.28)	(0.53)	9.81
Dec. 31, 2014	10.97	0.39	(0.07)	0.77	(0.26)	0.83	(0.08)	(0.18)	(0.89)	–	(1.15)	10.69



**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 <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 O</b>												
<b>Dec. 31, 2018</b>	<b>11.24</b>	<b>0.38</b>	<b>(0.01)</b>	<b>0.04</b>	<b>(0.87)</b>	<b>(0.46)</b>	–	<b>(0.20)</b>	<b>(0.07)</b>	<b>(0.29)</b>	<b>(0.56)</b>	<b>10.20</b>
Dec. 31, 2017	11.14	0.36	(0.01)	0.37	(0.07)	0.65	–	(0.11)	(0.34)	(0.11)	(0.56)	11.24
Dec. 31, 2016	10.21	0.38	(0.01)	0.15	0.93	1.45	(0.08)	(0.19)	(0.09)	(0.15)	(0.51)	11.14
Dec. 31, 2015	11.06	0.41	(0.01)	(0.08)	(0.59)	(0.27)	(0.01)	(0.21)	(0.04)	(0.29)	(0.55)	10.21
Dec. 31, 2014	11.27	0.42	(0.01)	0.81	(0.28)	0.94	(0.09)	(0.19)	(0.90)	–	(1.18)	11.06

<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.

**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>Dec. 31, 2018</b>	<b>8.57</b>	<b>1 191 954</b>	<b>139 077</b>	<b>1.92</b>	<b>1.92</b>	<b>83.16</b>	<b>0.08</b>
Dec. 31, 2017	9.62	1 594 244	165 682	1.92	1.92	84.53	0.10
Dec. 31, 2016	9.72	1 790 651	184 156	1.92	1.92	183.99	0.17
Dec. 31, 2015	9.08	2 048 442	225 496	1.92	1.92	206.03	0.24
Dec. 31, 2014	10.03	2 754 742	274 644	1.94	1.94	187.77	0.24
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>8.57</b>	<b>50 680</b>	<b>5 911</b>	<b>1.91</b>	<b>1.91</b>	<b>83.16</b>	<b>0.08</b>
Dec. 31, 2017	9.63	67 994	7 065	1.92	1.92	84.53	0.10
Dec. 31, 2016	9.72	81 979	8 431	1.92	1.92	183.99	0.17
Dec. 31, 2015	9.08	94 677	10 422	1.92	1.92	206.03	0.24
Dec. 31, 2014	10.03	133 056	13 265	1.92	1.92	187.77	0.24
<b>Series H</b>							
<b>Dec. 31, 2018</b>	<b>8.68</b>	<b>33 765</b>	<b>3 890</b>	<b>1.75</b>	<b>1.75</b>	<b>83.16</b>	<b>0.08</b>
Dec. 31, 2017	9.73	49 161	5 053	1.75	1.75	84.53	0.10
Dec. 31, 2016	9.81	59 545	6 067	1.75	1.75	183.99	0.17
Dec. 31, 2015	9.15	40 118	4 385	1.74	1.74	206.03	0.24
Dec. 31, 2014	10.08	58 352	5 789	1.74	1.74	187.77	0.24
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>9.28</b>	<b>110 998</b>	<b>11 961</b>	<b>1.09</b>	<b>1.09</b>	<b>83.16</b>	<b>0.08</b>
Dec. 31, 2017	10.33	135 358	13 104	1.09	1.09	84.53	0.10
Dec. 31, 2016	10.35	135 614	13 107	1.09	1.09	183.99	0.17
Dec. 31, 2015	9.58	130 065	13 571	1.09	1.09	206.03	0.24
Dec. 31, 2014	10.49	153 635	14 642	1.08	1.08	187.77	0.24
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>9.51</b>	<b>215 992</b>	<b>22 703</b>	<b>0.82</b>	<b>0.82</b>	<b>83.16</b>	<b>0.08</b>
Dec. 31, 2017	10.56	199 701	18 919	0.83	0.83	84.53	0.10
Dec. 31, 2016	10.55	117 816	11 171	0.83	0.83	183.99	0.17
Dec. 31, 2015	9.74	66 943	6 872	0.83	0.83	206.03	0.24
Dec. 31, 2014	10.64	85 017	7 994	0.83	0.83	187.77	0.24



**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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series I</b>							
<b>Dec. 31, 2018</b>	<b>9.62</b>	<b>5 192</b>	<b>540</b>	<b>0.65</b>	<b>0.65</b>	<b>83.16</b>	<b>0.08</b>
Dec. 31, 2017	10.66	8 489	796	0.65	0.65	84.53	0.10
Dec. 31, 2016	10.64	9 571	900	0.64	0.64	183.99	0.17
Dec. 31, 2015	9.81	8 160	832	0.65	0.65	206.03	0.24
Dec. 31, 2014	10.69	16 892	1 581	0.65	0.65	187.77	0.24
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>10.20</b>	<b>124 362</b>	<b>12 191</b>	<b>0.06</b>	<b>0.06</b>	<b>83.16</b>	<b>0.08</b>
Dec. 31, 2017	11.24	159 602	14 202	0.06	0.06	84.53	0.10
Dec. 31, 2016	11.14	169 414	15 206	0.06	0.06	183.99	0.17
Dec. 31, 2015	10.21	195 642	19 159	0.06	0.06	206.03	0.24
Dec. 31, 2014	11.06	250 753	22 678	0.06	0.06	187.77	0.24

<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.

**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	1.65%	61%	39%
Advisor Series	1.65%	61%	39%
Series H	1.50%	67%	33%
Series D	0.90%	28%	72%
Series F	0.65%	–	100%
Series I	0.50%	–	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.

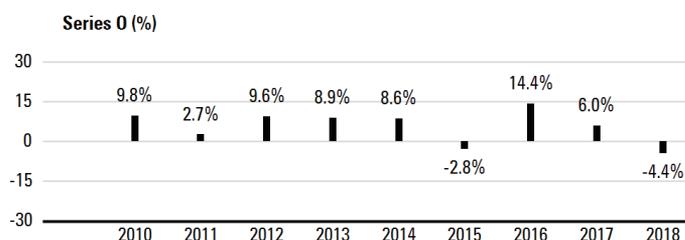
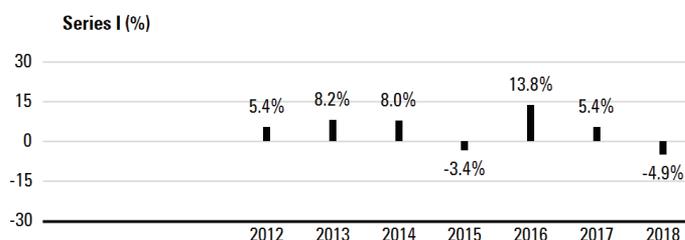
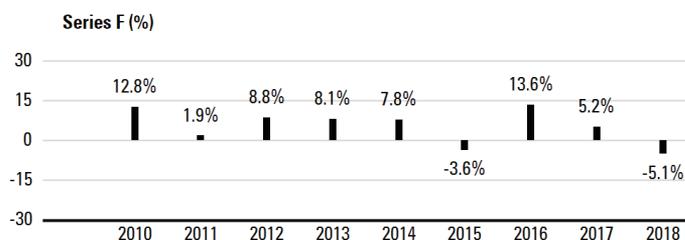
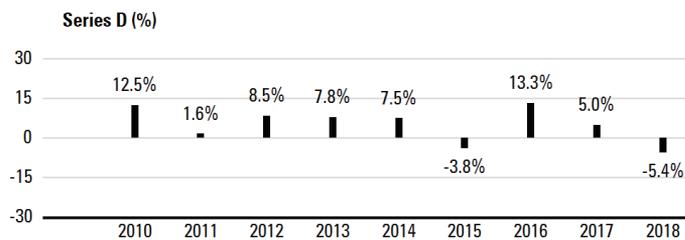
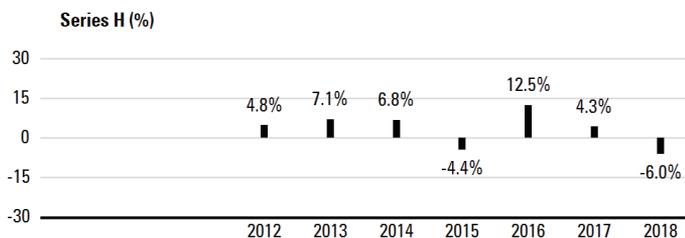
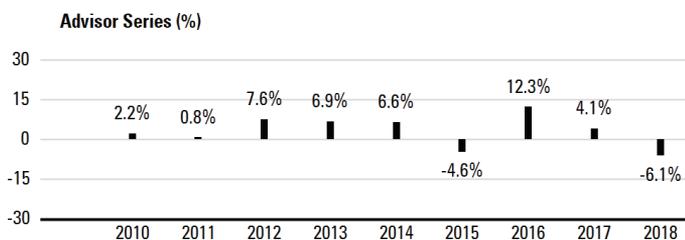
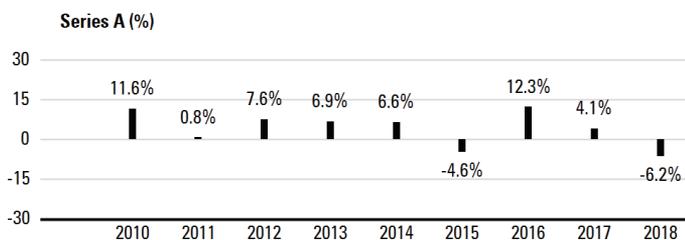


### PAST PERFORMANCE

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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 50% S&P/TSX Capped Composite Total Return Index
- 35% FTSE Canada Universe Bond Index
- 10% Merrill Lynch Canadian High Yield Index
- 5% S&P/TSX Preferred Share Total Return Index

The following are the broad-based indexes:

Broad-based index 1 – FTSE Canada Universe Bond Index

Broad-based index 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-6.2	3.1	2.2	–	4.2
Benchmark	-4.1	5.0	3.9	–	5.0
Broad-based index 1	1.4	1.9	3.5	–	4.0
Broad-based index 2	-8.9	6.4	4.1	–	5.3
Advisor Series	-6.1	3.2	2.2	–	3.5
Benchmark	-4.1	5.0	3.9	–	4.3
Broad-based index 1	1.4	1.9	3.5	–	3.5
Broad-based index 2	-8.9	6.4	4.1	–	4.5
Series H	-6.0	3.3	2.4	–	3.7
Benchmark	-4.1	5.0	3.9	–	4.8
Broad-based index 1	1.4	1.9	3.5	–	2.7
Broad-based index 2	-8.9	6.4	4.1	–	6.4
Series D	-5.4	4.0	3.1	–	5.1
Benchmark	-4.1	5.0	3.9	–	5.0
Broad-based index 1	1.4	1.9	3.5	–	4.0
Broad-based index 2	-8.9	6.4	4.1	–	5.3
Series F	-5.1	4.3	3.4	–	5.3
Benchmark	-4.1	5.0	3.9	–	5.0
Broad-based index 1	1.4	1.9	3.5	–	4.0
Broad-based index 2	-8.9	6.4	4.1	–	5.3
Series I	-4.9	4.5	3.5	–	4.8
Benchmark	-4.1	5.0	3.9	–	4.8
Broad-based index 1	1.4	1.9	3.5	–	2.7
Broad-based index 2	-8.9	6.4	4.1	–	6.4
Series O	-4.4	5.1	4.1	–	5.8
Benchmark	-4.1	5.0	3.9	–	4.8
Broad-based index 1	1.4	1.9	3.5	–	4.0
Broad-based index 2	-8.9	6.4	4.1	–	4.9

The returns of each series may vary because of differences in management fees and expenses. 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.

Series H and Series I units have been available for sale to unitholders since July 2012, Advisor Series units since October 2010, Series O units since April 2010, and Series A, Series D and Series F units since December 2009.

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 H and Series I units have been capped and are no longer available for purchase by new investors effective June 30, 2016.

**INDEX DESCRIPTIONS**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**FTSE 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.

**Merrill Lynch Canadian High Yield Index** This index tracks the performance of U.S. dollar- and Canadian dollar-denominated below-investment-grade corporate debt publicly issued by Canadian issuers in the Canadian or U.S. domestic markets.

**S&P/TSX Preferred Share Total Return Index** This index is composed of preferred stocks trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity, issuer rating and exchange listing.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Canadian Equities	50.0
Bonds	43.0
Preferred Equities	5.1
Cash/Other	1.9



**SUMMARY OF INVESTMENT PORTFOLIO (cont.)**

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

*As at December 31, 2018*

**Top 25 Holdings**

	% of Net Asset Value
RBC High Yield Bond Fund	5.5
Royal Bank of Canada	4.4
Phillips, Hager & North High Yield Bond Fund	4.4
Toronto-Dominion Bank	4.0
Enbridge Inc.	3.0
Bank of Nova Scotia	2.8
Canadian National Railway Co.	2.2
Bank of Montreal	1.9
Brookfield Asset Management Inc., Class A	1.9
Cash & Cash Equivalents	1.7
Government of Canada 2.750% Dec 1 2048	1.4
Manulife Financial Corporation	1.3
Shaw Communications Inc., Class B	1.2
TransCanada Corp.	1.2
Nutrien Ltd.	1.1
Canadian Natural Resources Ltd.	1.1
Province of Ontario 3.500% Jun 2 2043	1.1
Alimentation Couche-Tard Inc.	1.1
Canadian Pacific Railway Ltd.	1.1
Province of Ontario 6.200% Jun 2 2031	1.0
Sun Life Financial Inc.	1.0
Canada Housing Trust No. 1 2.350% Jun 15 2023	1.0
Government of Canada 3.250% Jun 1 2021	0.9
Quebecor Inc., Class B	0.9
Province of Ontario 5.600% Jun 2 2035	0.9
<b>Top 25 Holdings</b>	<b>48.1</b>

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).



BALANCED FUND

**PHILLIPS, HAGER & NORTH  
BALANCED FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 and income by investing primarily in a strategic asset mix of Canadian and foreign equities, Canadian fixed-income securities and money market instruments. Its asset mix is adjusted periodically to reflect changing economic and market conditions. The magnitude and timing of all rebalancing decisions within the Fund are made by a team of investment professionals who focus on determining the best asset mix in any given economic environment. To achieve the Fund's investment objective, the portfolio manager invests a significant portion or even all of the net asset value of the Fund in other funds managed by RBC GAM where the investment is consistent with the investment objectives and strategies of the Fund.

### Risk

The Fund has multiple risks associated with investing in various asset classes. These risks are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

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

### Results of Operations

The Fund's net asset value was \$976 million as of December 31, 2018, unchanged from the end of 2017.

Over the past year, the Fund's Series O units lost 2.1%, which outperformed the 2.4% decline in the benchmark. The broad-based index 1 rose 1.4% and the broad-based index 2 declined 8.9%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the "EU"), while in Italy the formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations

culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

The Fund's overweight position in equities and underweight position in fixed income had a negative impact on performance. Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by a weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the "Fed") boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. The Fund's sole fixed-income holding, the Phillips, Hager & North Bond Fund, had a positive impact on performance.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Overall, the Fund's equity positions were a drag on portfolio performance, led by the Phillips, Hager & North Canadian Equity Underlying Fund.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect. The Fund's asset mix remains underweight fixed income and overweight stocks.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.



## 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 Investor Services Trust ("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 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.

## **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>20.39</b>	<b>0.54</b>	<b>(0.40)</b>	<b>0.62</b>	<b>(1.67)</b>	<b>(0.91)</b>	<b>(0.04)</b>	<b>(0.21)</b>	<b>(0.37)</b>	–	<b>(0.62)</b>	<b>18.95</b>
Dec. 31, 2017	19.31	0.51	(0.39)	0.58	0.95	1.65	(0.04)	(0.20)	(0.34)	–	(0.58)	20.39
Dec. 31, 2016	18.63	0.53	(0.38)	0.51	0.51	1.17	(0.06)	(0.20)	(0.25)	–	(0.51)	19.31
Dec. 31, 2015	18.78	0.55	(0.39)	0.78	(0.23)	0.71	(0.06)	(0.20)	(0.64)	–	(0.90)	18.63
Dec. 31, 2014	18.97	0.51	(0.39)	2.40	(0.63)	1.89	(0.04)	(0.10)	(1.93)	–	(2.07)	18.78
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>20.44</b>	<b>0.54</b>	<b>(0.40)</b>	<b>0.62</b>	<b>(1.60)</b>	<b>(0.84)</b>	<b>(0.04)</b>	<b>(0.21)</b>	<b>(0.37)</b>	–	<b>(0.62)</b>	<b>18.99</b>
Dec. 31, 2017	19.36	0.51	(0.39)	0.58	0.87	1.57	(0.04)	(0.20)	(0.35)	–	(0.59)	20.44
Dec. 31, 2016	18.64	0.53	(0.38)	0.51	0.55	1.21	(0.06)	(0.19)	(0.22)	–	(0.47)	19.36
Dec. 31, 2015	18.79	0.55	(0.39)	0.78	(0.23)	0.71	(0.06)	(0.20)	(0.64)	–	(0.90)	18.64
Dec. 31, 2014	18.98	0.51	(0.39)	2.40	(0.63)	1.89	(0.04)	(0.10)	(1.93)	–	(2.07)	18.79
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>20.46</b>	<b>0.54</b>	<b>(0.17)</b>	<b>0.63</b>	<b>(1.60)</b>	<b>(0.60)</b>	<b>(0.06)</b>	<b>(0.28)</b>	<b>(0.37)</b>	–	<b>(0.71)</b>	<b>19.14</b>
Dec. 31, 2017	19.26	0.51	(0.17)	0.58	0.95	1.87	(0.06)	(0.27)	(0.35)	–	(0.68)	20.46
Dec. 31, 2016	18.47	0.53	(0.16)	0.51	0.53	1.41	(0.08)	(0.28)	(0.26)	–	(0.62)	19.26
Dec. 31, 2015	18.52	0.55	(0.17)	0.77	(0.22)	0.93	(0.08)	(0.29)	(0.64)	–	(1.01)	18.47
Dec. 31, 2014	18.73	0.50	(0.17)	2.37	(0.63)	2.07	(0.09)	(0.26)	(1.93)	–	(2.28)	18.52
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>20.44</b>	<b>0.54</b>	<b>(0.17)</b>	<b>0.63</b>	<b>(1.91)</b>	<b>(0.91)</b>	<b>(0.06)</b>	<b>(0.28)</b>	<b>(0.37)</b>	–	<b>(0.71)</b>	<b>19.12</b>
Dec. 31, 2017	19.24	0.51	(0.17)	0.58	0.94	1.86	(0.06)	(0.27)	(0.35)	–	(0.68)	20.44
Dec. 31, 2016	18.46	0.53	(0.17)	0.51	0.50	1.37	(0.08)	(0.27)	(0.26)	–	(0.61)	19.24
Dec. 31, 2015	18.54	0.55	(0.17)	0.77	(0.23)	0.92	(0.08)	(0.28)	(0.67)	–	(1.03)	18.46
Dec. 31, 2014	18.74	0.50	(0.18)	2.37	(0.63)	2.06	(0.09)	(0.25)	(1.93)	–	(2.27)	18.54
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>20.25</b>	<b>0.54</b>	–	<b>0.62</b>	<b>(1.64)</b>	<b>(0.48)</b>	<b>(0.08)</b>	<b>(0.42)</b>	<b>(0.37)</b>	–	<b>(0.87)</b>	<b>18.94</b>
Dec. 31, 2017	19.05	0.50	–	0.58	0.95	2.03	(0.08)	(0.39)	(0.35)	–	(0.82)	20.25
Dec. 31, 2016	18.26	0.53	–	0.51	0.49	1.53	(0.11)	(0.40)	(0.25)	–	(0.76)	19.05
Dec. 31, 2015	18.32	0.54	–	0.76	(0.22)	1.08	(0.12)	(0.39)	(0.65)	–	(1.16)	18.26
Dec. 31, 2014	18.54	0.50	–	2.34	(0.62)	2.22	(0.13)	(0.38)	(1.93)	–	(2.44)	18.32

<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>Dec. 31, 2018</b>	<b>18.95</b>	<b>31 045</b>	<b>1 638</b>	<b>1.97</b>	<b>1.97</b>	<b>11.11</b>	<b>0.04</b>
Dec. 31, 2017	20.39	27 008	1 325	1.98	1.98	5.56	0.07
Dec. 31, 2016	19.31	24 070	1 246	2.01	2.01	14.33	0.08
Dec. 31, 2015	18.63	24 677	1 325	2.00	2.00	17.64	0.08
Dec. 31, 2014	18.78	23 095	1 230	1.99	1.99	53.33	0.08
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>18.99</b>	<b>14 051</b>	<b>740</b>	<b>1.97</b>	<b>1.97</b>	<b>11.11</b>	<b>0.04</b>
Dec. 31, 2017	20.44	15 361	752	1.98	1.98	5.56	0.07
Dec. 31, 2016	19.36	12 629	652	2.02	2.02	14.33	0.08
Dec. 31, 2015	18.64	5 881	316	2.00	2.00	17.64	0.08
Dec. 31, 2014	18.79	3 940	210	1.99	1.99	53.33	0.08
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>19.14</b>	<b>854 719</b>	<b>44 667</b>	<b>0.88</b>	<b>0.88</b>	<b>11.11</b>	<b>0.04</b>
Dec. 31, 2017	20.46	874 608	42 753	0.88	0.88	5.56	0.07
Dec. 31, 2016	19.26	775 562	40 274	0.88	0.88	14.33	0.08
Dec. 31, 2015	18.47	713 802	38 649	0.88	0.88	17.64	0.08
Dec. 31, 2014	18.52	647 200	34 942	0.88	0.88	53.33	0.08
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>19.12</b>	<b>30 348</b>	<b>1 587</b>	<b>0.88</b>	<b>0.88</b>	<b>11.11</b>	<b>0.04</b>
Dec. 31, 2017	20.44	17 088	836	0.89	0.89	5.56	0.07
Dec. 31, 2016	19.24	11 697	608	0.92	0.92	14.33	0.08
Dec. 31, 2015	18.46	7 085	384	0.92	0.92	17.64	0.08
Dec. 31, 2014	18.54	9 185	495	0.91	0.91	53.33	0.08
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>18.94</b>	<b>45 418</b>	<b>2 397</b>	<b>0.04</b>	<b>0.04</b>	<b>11.11</b>	<b>0.04</b>
Dec. 31, 2017	20.25	41 880	2 068	0.04	0.04	5.56	0.07
Dec. 31, 2016	19.05	38 263	2 009	0.04	0.04	14.33	0.08
Dec. 31, 2015	18.26	39 081	2 140	0.04	0.04	17.64	0.08
Dec. 31, 2014	18.32	38 910	2 124	0.04	0.04	53.33	0.08

<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.

Effective June 30, 2017, the administration fees were changed in respect of Series A, Advisor Series and Series F units of the Fund. If the changes to the administration fees would have been in effect throughout 2017, the adjusted MER for each series of the Fund would be: Series A – 1.96%, Advisor Series – 1.96% and Series F – 0.87%.



**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	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	0.75%	33%	67%
Series F	0.75%	—	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.

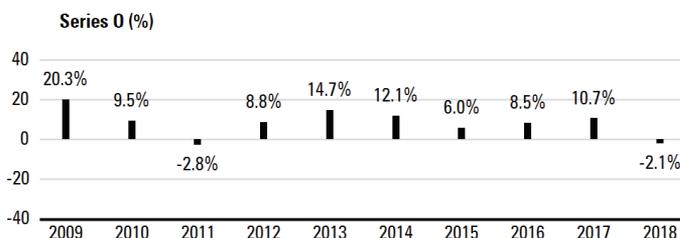
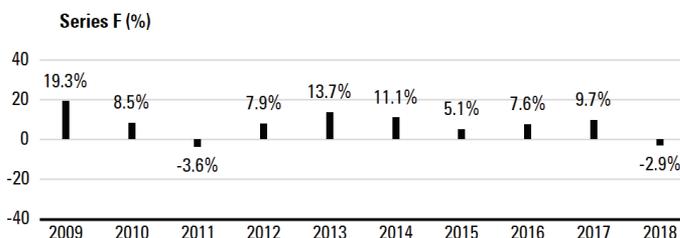
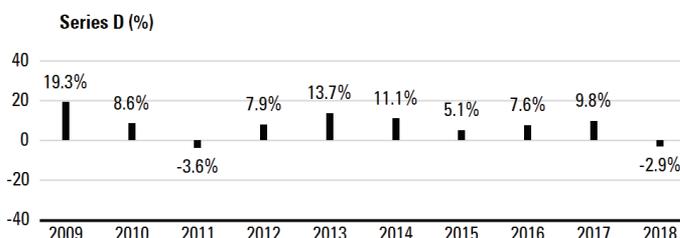
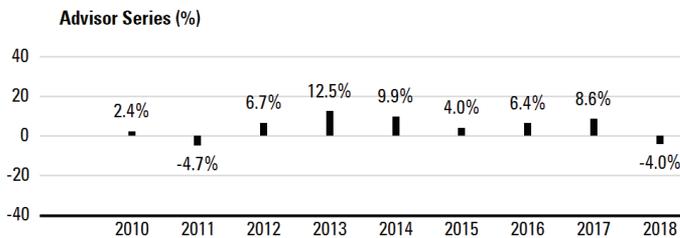
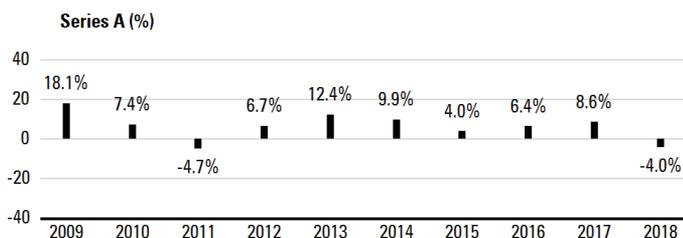
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





## PAST PERFORMANCE (cont.)

### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 38% FTSE Canada Universe Bond Index
- 30% S&P/TSX Capped Composite Total Return Index
- 26% MSCI World Total Return Net Index (CAD)
- 4% MSCI Emerging Markets Total Return Net Index (CAD)
- 2% FTSE Canada 30 Day TBill Index

The following are the broad-based indexes:

Broad-based index 1 – FTSE Canada Universe Bond Index

Broad-based index 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-4.0	3.5	4.9	6.3	–
Benchmark	-2.4	4.6	5.6	7.3	–
Broad-based index 1	1.4	1.9	3.5	4.2	–
Broad-based index 2	-8.9	6.4	4.1	7.9	–
Advisor Series	-4.0	3.5	4.9	–	5.0
Benchmark	-2.4	4.6	5.6	–	6.0
Broad-based index 1	1.4	1.9	3.5	–	3.5
Broad-based index 2	-8.9	6.4	4.1	–	4.5
Series D	-2.9	4.7	6.0	7.4	–
Benchmark	-2.4	4.6	5.6	7.3	–
Broad-based index 1	1.4	1.9	3.5	4.2	–
Broad-based index 2	-8.9	6.4	4.1	7.9	–
Series F	-2.9	4.6	6.0	7.4	–
Benchmark	-2.4	4.6	5.6	7.3	–
Broad-based index 1	1.4	1.9	3.5	4.2	–
Broad-based index 2	-8.9	6.4	4.1	7.9	–
Series O	-2.1	5.5	6.9	8.4	–
Benchmark	-2.4	4.6	5.6	7.3	–
Broad-based index 1	1.4	1.9	3.5	4.2	–
Broad-based index 2	-8.9	6.4	4.1	7.9	–

The returns of each series may vary because of differences in management fees and expenses. 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.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

### INDEX DESCRIPTIONS

**FTSE 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.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**MSCI World Total Return Net Index (CAD)** This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**MSCI Emerging Markets Total Return Net Index (CAD)** This index is a broad measure of the Canadian dollar performance of emerging-market equities. As of May 2010, the index consisted of the following 21 emerging-market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**FTSE Canada 30 Day TBill Index\*** This index is a measure of the performance of Canadian short-term cash investments.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Bonds	34.6
Global Equities	30.3
Canadian Equities	30.0
Cash/Other	5.1

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	37.1
Phillips, Hager & North Canadian Equity Underlying Fund	30.5
RBC Global Equity Focus Fund	19.6
RBC QUBE Global Equity Fund	6.6
RBC Emerging Markets Equity Fund	4.1
Phillips, Hager & North Canadian Money Market Fund	1.5
Cash & Cash Equivalents	0.6
<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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
DIVIDEND INCOME FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 and income by investing primarily in a well-diversified portfolio of dividend income-producing Canadian securities that have a relatively high yield. The securities are selected based on their long-term earnings potential and their ability to sustain an attractive yield over the long term. To achieve the Fund's investment objective, the portfolio manager invests primarily in large-capitalization, dividend-paying Canadian common shares and, to a lesser extent, preferred shares and bonds. U.S. stocks may be held in the Fund to complement its Canadian holdings, and will typically be concentrated in industries that are not well represented in the Canadian market.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$2.3 billion as of December 31, 2018, from \$2.6 billion at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 7.8%, which outperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Materials sector, a position in Wheaton Precious Metals held back the Fund's returns during the year. Positions in the Energy sector hurt performance, with holdings in ARC Resources and PrairieSky Royalty having a negative impact.

In the Financials sector, the Fund's overweight position in Brookfield Asset Management added significantly to returns. A position in the Communication Services sector also aided performance, with a contribution from holdings in Quebecor.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$238,000 (2017 – \$58,000), or 16% (2017 – 12%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec 31, 2018</b>	<b>107.83</b>	<b>3.68</b>	<b>(1.95)</b>	<b>0.63</b>	<b>(12.40)</b>	<b>(10.04)</b>	<b>(0.01)</b>	<b>(1.56)</b>	–	–	<b>(1.57)</b>	<b>96.08</b>
Dec. 31, 2017	103.90	3.50	(1.98)	5.02	0.86	7.40	(0.01)	(1.34)	(2.11)	–	(3.46)	107.83
Dec. 31, 2016	87.03	3.39	(1.84)	1.66	14.96	18.17	–	(1.44)	–	–	(1.44)	103.90
Dec. 31, 2015	97.40	3.50	(1.91)	2.06	(12.47)	(8.82)	–	(1.45)	–	–	(1.45)	87.03
Dec. 31, 2014	90.69	3.23	(1.96)	3.05	3.99	8.31	–	(1.17)	(0.31)	–	(1.48)	97.40
<b>Advisor Series</b>												
<b>Dec 31, 2018</b>	<b>107.82</b>	<b>3.68</b>	<b>(1.95)</b>	<b>0.63</b>	<b>(12.32)</b>	<b>(9.96)</b>	<b>(0.01)</b>	<b>(1.56)</b>	–	–	<b>(1.57)</b>	<b>96.07</b>
Dec. 31, 2017	103.91	3.50	(1.98)	5.03	1.10	7.65	(0.01)	(1.33)	(2.16)	–	(3.50)	107.82
Dec. 31, 2016	87.06	3.40	(1.84)	1.66	14.69	17.91	–	(1.44)	–	–	(1.44)	103.91
Dec. 31, 2015	97.42	3.50	(1.91)	2.07	(12.48)	(8.82)	–	(1.44)	–	–	(1.44)	87.06
Dec. 31, 2014	90.70	3.23	(1.96)	3.05	3.99	8.31	–	(1.17)	(0.31)	–	(1.48)	97.42
<b>Series D</b>												
<b>Dec 31, 2018</b>	<b>106.78</b>	<b>3.64</b>	<b>(1.03)</b>	<b>0.63</b>	<b>(12.28)</b>	<b>(9.04)</b>	<b>(0.01)</b>	<b>(2.45)</b>	–	–	<b>(2.46)</b>	<b>95.14</b>
Dec. 31, 2017	102.91	3.47	(1.04)	4.98	0.81	8.22	(0.02)	(2.27)	(2.10)	–	(4.39)	106.78
Dec. 31, 2016	86.24	3.36	(1.00)	1.64	14.84	18.84	–	(2.29)	–	–	(2.29)	102.91
Dec. 31, 2015	96.54	3.47	(1.08)	2.05	(12.37)	(7.93)	–	(2.25)	–	–	(2.25)	86.24
Dec. 31, 2014	89.87	3.20	(1.11)	3.02	3.95	9.06	–	(1.98)	(0.31)	–	(2.29)	96.54
<b>Series F</b>												
<b>Dec 31, 2018</b>	<b>107.62</b>	<b>3.68</b>	<b>(0.80)</b>	<b>0.63</b>	<b>(13.31)</b>	<b>(9.80)</b>	<b>(0.02)</b>	<b>(2.70)</b>	–	–	<b>(2.72)</b>	<b>95.89</b>
Dec. 31, 2017	103.73	3.50	(0.81)	5.02	1.14	8.85	(0.02)	(2.55)	(2.11)	–	(4.68)	107.62
Dec. 31, 2016	86.92	3.39	(0.79)	1.66	15.17	19.43	–	(2.52)	–	–	(2.52)	103.73
Dec. 31, 2015	97.28	3.50	(0.87)	2.07	(12.48)	(7.78)	–	(2.46)	–	–	(2.46)	86.92
Dec. 31, 2014	90.51	3.23	(0.89)	3.05	3.98	9.37	–	(2.17)	(0.31)	–	(2.48)	97.28
<b>Series O</b>												
<b>Dec 31, 2018</b>	<b>105.09</b>	<b>3.59</b>	<b>(0.02)</b>	<b>0.62</b>	<b>(12.29)</b>	<b>(8.10)</b>	<b>(0.02)</b>	<b>(3.39)</b>	–	–	<b>(3.41)</b>	<b>93.64</b>
Dec. 31, 2017	101.31	3.42	(0.02)	4.91	0.82	9.13	(0.02)	(3.25)	(2.09)	–	(5.36)	105.09
Dec. 31, 2016	84.92	3.31	(0.02)	1.62	14.68	19.59	–	(3.26)	–	–	(3.26)	101.31
Dec. 31, 2015	95.08	3.42	(0.02)	2.02	(12.19)	(6.77)	–	(3.25)	–	–	(3.25)	84.92
Dec. 31, 2014	88.43	3.15	(0.02)	2.97	3.89	9.99	–	(2.93)	(0.31)	–	(3.24)	95.08

<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>Dec. 31, 2018</b>	<b>96.08</b>	<b>61 072</b>	<b>636</b>	<b>1.87</b>	<b>1.87</b>	<b>25.72</b>	<b>0.06</b>
Dec. 31, 2017	107.83	74 477	691	1.87	1.87	9.43	0.02
Dec. 31, 2016	103.90	74 417	716	1.94	1.94	11.19	0.03
Dec. 31, 2015	87.03	59 220	680	2.03	2.03	5.28	0.01
Dec. 31, 2014	97.40	72 740	747	2.03	2.03	12.85	0.02
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>96.07</b>	<b>9 580</b>	<b>100</b>	<b>1.87</b>	<b>1.87</b>	<b>25.72</b>	<b>0.06</b>
Dec. 31, 2017	107.82	11 765	109	1.87	1.87	9.43	0.02
Dec. 31, 2016	103.91	10 934	105	1.94	1.94	11.19	0.03
Dec. 31, 2015	87.06	6 470	74	2.03	2.03	5.28	0.01
Dec. 31, 2014	97.42	7 596	78	2.03	2.03	12.85	0.02
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>95.14</b>	<b>1 417 047</b>	<b>14 894</b>	<b>0.99</b>	<b>0.99</b>	<b>25.72</b>	<b>0.06</b>
Dec. 31, 2017	106.78	1 696 795	15 891	0.99	0.99	9.43	0.02
Dec. 31, 2016	102.91	1 681 957	16 344	1.07	1.07	11.19	0.03
Dec. 31, 2015	86.24	1 498 563	17 377	1.16	1.16	5.28	0.01
Dec. 31, 2014	96.54	1 801 970	18 665	1.16	1.16	12.85	0.02
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>95.89</b>	<b>70 886</b>	<b>739</b>	<b>0.76</b>	<b>0.76</b>	<b>25.72</b>	<b>0.06</b>
Dec. 31, 2017	107.62	61 085	568	0.76	0.76	9.43	0.02
Dec. 31, 2016	103.73	46 199	445	0.84	0.84	11.19	0.03
Dec. 31, 2015	86.92	32 131	370	0.93	0.93	5.28	0.01
Dec. 31, 2014	97.28	29 891	307	0.92	0.92	12.85	0.02
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>93.64</b>	<b>779 595</b>	<b>8 326</b>	<b>0.02</b>	<b>0.02</b>	<b>25.72</b>	<b>0.06</b>
Dec. 31, 2017	105.09	783 228	7 453	0.02	0.02	9.43	0.02
Dec. 31, 2016	101.31	773 160	7 632	0.02	0.02	11.19	0.03
Dec. 31, 2015	84.92	667 635	7 862	0.02	0.02	5.28	0.01
Dec. 31, 2014	95.08	771 709	8 117	0.02	0.02	12.85	0.02

<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.

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 – 1.87%, Advisor Series – 1.87%, Series D – 0.99% and Series F – 0.76%.



**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.

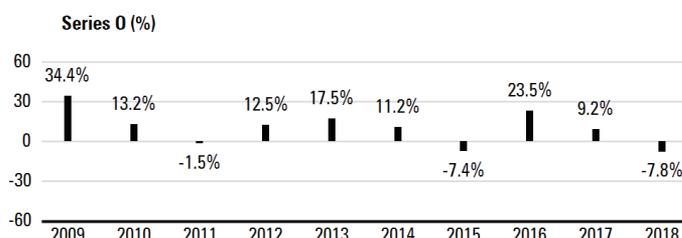
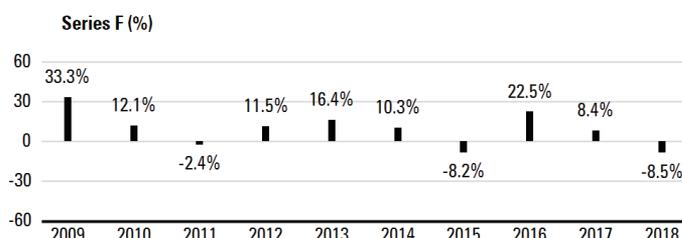
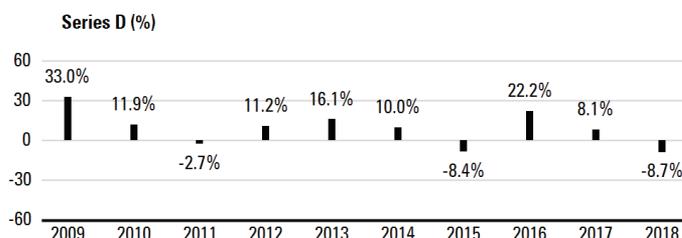
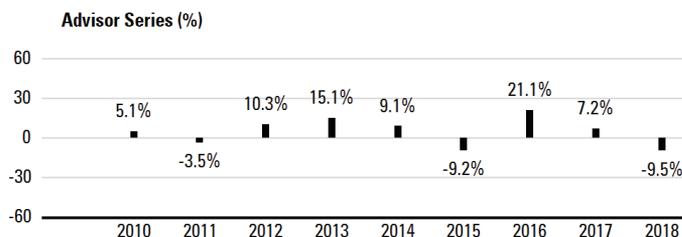
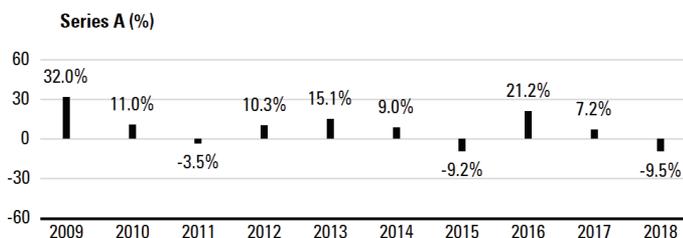
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-9.5	5.5	3.1	7.6	–
Benchmark	-8.9	6.4	4.1	7.9	–
Advisor Series	-9.5	5.5	3.1	–	5.1
Benchmark	-8.9	6.4	4.1	–	4.5
Series D	-8.7	6.5	4.0	8.6	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series F	-8.5	6.7	4.2	8.8	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series O	-7.8	7.5	5.1	9.7	–
Benchmark	-8.9	6.4	4.1	7.9	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Financials	40.6
Energy	20.1
Industrials	10.8
Communication Services	6.8
Materials	5.4
Real Estate	4.1
Consumer Staples	4.0
Utilities	3.6
Consumer Discretionary	2.4
Information Technology	0.8
Bonds	0.3
Cash/Other	1.1

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	8.4
Toronto-Dominion Bank	8.1
Enbridge Inc.	5.6
Bank of Nova Scotia	5.4
Canadian National Railway Co.	4.3
Bank of Montreal	3.8
Brookfield Asset Management Inc., Class A	3.7
Manulife Financial Corporation	2.7
Suncor Energy Inc.	2.4
Sun Life Financial Inc.	2.4
Canadian Pacific Railway Ltd.	2.3
Canadian Natural Resources Ltd.	2.3
TransCanada Corp.	2.2
Nutrien Ltd.	2.2
Alimentation Couche-Tard Inc.	2.0
Pembina Pipeline Corp.	1.9
Canadian Imperial Bank of Commerce	1.7
Shaw Communications Inc., Class B	1.7
BCE Inc.	1.6
Brookfield Property Partners LP	1.6
Waste Connections Inc.	1.6
TELUS Corp.	1.3
Intact Financial Corp.	1.2
Element Fleet Management Corp.	1.2
Keyera Corp.	1.2
<b>Top 25 Holdings</b>	<b>72.8</b>

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 common shares of Canadian companies. To achieve the Fund's investment objective, the portfolio manager invests in companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, strong earnings potential and a reasonable valuation.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$940 million as of December 31, 2018, from \$1.1 billion at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 8.9%, which matched the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Discretionary sector, a position in Dollarama held back the Fund's returns during the year. The Energy sector held back performance, with positions in Raging River Exploration and Whitecap Resources having a large negative impact.

In the Industrials sector, the Fund's overweight position in Badger Daylighting added significantly to returns. Various positions in the Financials sector also aided performance, with contributions from holdings in Brookfield Asset Management and TD Bank.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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.

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RBC GAM, RBC Investor Services Trust ("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 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 \$49,000 (2017 – \$33,000), or 10% (2017 – 6%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>102.09</b>	<b>2.88</b>	<b>(1.82)</b>	<b>4.47</b>	<b>(16.27)</b>	<b>(10.74)</b>	<b>(0.01)</b>	<b>(1.09)</b>	<b>(2.19)</b>	–	<b>(3.29)</b>	<b>88.07</b>
Dec. 31, 2017	101.67	2.58	(1.87)	6.10	(2.76)	4.05	(0.01)	(0.64)	(3.50)	–	(4.15)	102.09
Dec. 31, 2016	84.33	2.53	(1.78)	2.64	14.23	17.62	–	(0.67)	–	–	(0.67)	101.67
Dec. 31, 2015	94.27	2.63	(1.90)	1.39	(10.12)	(8.00)	–	(0.75)	(1.01)	–	(1.76)	84.33
Dec. 31, 2014	91.45	2.47	(2.00)	9.07	0.14	9.68	–	(0.60)	(5.75)	–	(6.35)	94.27
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>102.17</b>	<b>2.88</b>	<b>(1.83)</b>	<b>4.48</b>	<b>(15.78)</b>	<b>(10.25)</b>	<b>(0.01)</b>	<b>(1.09)</b>	<b>(2.19)</b>	–	<b>(3.29)</b>	<b>88.02</b>
Dec. 31, 2017	101.71	2.58	(1.87)	6.11	(2.36)	4.46	(0.01)	(0.64)	(3.50)	–	(4.15)	102.17
Dec. 31, 2016	84.36	2.53	(1.78)	2.64	14.53	17.92	–	(0.67)	–	–	(0.67)	101.71
Dec. 31, 2015	94.29	2.63	(1.90)	1.39	(10.11)	(7.99)	–	(0.75)	(1.01)	–	(1.76)	84.36
Dec. 31, 2014	91.46	2.48	(2.01)	9.10	0.14	9.71	–	(0.60)	(5.75)	–	(6.35)	94.29
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>99.00</b>	<b>2.80</b>	<b>(0.96)</b>	<b>4.35</b>	<b>(15.77)</b>	<b>(9.58)</b>	<b>(0.01)</b>	<b>(1.86)</b>	<b>(2.15)</b>	–	<b>(4.02)</b>	<b>85.22</b>
Dec. 31, 2017	98.61	2.51	(0.98)	5.95	(2.20)	5.28	(0.02)	(1.50)	(3.42)	–	(4.94)	99.00
Dec. 31, 2016	81.84	2.46	(0.95)	2.57	14.18	18.26	–	(1.56)	–	–	(1.56)	98.61
Dec. 31, 2015	91.51	2.56	(1.05)	1.35	(9.85)	(6.99)	–	(1.48)	(0.99)	–	(2.47)	81.84
Dec. 31, 2014	88.91	2.41	(1.11)	8.84	0.13	10.27	–	(1.41)	(5.75)	–	(7.16)	91.51
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>101.06</b>	<b>2.86</b>	<b>(0.75)</b>	<b>4.45</b>	<b>(16.61)</b>	<b>(10.05)</b>	<b>(0.01)</b>	<b>(2.07)</b>	<b>(2.20)</b>	–	<b>(4.28)</b>	<b>87.02</b>
Dec. 31, 2017	100.68	2.57	(0.77)	6.09	(1.96)	5.93	(0.02)	(1.76)	(3.51)	–	(5.29)	101.06
Dec. 31, 2016	83.52	2.52	(0.76)	2.63	14.69	19.08	–	(1.79)	–	–	(1.79)	100.68
Dec. 31, 2015	93.41	2.61	(0.86)	1.38	(10.07)	(6.94)	–	(1.71)	(1.01)	–	(2.72)	83.52
Dec. 31, 2014	90.62	2.46	(0.91)	9.03	0.13	10.71	–	(1.63)	(5.75)	–	(7.38)	93.41
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>98.35</b>	<b>2.79</b>	<b>(0.02)</b>	<b>4.34</b>	<b>(15.64)</b>	<b>(8.53)</b>	<b>(0.02)</b>	<b>(2.70)</b>	<b>(2.15)</b>	–	<b>(4.87)</b>	<b>84.63</b>
Dec. 31, 2017	98.04	2.51	(0.02)	5.94	(2.12)	6.31	(0.03)	(2.49)	(3.45)	–	(5.97)	98.35
Dec. 31, 2016	81.34	2.46	(0.02)	2.57	14.08	19.09	–	(2.56)	–	–	(2.56)	98.04
Dec. 31, 2015	91.06	2.56	(0.02)	1.35	(9.85)	(5.96)	–	(2.47)	(1.02)	–	(3.49)	81.34
Dec. 31, 2014	88.46	2.41	(0.02)	8.82	0.13	11.34	–	(2.45)	(5.75)	–	(8.20)	91.06

<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>Dec. 31, 2018</b>	<b>88.07</b>	<b>14 695</b>	<b>167</b>	<b>1.84</b>	<b>1.84</b>	<b>23.19</b>	<b>0.05</b>
Dec. 31, 2017	102.09	18 126	178	1.83	1.83	26.49	0.06
Dec. 31, 2016	101.67	22 124	218	1.93	1.93	35.41	0.08
Dec. 31, 2015	84.33	18 743	222	2.02	2.02	26.84	0.07
Dec. 31, 2014	94.27	14 195	151	2.02	2.02	31.71	0.09
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>88.02</b>	<b>1 470</b>	<b>17</b>	<b>1.84</b>	<b>1.84</b>	<b>23.19</b>	<b>0.05</b>
Dec. 31, 2017	102.17	1 443	14	1.83	1.83	26.49	0.06
Dec. 31, 2016	101.71	1 412	14	1.93	1.93	35.41	0.08
Dec. 31, 2015	84.36	1 087	13	2.02	2.02	26.84	0.07
Dec. 31, 2014	94.29	1 445	15	2.02	2.02	31.71	0.09
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>85.22</b>	<b>380 439</b>	<b>4 464</b>	<b>0.99</b>	<b>0.99</b>	<b>23.19</b>	<b>0.05</b>
Dec. 31, 2017	99.00	506 955	5 121	0.98	0.98	26.49	0.06
Dec. 31, 2016	98.61	509 894	5 171	1.06	1.06	35.41	0.08
Dec. 31, 2015	81.84	448 506	5 480	1.15	1.15	26.84	0.07
Dec. 31, 2014	91.51	532 249	5 816	1.15	1.15	31.71	0.09
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>87.02</b>	<b>13 349</b>	<b>153</b>	<b>0.76</b>	<b>0.76</b>	<b>23.19</b>	<b>0.05</b>
Dec. 31, 2017	101.06	14 073	139	0.76	0.76	26.49	0.06
Dec. 31, 2016	100.68	10 109	100	0.83	0.83	35.41	0.08
Dec. 31, 2015	83.52	7 583	91	0.92	0.92	26.84	0.07
Dec. 31, 2014	93.41	7 413	79	0.92	0.92	31.71	0.09
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>84.63</b>	<b>530 132</b>	<b>6 264</b>	<b>0.02</b>	<b>0.02</b>	<b>23.19</b>	<b>0.05</b>
Dec. 31, 2017	98.35	600 242	6 103	0.02	0.02	26.49	0.06
Dec. 31, 2016	98.04	613 835	6 261	0.02	0.02	35.41	0.08
Dec. 31, 2015	81.34	565 810	6 956	0.02	0.02	26.84	0.07
Dec. 31, 2014	91.06	635 688	6 981	0.02	0.02	31.71	0.09

<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.

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 – 1.86%, Advisor Series – 1.86%, Series D – 0.98% and Series F – 0.76%.



**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.

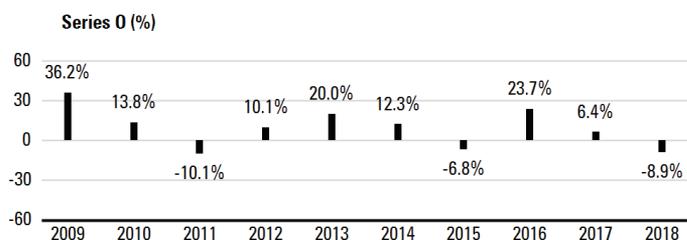
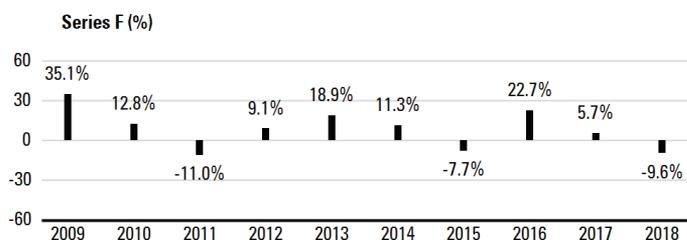
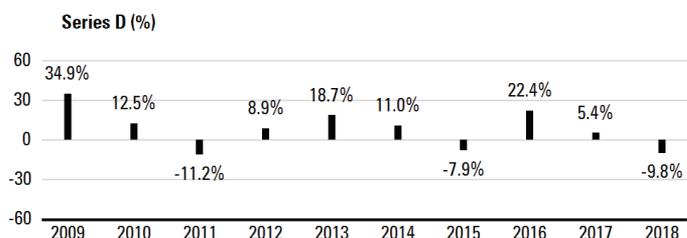
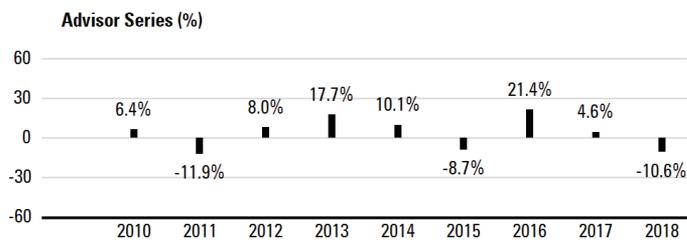
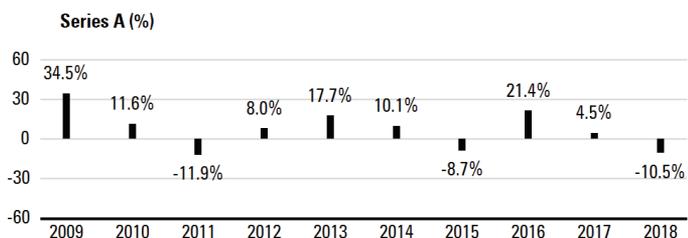
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





## PAST PERFORMANCE (cont.)

### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

#### S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-10.5	4.3	2.7	6.7	–
Benchmark	-8.9	6.4	4.1	7.9	–
Advisor Series	-10.6	4.3	2.7	–	3.8
Benchmark	-8.9	6.4	4.1	–	4.5
Series D	-9.8	5.2	3.5	7.6	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series F	-9.6	5.4	3.8	7.8	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series O	-8.9	6.2	4.6	8.7	–
Benchmark	-8.9	6.4	4.1	7.9	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

### INDEX DESCRIPTION

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Financials	34.5
Energy	18.8
Underlying Funds	10.8
Materials	9.2
Industrials	8.8
Information Technology	4.0
Communication Services	3.9
Consumer Discretionary	2.9
Consumer Staples	2.6
Utilities	2.0
Real Estate	1.3
Cash/Other	1.2

### Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	10.8
Royal Bank of Canada	7.7
Toronto-Dominion Bank	6.6
Enbridge Inc.	5.0
Bank of Nova Scotia	4.5
Canadian National Railway Co.	3.8
Brookfield Asset Management Inc., Class A	3.5
Bank of Montreal	3.3
Suncor Energy Inc.	2.8
Canadian Natural Resources Ltd.	2.7
Manulife Financial Corporation	2.7
Alimentation Couche-Tard Inc.	2.6
Sun Life Financial Inc.	2.3
TransCanada Corp.	2.1
CGI Group Inc., Class A	2.1
Shaw Communications Inc., Class B	2.0
Nutrien Ltd.	2.0
Pembina Pipeline Corp.	1.5
Open Text Corp.	1.4
Dollarama Inc.	1.3
Waste Connections Inc.	1.3
Fortis Inc.	1.3
Fairfax Financial Holdings Ltd.	1.2
Canadian Imperial Bank of Commerce	1.2
Intact Financial Corp.	1.2
<b>Top 25 Holdings</b>	<b>76.9</b>

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY VALUE FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 long-term capital growth. To achieve the Fund's investment objective, the portfolio manager invests primarily in equities of Canadian companies priced below the manager's assessment of their true value and offering long-term opportunities for growth.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$1.5 billion as of December 31, 2018, from \$1.2 billion at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund's Series O units lost 7.4%, which outperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

The relative performance of the Fund benefited from both asset weighting and security selection in 2018. The largest driver of performance came from the Fund's overweight position in MEG Energy. MEG advanced after Husky Energy made a hostile takeover bid comprised of cash and shares. In addition, the Fund benefited from an overweight position in Thomson Reuters. Shares in the company advanced after it bought back a material amount of stock and shifted its focus towards its legal and tax units following the sale of a portion of its financial-services unit to Blackstone.

The headwinds facing the Canadian Energy sector were reflected in the Fund through its overweight position in PrairieSky Royalty. The company's share price slid amid a tough environment for western Canadian oil exploration and production businesses, from whom the firm collects royalties for the use of its land.

### Recent Developments

The portfolio manager's GDP growth forecast for 2019 is below consensus but nevertheless represents a slight increase from the prior forecast thanks to the tentative resolution of trade negotiations. The portfolio manager expects the overall pace of interest-rate increases in Canada to lag that of the U.S. Economic competitiveness is a cause for concern because Canada's tax rates and regulatory and environmental framework are seen as less business-friendly than in the U.S. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$127,000 (2017 – \$144,000), or 14% (2017 – 17%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>14.40</b>	<b>0.43</b>	<b>(0.26)</b>	<b>0.21</b>	<b>(1.64)</b>	<b>(1.26)</b>	–	<b>(0.05)</b>	<b>(0.15)</b>	–	<b>(0.20)</b>	<b>12.89</b>
Dec. 31, 2017	13.96	0.38	(0.27)	0.82	0.05	0.98	–	(0.09)	(0.49)	–	(0.58)	14.40
Dec. 31, 2016	11.75	0.37	(0.25)	0.26	1.96	2.34	–	(0.11)	–	–	(0.11)	13.96
Dec. 31, 2015	13.31	0.39	(0.26)	0.48	(1.67)	(1.06)	–	(0.06)	(0.47)	–	(0.53)	11.75
Dec. 31, 2014	12.86	0.41	(0.28)	1.43	(0.31)	1.25	–	(0.04)	(0.96)	–	(1.00)	13.31
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>14.39</b>	<b>0.43</b>	<b>(0.26)</b>	<b>0.21</b>	<b>(1.65)</b>	<b>(1.27)</b>	–	<b>(0.05)</b>	<b>(0.15)</b>	–	<b>(0.20)</b>	<b>12.88</b>
Dec. 31, 2017	13.95	0.38	(0.27)	0.82	0.07	1.00	–	(0.09)	(0.49)	–	(0.58)	14.39
Dec. 31, 2016	11.74	0.37	(0.25)	0.27	1.90	2.29	–	(0.11)	–	–	(0.11)	13.95
Dec. 31, 2015	13.30	0.39	(0.26)	0.48	(1.67)	(1.06)	–	(0.06)	(0.46)	–	(0.52)	11.74
Dec. 31, 2014	12.86	0.32	(0.29)	1.10	(0.24)	0.89	–	(0.04)	(0.95)	–	(0.99)	13.30
<b>Series T5</b>												
<b>Dec. 31, 2018</b>	<b>14.46</b>	<b>0.42</b>	<b>(0.24)</b>	<b>0.21</b>	<b>(1.66)</b>	<b>(1.27)</b>	–	–	<b>(0.14)</b>	<b>(0.58)</b>	<b>(0.72)</b>	<b>12.49</b>
Dec. 31, 2017 <sup>3</sup>	13.89 <sup>†</sup>	0.13	(0.09)	0.28	0.77	1.09	(0.01)	(0.03)	(0.48)	–	(0.52)	14.46
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>14.57</b>	<b>0.43</b>	<b>(0.15)</b>	<b>0.22</b>	<b>(1.70)</b>	<b>(1.20)</b>	–	<b>(0.16)</b>	<b>(0.15)</b>	–	<b>(0.31)</b>	<b>13.04</b>
Dec. 31, 2017	14.13	0.39	(0.15)	0.83	0.09	1.16	–	(0.22)	(0.49)	–	(0.71)	14.57
Dec. 31, 2016	11.89	0.38	(0.14)	0.27	1.95	2.46	–	(0.23)	–	–	(0.23)	14.13
Dec. 31, 2015	13.47	0.40	(0.16)	0.48	(1.69)	(0.97)	–	(0.17)	(0.47)	–	(0.64)	11.89
Dec. 31, 2014	13.00	0.42	(0.17)	1.45	(0.32)	1.38	–	(0.16)	(0.96)	–	(1.12)	13.47
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>14.59</b>	<b>0.43</b>	<b>(0.11)</b>	<b>0.22</b>	<b>(1.77)</b>	<b>(1.23)</b>	–	<b>(0.20)</b>	<b>(0.15)</b>	–	<b>(0.35)</b>	<b>13.06</b>
Dec. 31, 2017	14.15	0.39	(0.11)	0.83	0.09	1.20	–	(0.26)	(0.50)	–	(0.76)	14.59
Dec. 31, 2016	11.91	0.38	(0.11)	0.27	2.02	2.56	–	(0.27)	–	–	(0.27)	14.15
Dec. 31, 2015	13.49	0.40	(0.12)	0.48	(1.70)	(0.94)	–	(0.20)	(0.47)	–	(0.67)	11.91
Dec. 31, 2014	13.03	0.39	(0.13)	1.37	(0.30)	1.33	–	(0.21)	(0.96)	–	(1.17)	13.49
<b>Series FT5</b>												
<b>Dec. 31, 2018</b>	<b>14.77</b>	<b>0.43</b>	<b>(0.10)</b>	<b>0.22</b>	<b>(1.71)</b>	<b>(1.16)</b>	–	–	<b>(0.15)</b>	<b>(0.59)</b>	<b>(0.74)</b>	<b>12.89</b>
Dec. 31, 2017 <sup>3</sup>	14.18 <sup>†</sup>	0.13	(0.04)	0.28	0.79	1.16	–	(0.09)	(0.49)	–	(0.58)	14.77
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>14.46</b>	<b>0.42</b>	–	<b>0.21</b>	<b>(2.11)</b>	<b>(1.48)</b>	–	<b>(0.30)</b>	<b>(0.15)</b>	–	<b>(0.45)</b>	<b>12.93</b>
Dec. 31, 2017	14.02	0.39	–	0.83	0.09	1.31	–	(0.38)	(0.49)	–	(0.87)	14.46
Dec. 31, 2016	11.80	0.38	–	0.27	1.96	2.61	–	(0.38)	–	–	(0.38)	14.02
Dec. 31, 2015	13.38	0.39	–	0.47	(1.66)	(0.80)	–	(0.31)	(0.48)	–	(0.79)	11.80
Dec. 31, 2014	12.99	0.42	(0.01)	1.45	(0.32)	1.54	–	(0.40)	(0.96)	–	(1.36)	13.38

<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.

<sup>3</sup> From August 28, 2017.

<sup>†</sup> Initial offering net asset value per unit.



**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>Dec. 31, 2018</b>	<b>12.89</b>	<b>10 607</b>	<b>823</b>	<b>1.86</b>	<b>1.86</b>	<b>27.53</b>	<b>0.07</b>
Dec. 31, 2017	14.40	13 309	925	1.87	1.87	34.20	0.07
Dec. 31, 2016	13.96	15 014	1 076	1.93	1.93	42.91	0.08
Dec. 31, 2015	11.75	9 252	787	2.03	2.03	43.12	0.09
Dec. 31, 2014	13.31	11 320	851	2.07	2.07	72.04	0.13
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>12.88</b>	<b>164 664</b>	<b>12 784</b>	<b>1.86</b>	<b>1.86</b>	<b>27.53</b>	<b>0.07</b>
Dec. 31, 2017	14.39	208 741	14 506	1.87	1.87	34.20	0.07
Dec. 31, 2016	13.95	223 263	16 004	1.95	1.95	42.91	0.08
Dec. 31, 2015	11.74	216 457	18 432	2.03	2.03	43.12	0.09
Dec. 31, 2014	13.30	279 083	20 990	2.06	2.06	72.04	0.13
<b>Series T5</b>							
<b>Dec. 31, 2018</b>	<b>12.49</b>	<b>1</b>	<b>–</b>	<b>1.79</b>	<b>1.79</b>	<b>27.53</b>	<b>0.07</b>
Dec. 31, 2017 <sup>4</sup>	14.46	1	–	1.92	1.92	34.20	0.07
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>13.04</b>	<b>77 346</b>	<b>5 929</b>	<b>1.02</b>	<b>1.02</b>	<b>27.53</b>	<b>0.07</b>
Dec. 31, 2017	14.57	88 841	6 096	1.02	1.02	34.20	0.07
Dec. 31, 2016	14.13	80 409	5 691	1.10	1.10	42.91	0.08
Dec. 31, 2015	11.89	64 665	5 437	1.19	1.19	43.12	0.09
Dec. 31, 2014	13.47	70 944	5 267	1.19	1.19	72.04	0.13
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>13.06</b>	<b>126 481</b>	<b>9 688</b>	<b>0.77</b>	<b>0.77</b>	<b>27.53</b>	<b>0.07</b>
Dec. 31, 2017	14.59	129 500	8 878	0.77	0.77	34.20	0.07
Dec. 31, 2016	14.15	136 240	9 630	0.85	0.85	42.91	0.08
Dec. 31, 2015	11.91	91 336	7 667	0.94	0.94	43.12	0.09
Dec. 31, 2014	13.49	98 164	7 277	0.94	0.94	72.04	0.13
<b>Series FT5</b>							
<b>Dec. 31, 2018</b>	<b>12.89</b>	<b>1</b>	<b>–</b>	<b>0.74</b>	<b>0.74</b>	<b>27.53</b>	<b>0.07</b>
Dec. 31, 2017 <sup>4</sup>	14.77	1	–	0.79	0.79	34.20	0.07
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>12.93</b>	<b>1 161 619</b>	<b>89 809</b>	<b>0.02</b>	<b>0.02</b>	<b>27.53</b>	<b>0.07</b>
Dec. 31, 2017	14.46	758 639	52 479	0.02	0.02	34.20	0.07
Dec. 31, 2016	14.02	727 850	51 899	0.02	0.02	42.91	0.08
Dec. 31, 2015	11.80	591 951	50 166	0.04	0.04	43.12	0.09
Dec. 31, 2014	13.38	427 618	31 953	0.06	0.06	72.04	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 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> From August 28, 2017.

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 – 1.87%, Advisor Series – 1.87%, Series D – 1.02% and Series F – 0.77%.



**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 T5	1.60%	63%	37%
Series D	0.85%	29%	71%
Series F	0.60%	–	100%
Series FT5	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.

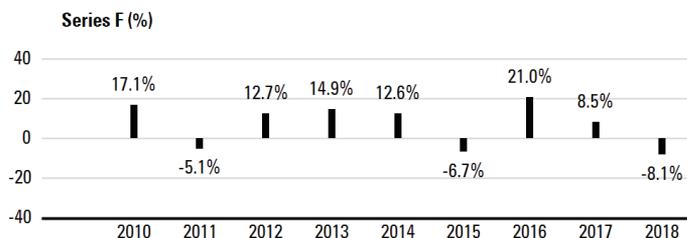
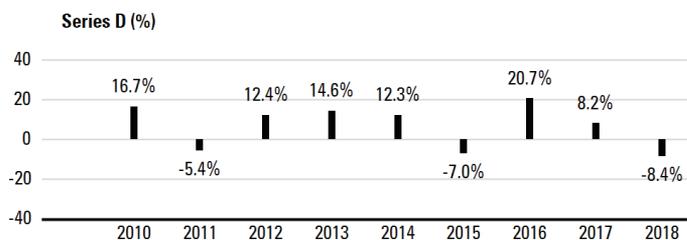
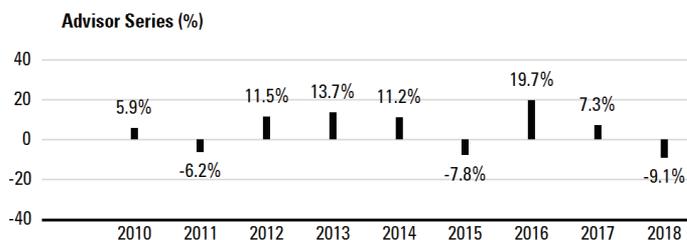
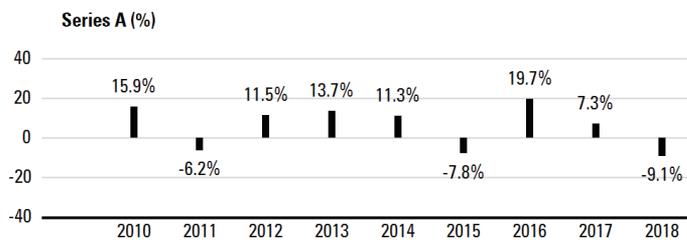
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.

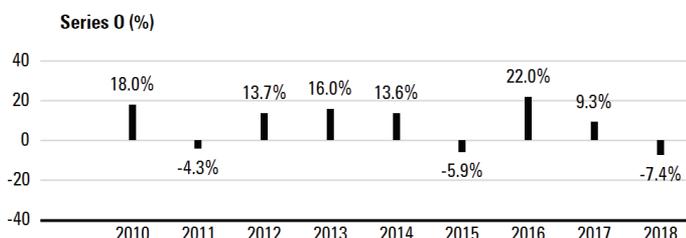
**Year-by-Year Returns (%)**

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.





**PAST PERFORMANCE (cont.)**



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-9.1	5.3	3.7	—	5.7
Benchmark	-8.9	6.4	4.1	—	5.3
Advisor Series	-9.1	5.3	3.7	—	5.2
Benchmark	-8.9	6.4	4.1	—	4.5
Series T5	-9.0	—	—	—	-1.4
Benchmark	-8.9	—	—	—	-0.6
Series D	-8.4	6.2	4.6	—	6.6
Benchmark	-8.9	6.4	4.1	—	5.3
Series F	-8.1	6.5	4.8	—	6.9
Benchmark	-8.9	6.4	4.1	—	5.3
Series FT5	-8.1	—	—	—	-0.3
Benchmark	-8.9	—	—	—	-0.6
Series 0	-7.4	7.3	5.7	—	7.8
Benchmark	-8.9	6.4	4.1	—	5.3

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series T5 and Series FT5 units have been available for sale to unitholders since August 28, 2017, Advisor Series units since October 2010, and Series A, Series D, Series F and Series 0 units since December 2009.

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

All outstanding Series H units were re-designated as Series C units and then immediately renamed Series A units effective June 30, 2016. All outstanding Series I units were re-designated as Series F units effective June 30, 2016.

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Financials	33.6
Energy	18.3
Industrials	12.6
Materials	8.5
Communication Services	7.7
Consumer Staples	4.9
Utilities	3.3
Real Estate	2.9
Consumer Discretionary	2.6
Information Technology	2.4
Cash/Other	3.2

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	7.1
Toronto-Dominion Bank	6.6
Bank of Nova Scotia	4.7
Enbridge Inc.	4.1
Suncor Energy Inc.	3.5
Canadian National Railway Co.	3.0
Cash & Cash Equivalents	2.9
Brookfield Asset Management Inc., Class A	2.8
Canadian Natural Resources Ltd.	2.5
Canadian Pacific Railway Ltd.	2.4
BCE Inc.	2.4
Bank of Montreal	2.4
TransCanada Corp.	2.2
Manulife Financial Corporation	2.1
Waste Connections Inc.	2.0
Nutrien Ltd.	1.9
Rogers Communications Inc., Class B	1.8
Canadian Imperial Bank of Commerce	1.8
Alimentation Couche-Tard Inc.	1.7
Sun Life Financial Inc.	1.6
Thomson Reuters Corp.	1.4
TELUS Corp.	1.3
Fairfax Financial Holdings Ltd.	1.3
CGI Group Inc., Class A	1.3
Quebecor Inc., Class B	1.3
<b>Top 25 Holdings</b>	<b>66.1</b>

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY UNDERLYING FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 significant long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks. The Fund is expected to be used primarily as an underlying fund for other mutual funds but may also be sold directly to other investors.

To achieve the Fund's investment objectives the portfolio manager will focus primarily on larger-capitalization stocks. The portfolio manager generally invests in growth companies that have superior management, industry leadership, a high level of profitability compared with competitors, a sound financial position, strong earnings growth and a reasonable valuation.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$2.5 billion as of December 31, 2018, from \$2.7 billion at the end of 2017. The decrease was due to investment losses, partially offset by net inflows.

Over the past year, the Fund's Series O units lost 8.9%, which matched the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Staples sector, a position in Metro Inc. held back the Fund's returns during the year. The Energy sector hurt performance, with positions in Raging River Exploration and Whitecap Resources having a large negative impact.

In the Industrials sector, the Fund's overweight position in Badger Daylighting added significantly to returns. Positions in the Financials sector also aided performance, with contributions from holdings in Brookfield Asset Management and Toronto-Dominion Bank.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$149,000 (2017 – \$78,000), or 12% (2017 – 5%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 0</b>												
<b>Dec. 31, 2018</b>	<b>12.13</b>	<b>0.35</b>	–	<b>0.30</b>	<b>(1.73)</b>	<b>(1.08)</b>	–	<b>(0.34)</b>	<b>(0.30)</b>	–	<b>(0.64)</b>	<b>10.41</b>
Dec. 31, 2017	11.76	0.31	–	0.11	0.36	0.78	(0.01)	(0.30)	(0.10)	–	(0.41)	12.13
Dec. 31, 2016	10.00	0.31	–	0.27	1.79	2.37	(0.02)	(0.32)	(0.28)	–	(0.62)	11.76
Dec. 31, 2015	11.06	0.31	–	(0.05)	(1.00)	(0.74)	–	(0.31)	–	–	(0.31)	10.00
Dec. 31, 2014	11.11	0.30	–	1.02	0.13	1.45	–	(0.32)	(1.09)	–	(1.41)	11.06

<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.

### 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 0</b>							
<b>Dec. 31, 2018</b>	<b>10.41</b>	<b>2 503 438</b>	<b>240 419</b>	<b>0.02</b>	<b>0.02</b>	<b>22.85</b>	<b>0.05</b>
Dec. 31, 2017	12.13	2 699 066	222 476	0.02	0.02	25.66	0.06
Dec. 31, 2016	11.76	2 507 856	213 190	0.02	0.02	40.13	0.09
Dec. 31, 2015	10.00	2 387 979	238 883	0.02	0.02	29.58	0.07
Dec. 31, 2014	11.06	2 535 912	229 262	0.02	0.02	48.42	0.10

<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.

### Management Fees

RBC GAM is the manager and portfolio manager of the Fund. No management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

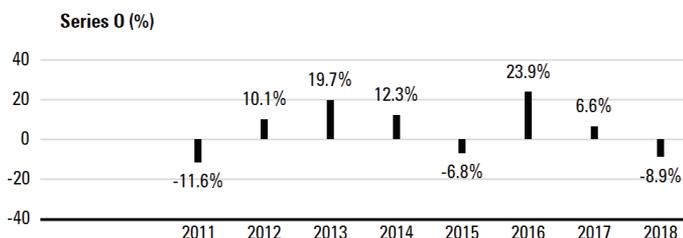


## PAST PERFORMANCE

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.



### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

#### S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0	-8.9	6.3	4.7	—	4.9
Benchmark	-8.9	6.4	4.1	—	3.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series 0 units have been available for sale to unitholders since January 2011.

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

### INDEX DESCRIPTION

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Financials	35.5
Energy	19.2
Industrials	12.2
Materials	9.9
Information Technology	4.8
Communication Services	4.4
Consumer Discretionary	4.2
Consumer Staples	3.7
Real Estate	2.5
Utilities	2.0
Cash/Other	1.6

### Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	7.7
Toronto-Dominion Bank	6.7
Enbridge Inc.	5.0
Bank of Nova Scotia	4.5
Canadian National Railway Co.	3.7
Brookfield Asset Management Inc., Class A	3.5
Bank of Montreal	3.3
Canadian Natural Resources Ltd.	2.7
Manulife Financial Corporation	2.7
Suncor Energy Inc.	2.7
Alimentation Couche-Tard Inc.	2.5
Sun Life Financial Inc.	2.2
TransCanada Corp.	2.1
CGI Group Inc., Class A	2.0
Shaw Communications Inc., Class B	2.0
Nutrien Ltd.	1.9
Pembina Pipeline Corp.	1.5
Cash & Cash Equivalents	1.4
Quebecor Inc., Class B	1.4
Open Text Corp.	1.4
Waste Connections Inc.	1.3
Fairfax Financial Holdings Ltd.	1.2
Dollarama Inc.	1.2
Canadian Imperial Bank of Commerce	1.2
Fortis Inc.	1.2
<b>Top 25 Holdings</b>	<b>67.0</b>

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY UNDERLYING FUND II**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks.

To achieve the Fund's investment objectives the portfolio manager will focus primarily on stocks with market capitalization greater than \$1 billion. The portfolio manager generally invests in growth companies that have superior management, industry leadership, a high level of profitability compared with competitors, a sound financial position, strong earnings growth and a reasonable valuation.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$1.9 billion as of December 31, 2018, from \$1.7 billion at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund's Series O units lost 9.1%, which underperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Discretionary sector, a position in Sleep Country Canada held back the Fund's returns during the year. The Energy sector hurt performance, with positions in Raging River Exploration and Baytex Energy having a large negative impact.

In the Information Technology sector, the Fund's overweight position in CGI added significantly to returns. Positions in the Communication Services sector also aided performance, led in part by a holding in Quebecor.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$313,000 (2017 – \$129,000), or 12% (2017 – 6%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.10</b>	<b>(0.03)</b>	<b>0.01</b>	<b>(1.38)</b>	<b>(1.30)</b>	–	<b>(0.20)</b>	<b>(0.09)</b>	–	<b>(0.29)</b>	<b>8.57</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>9.73</b>	<b>0.31</b>	–	<b>0.03</b>	<b>(1.23)</b>	<b>(0.89)</b>	–	<b>(0.26)</b>	<b>(0.10)</b>	–	<b>(0.36)</b>	<b>8.48</b>
Dec. 31, 2017	9.70	0.25	–	0.26	0.03	0.54	–	(0.21)	(0.23)	–	(0.44)	9.73
Dec. 31, 2016	8.52	0.27	–	0.33	1.42	2.02	(0.02)	(0.32)	(0.43)	–	(0.77)	9.70
Dec. 31, 2015	9.64	0.29	–	(0.10)	(1.08)	(0.89)	–	(0.15)	(0.21)	–	(0.36)	8.52
Dec. 31, 2014 <sup>4</sup>	10.00 <sup>†</sup>	0.10	–	(0.03)	0.18	0.25	–	(0.04)	(0.01)	–	(0.05)	9.64

<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.

<sup>3</sup> From August 16, 2018.

<sup>4</sup> From July 2014.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>8.57</b>	<b>1 327</b>	<b>155</b>	<b>0.79</b>	<b>0.79</b>	<b>57.47</b>	<b>0.14</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>8.48</b>	<b>1 868 054</b>	<b>220 199</b>	<b>0.02</b>	<b>0.02</b>	<b>57.47</b>	<b>0.14</b>
Dec. 31, 2017	9.73	1 676 509	172 285	0.02	0.02	64.94	0.14
Dec. 31, 2016	9.70	1 339 928	138 170	0.02	0.02	172.58	0.37
Dec. 31, 2015	8.52	1 399 198	164 149	0.02	0.02	171.02	0.47
Dec. 31, 2014 <sup>5</sup>	9.64	409 071	42 435	0.02	0.02	56.94	0.27

<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.

<sup>4</sup> From August 16, 2018.

<sup>5</sup> From July 2014.



**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 F	0.60%	—	100%

Series 0 – no management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

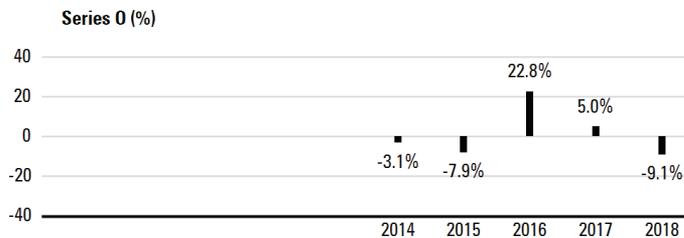
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series F	—	—	—	—	-11.4
Benchmark	—	—	—	—	-11.2
Series 0	-9.1	5.4	—	—	1.0
Benchmark	-8.9	6.4	—	—	1.6

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series F units have been available for sale to unitholders since August 20, 2018, and Series 0 units since August 2014.

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

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.



**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Financials	36.1
Energy	20.5
Industrials	11.9
Materials	10.4
Communication Services	4.7
Information Technology	4.0
Consumer Discretionary	3.6
Consumer Staples	2.8
Utilities	2.3
Real Estate	2.1
Cash/Other	1.6

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	7.6
Toronto-Dominion Bank	6.5
Enbridge Inc.	5.5
Bank of Nova Scotia	4.7
Canadian National Railway Co.	3.8
Brookfield Asset Management Inc., Class A	3.6
Bank of Montreal	3.4
Manulife Financial Corporation	3.0
Alimentation Couche-Tard Inc.	2.9
Canadian Natural Resources Ltd.	2.8
Suncor Energy Inc.	2.5
Sun Life Financial Inc.	2.3
Nutrien Ltd.	2.2
Shaw Communications Inc., Class B	2.2
CGI Group Inc., Class A	2.0
Canadian Pacific Railway Ltd.	2.0
TransCanada Corp.	1.9
Quebecor Inc., Class B	1.7
Pembina Pipeline Corp.	1.6
Dollarama Inc.	1.6
Waste Connections Inc.	1.6
Fairfax Financial Holdings Ltd.	1.5
Brookfield Property Partners LP	1.4
Cash & Cash Equivalents	1.4
CCL Industries, Class B	1.3
Top 25 Holdings	71.0

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN GROWTH FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 Canadian common stocks. The Fund also may invest a portion of its assets in U.S. and international securities in order to achieve greater exposure to industries that are not well represented in Canada. To achieve the Fund's investment objective, the portfolio manager invests primarily in companies that they believe, among other things, have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and strong earnings potential.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$664 million as of December 31, 2018, from \$653 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund's Series O units lost 9.2%, which underperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

Asset weighting was a key driver of the Fund's relative performance in 2018, particularly in the Health Care sector. The Fund's position in Aurora Cannabis aided returns, as the stock benefited in the lead-up to the legalization of cannabis in Canada. In addition, the Fund benefited from its overweight position in OceanaGold after the company reported positive developments at a New Zealand mining site.

The Fund's position in Vancouver-based UrtheCast had a negative impact on relative performance. Shares of UrtheCast, which sells geodata from space satellites, fell after a funding shortage led to a change in its chief executive officer and a reassessment of the company's operations.

### Recent Developments

The portfolio manager's GDP growth forecast for 2019 is below consensus but nevertheless represents a slight increase from the prior estimates thanks to the tentative resolution of trade negotiations. The portfolio manager expects the overall pace of interest-rate increases in Canada to lag that of the U.S. Economic competitiveness is a cause for concern because Canada's tax rates and regulatory and environmental framework are seen as less business-friendly than in the U.S. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$86,000 (2017 – \$53,000), or 24% (2017 – 23%) of the total transaction costs paid for this Fund during this period.

### **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>38.13</b>	<b>1.11</b>	<b>(0.68)</b>	<b>(0.60)</b>	<b>(3.82)</b>	<b>(3.99)</b>	–	<b>(0.37)</b>	–	–	<b>(0.37)</b>	<b>33.63</b>
Dec. 31, 2017	36.31	0.99	(0.68)	0.67	1.15	2.13	–	(0.22)	(0.10)	–	(0.32)	38.13
Dec. 31, 2016	30.93	0.99	(0.63)	0.72	4.39	5.47	–	(0.33)	–	–	(0.33)	36.31
Dec. 31, 2015	33.47	0.91	(0.67)	(0.25)	(2.54)	(2.55)	–	(0.14)	–	–	(0.14)	30.93
Dec. 31, 2014	31.23	0.87	(0.68)	1.79	0.86	2.84	–	(0.24)	–	–	(0.24)	33.47
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>38.14</b>	<b>1.11</b>	<b>(0.70)</b>	<b>(0.59)</b>	<b>(2.94)</b>	<b>(3.12)</b>	–	<b>(0.36)</b>	–	–	<b>(0.36)</b>	<b>33.63</b>
Dec. 31, 2017	36.31	1.01	(0.67)	0.68	(0.09)	0.93	–	(0.22)	(0.10)	–	(0.32)	38.14
Dec. 31, 2016	30.94	0.99	(0.64)	0.72	4.66	5.73	–	(0.33)	–	–	(0.33)	36.31
Dec. 31, 2015	33.47	0.91	(0.67)	(0.25)	(2.52)	(2.53)	–	(0.14)	–	–	(0.14)	30.94
Dec. 31, 2014	31.22	0.87	(0.68)	1.79	0.86	2.84	–	(0.24)	–	–	(0.24)	33.47
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>37.68</b>	<b>1.10</b>	<b>(0.38)</b>	<b>(0.59)</b>	<b>(3.84)</b>	<b>(3.71)</b>	–	<b>(0.65)</b>	–	–	<b>(0.65)</b>	<b>33.22</b>
Dec. 31, 2017	35.87	0.99	(0.38)	0.66	1.14	2.41	–	(0.52)	(0.10)	–	(0.62)	37.68
Dec. 31, 2016	30.57	0.98	(0.36)	0.71	4.54	5.87	–	(0.62)	–	–	(0.62)	35.87
Dec. 31, 2015	33.07	0.90	(0.39)	(0.25)	(2.52)	(2.26)	–	(0.39)	–	–	(0.39)	30.57
Dec. 31, 2014	30.83	0.86	(0.40)	1.77	0.85	3.08	–	(0.49)	–	–	(0.49)	33.07
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>37.91</b>	<b>1.11</b>	<b>(0.28)</b>	<b>(0.59)</b>	<b>(4.15)</b>	<b>(3.91)</b>	–	<b>(0.75)</b>	–	–	<b>(0.75)</b>	<b>33.42</b>
Dec. 31, 2017	36.10	0.99	(0.28)	0.67	1.51	2.89	(0.01)	(0.63)	(0.10)	–	(0.74)	37.91
Dec. 31, 2016	30.76	0.99	(0.27)	0.72	5.31	6.75	–	(0.73)	–	–	(0.73)	36.10
Dec. 31, 2015	33.28	0.91	(0.30)	(0.25)	(2.53)	(2.17)	–	(0.49)	–	–	(0.49)	30.76
Dec. 31, 2014	31.03	0.87	(0.30)	1.78	0.86	3.21	–	(0.59)	–	–	(0.59)	33.28
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>38.65</b>	<b>1.13</b>	<b>(0.02)</b>	<b>(0.61)</b>	<b>(4.07)</b>	<b>(3.57)</b>	<b>(0.01)</b>	<b>(1.01)</b>	–	–	<b>(1.02)</b>	<b>34.06</b>
Dec. 31, 2017	36.81	1.02	(0.02)	0.68	1.26	2.94	(0.01)	(0.92)	(0.10)	–	(1.03)	38.65
Dec. 31, 2016	31.35	1.01	(0.02)	0.73	4.81	6.53	–	(1.02)	–	–	(1.02)	36.81
Dec. 31, 2015	33.93	0.93	(0.02)	(0.25)	(2.58)	(1.92)	–	(0.78)	–	–	(0.78)	31.35
Dec. 31, 2014	31.64	0.89	(0.02)	1.82	0.88	3.57	–	(0.89)	–	–	(0.89)	33.93

<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>Dec. 31, 2018</b>	<b>33.63</b>	<b>1 813</b>	<b>54</b>	<b>1.84</b>	<b>1.84</b>	<b>16.35</b>	<b>0.05</b>
Dec. 31, 2017	38.13	2 324	61	1.83	1.83	16.59	0.04
Dec. 31, 2016	36.31	2 205	61	1.92	1.92	27.48	0.06
Dec. 31, 2015	30.93	2 499	81	2.00	2.00	30.74	0.07
Dec. 31, 2014	33.47	3 037	91	2.01	2.01	41.63	0.08
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>33.63</b>	<b>89</b>	<b>3</b>	<b>1.90</b>	<b>1.90</b>	<b>16.35</b>	<b>0.05</b>
Dec. 31, 2017	38.14	63	2	1.82	1.82	16.59	0.04
Dec. 31, 2016	36.31	170	5	1.91	1.91	27.48	0.06
Dec. 31, 2015	30.94	186	6	2.00	2.00	30.74	0.07
Dec. 31, 2014	33.47	155	5	2.01	2.01	41.63	0.08
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>33.22</b>	<b>96 854</b>	<b>2 915</b>	<b>1.02</b>	<b>1.02</b>	<b>16.35</b>	<b>0.05</b>
Dec. 31, 2017	37.68	117 612	3 122	1.03	1.03	16.59	0.04
Dec. 31, 2016	35.87	119 163	3 322	1.10	1.10	27.48	0.06
Dec. 31, 2015	30.57	112 805	3 691	1.19	1.19	30.74	0.07
Dec. 31, 2014	33.07	134 270	4 061	1.19	1.19	41.63	0.08
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>33.42</b>	<b>2 012</b>	<b>60</b>	<b>0.74</b>	<b>0.74</b>	<b>16.35</b>	<b>0.05</b>
Dec. 31, 2017	37.91	2 059	54	0.74	0.74	16.59	0.04
Dec. 31, 2016	36.10	1 594	44	0.81	0.81	27.48	0.06
Dec. 31, 2015	30.76	551	18	0.90	0.90	30.74	0.07
Dec. 31, 2014	33.28	437	13	0.89	0.89	41.63	0.08
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>34.06</b>	<b>562 738</b>	<b>16 520</b>	<b>0.05</b>	<b>0.05</b>	<b>16.35</b>	<b>0.05</b>
Dec. 31, 2017	38.65	531 113	13 741	0.04	0.04	16.59	0.04
Dec. 31, 2016	36.81	453 111	12 310	0.04	0.04	27.48	0.06
Dec. 31, 2015	31.35	393 664	12 555	0.04	0.04	30.74	0.07
Dec. 31, 2014	33.93	314 503	9 268	0.04	0.04	41.63	0.08

<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.

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 – 1.83%, Advisor Series – 1.83%, Series D – 1.02% and Series F – 0.74%.



**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.

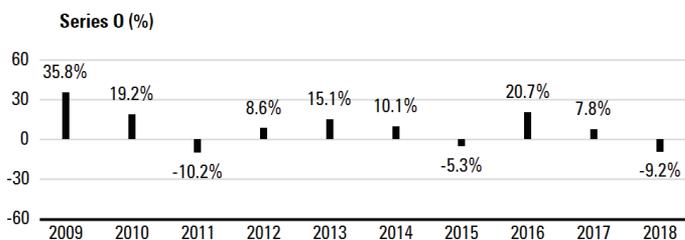
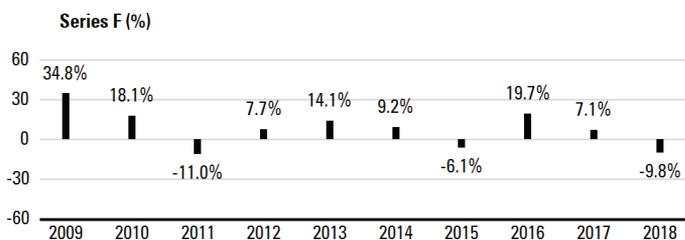
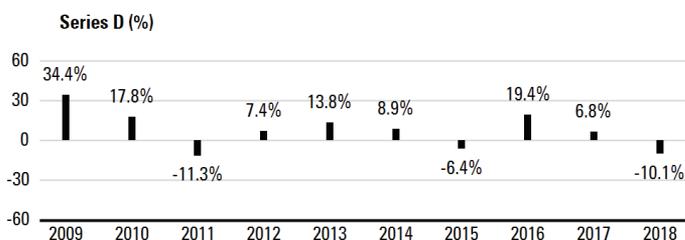
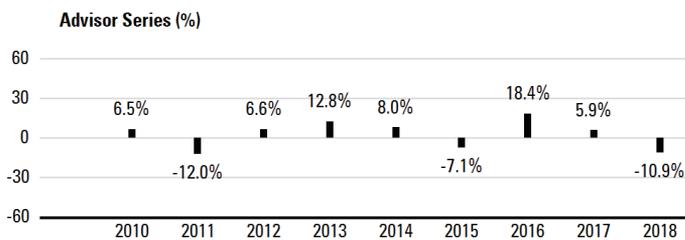
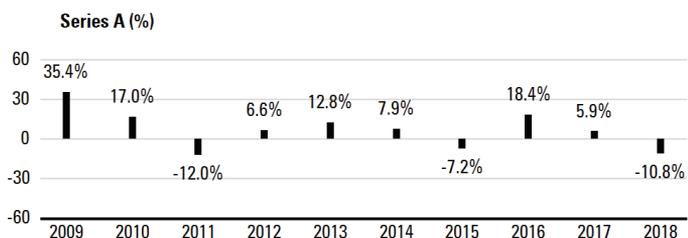
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-10.8	3.8	2.3	6.5	–
Benchmark	-8.9	6.4	4.1	7.9	–
Advisor Series	-10.9	3.8	2.3	–	2.9
Benchmark	-8.9	6.4	4.1	–	4.5
Series D	-10.1	4.7	3.2	7.2	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series F	-9.8	4.9	3.5	7.5	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series O	-9.2	5.7	4.3	8.4	–
Benchmark	-8.9	6.4	4.1	7.9	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Financials	32.3
Energy	16.9
Industrials	10.9
Materials	10.2
Communication Services	6.2
Consumer Discretionary	5.5
Consumer Staples	4.7
Information Technology	3.9
Real Estate	3.2
Utilities	2.0
Health Care	1.1
Cash/Other	3.1

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	7.1
Toronto-Dominion Bank	6.5
Bank of Nova Scotia	4.8
Canadian National Railway Co.	4.0
Enbridge Inc.	3.5
Suncor Energy Inc.	3.4
Bank of Montreal	2.9
Cash & Cash Equivalents	2.8
Brookfield Asset Management Inc., Class A	2.6
Canadian Imperial Bank of Commerce	2.4
Manulife Financial Corporation	2.3
Canadian Pacific Railway Ltd.	2.2
Nutrien Ltd.	2.2
TransCanada Corp.	2.1
Canadian Natural Resources Ltd.	2.1
Alimentation Couche-Tard Inc.	1.7
BCE Inc.	1.7
Rogers Communications Inc., Class B	1.6
Magna International Inc., Class A	1.6
Sun Life Financial Inc.	1.5
Waste Connections Inc.	1.4
TELUS Corp.	1.3
Shopify Inc., Class A	1.1
CGI Group Inc., Class A	1.1
Thomson Reuters Corp.	1.0
<b>Top 25 Holdings</b>	<b>64.9</b>

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN INCOME FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 capital preservation and a reasonably consistent level of income. To achieve the Fund's investment objective, the portfolio manager invests primarily in a well-diversified portfolio of dividend-paying Canadian common shares, high-quality units of Canadian income trusts or real estate investment trusts ("REITs"), and other income-producing securities including bonds of the Canadian government, provincial governments and quality Canadian corporations and high-quality money market securities including asset backed commercial paper. The Fund's assets are concentrated in mid- and large-capitalization securities and it does not invest in businesses with excessive financial leverage.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$812 million as of December 31, 2018, from \$933 million at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 8.0%, which outperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Discretionary sector, a position in Dollarama held back the Fund's returns during the year. The Energy sector hurt performance, with positions in ARC Resources and Whitecap Resources having a large negative impact.

In the Information Technology sector, the Fund's overweight position in CGI added significantly to returns. Positions in the Communication Services sector also aided performance, led in part by a holding in Quebecor.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$159,000 (2017 – \$107,000), or 12% (2017 – 7%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>15.67</b>	<b>0.48</b>	<b>(0.28)</b>	<b>0.22</b>	<b>(1.93)</b>	<b>(1.51)</b>	–	<b>(0.18)</b>	<b>(0.28)</b>	–	<b>(0.46)</b>	<b>13.71</b>
Dec. 31, 2017	15.61	0.45	(0.29)	1.03	(0.34)	0.85	–	(0.14)	(0.68)	–	(0.82)	15.67
Dec. 31, 2016	13.05	0.45	(0.27)	0.33	2.15	2.66	–	(0.21)	–	–	(0.21)	15.61
Dec. 31, 2015	14.35	0.49	(0.28)	(0.68)	(0.76)	(1.23)	–	(0.09)	–	–	(0.09)	13.05
Dec. 31, 2014	13.52	0.61	(0.30)	1.17	(0.88)	0.60	–	(0.11)	(0.01)	–	(0.12)	14.35
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>15.66</b>	<b>0.48</b>	<b>(0.28)</b>	<b>0.22</b>	<b>(2.07)</b>	<b>(1.65)</b>	–	<b>(0.18)</b>	<b>(0.28)</b>	–	<b>(0.46)</b>	<b>13.69</b>
Dec. 31, 2017	15.61	0.45	(0.29)	1.03	(0.34)	0.85	–	(0.15)	(0.68)	–	(0.83)	15.66
Dec. 31, 2016	13.05	0.45	(0.28)	0.33	2.23	2.73	–	(0.21)	–	–	(0.21)	15.61
Dec. 31, 2015	14.35	0.49	(0.28)	(0.68)	(0.76)	(1.23)	–	(0.09)	–	–	(0.09)	13.05
Dec. 31, 2014	13.52	0.61	(0.30)	1.16	(0.87)	0.60	–	(0.11)	(0.01)	–	(0.12)	14.35
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>15.63</b>	<b>0.48</b>	<b>(0.16)</b>	<b>0.22</b>	<b>(1.87)</b>	<b>(1.33)</b>	–	<b>(0.31)</b>	<b>(0.28)</b>	–	<b>(0.59)</b>	<b>13.66</b>
Dec. 31, 2017	15.59	0.45	(0.16)	1.03	(0.33)	0.99	–	(0.29)	(0.68)	–	(0.97)	15.63
Dec. 31, 2016	13.04	0.45	(0.16)	0.33	2.23	2.85	(0.01)	(0.33)	–	–	(0.34)	15.59
Dec. 31, 2015	14.31	0.49	(0.17)	(0.68)	(0.76)	(1.12)	–	(0.17)	–	–	(0.17)	13.04
Dec. 31, 2014	13.47	0.62	(0.17)	1.18	(0.88)	0.75	–	(0.22)	(0.01)	–	(0.23)	14.31
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>15.62</b>	<b>0.48</b>	<b>(0.12)</b>	<b>0.22</b>	<b>(1.83)</b>	<b>(1.25)</b>	–	<b>(0.38)</b>	<b>(0.28)</b>	–	<b>(0.66)</b>	<b>13.63</b>
Dec. 31, 2017	15.60	0.45	(0.12)	1.03	(0.16)	1.20	–	(0.35)	(0.68)	–	(1.03)	15.62
Dec. 31, 2016	13.06	0.45	(0.12)	0.33	1.95	2.61	(0.01)	(0.39)	–	–	(0.40)	15.60
Dec. 31, 2015	14.34	0.48	(0.13)	(0.67)	(0.75)	(1.07)	–	(0.21)	–	–	(0.21)	13.06
Dec. 31, 2014	13.52	0.60	(0.14)	1.13	(0.85)	0.74	–	(0.28)	(0.01)	–	(0.29)	14.34
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>15.49</b>	<b>0.48</b>	<b>(0.01)</b>	<b>0.21</b>	<b>(1.91)</b>	<b>(1.23)</b>	–	<b>(0.45)</b>	<b>(0.28)</b>	–	<b>(0.73)</b>	<b>13.54</b>
Dec. 31, 2017	15.45	0.45	(0.01)	1.02	(0.31)	1.15	–	(0.44)	(0.68)	–	(1.12)	15.49
Dec. 31, 2016	12.91	0.44	(0.01)	0.33	2.20	2.96	(0.01)	(0.46)	–	–	(0.47)	15.45
Dec. 31, 2015	14.30	0.48	(0.01)	(0.67)	(0.75)	(0.95)	(0.01)	(0.44)	–	–	(0.45)	12.91
Dec. 31, 2014	13.42	0.38	(0.01)	0.72	(0.54)	0.55	–	(0.35)	(0.01)	–	(0.36)	14.30

<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>Dec. 31, 2018</b>	<b>13.71</b>	<b>3 306</b>	<b>241</b>	<b>1.87</b>	<b>1.87</b>	<b>75.09</b>	<b>0.15</b>
Dec. 31, 2017	15.67	4 019	256	1.86	1.86	97.63	0.17
Dec. 31, 2016	15.61	4 698	301	1.94	1.94	146.47	0.33
Dec. 31, 2015	13.05	4 880	374	2.03	2.03	207.29	0.48
Dec. 31, 2014	14.35	6 152	429	2.03	2.03	169.49	0.46
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>13.69</b>	<b>698</b>	<b>51</b>	<b>1.87</b>	<b>1.87</b>	<b>75.09</b>	<b>0.15</b>
Dec. 31, 2017	15.66	944	60	1.86	1.86	97.63	0.17
Dec. 31, 2016	15.61	1 049	67	1.94	1.94	146.47	0.33
Dec. 31, 2015	13.05	939	72	2.03	2.03	207.29	0.48
Dec. 31, 2014	14.35	1 334	93	2.03	2.03	169.49	0.46
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>13.66</b>	<b>48 337</b>	<b>3 539</b>	<b>1.03</b>	<b>1.03</b>	<b>75.09</b>	<b>0.15</b>
Dec. 31, 2017	15.63	61 059	3 906	1.03	1.03	97.63	0.17
Dec. 31, 2016	15.59	62 851	4 033	1.11	1.11	146.47	0.33
Dec. 31, 2015	13.04	57 305	4 395	1.19	1.19	207.29	0.48
Dec. 31, 2014	14.31	75 124	5 251	1.19	1.19	169.49	0.46
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>13.63</b>	<b>1 383</b>	<b>101</b>	<b>0.76</b>	<b>0.76</b>	<b>75.09</b>	<b>0.15</b>
Dec. 31, 2017	15.62	2 016	129	0.78	0.78	97.63	0.17
Dec. 31, 2016	15.60	1 361	87	0.85	0.85	146.47	0.33
Dec. 31, 2015	13.06	1 265	97	0.93	0.93	207.29	0.48
Dec. 31, 2014	14.34	938	65	0.96	0.96	169.49	0.46
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>13.54</b>	<b>758 082</b>	<b>56 001</b>	<b>0.07</b>	<b>0.07</b>	<b>75.09</b>	<b>0.15</b>
Dec. 31, 2017	15.49	865 341	55 874	0.07	0.07	97.63	0.17
Dec. 31, 2016	15.45	865 635	56 030	0.07	0.07	146.47	0.33
Dec. 31, 2015	12.91	920 098	71 280	0.07	0.07	207.29	0.48
Dec. 31, 2014	14.30	754 281	52 761	0.07	0.07	169.49	0.46

<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.

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 – 1.86%, Advisor Series – 1.86%, Series D – 1.03% and Series F – 0.77%.



**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.

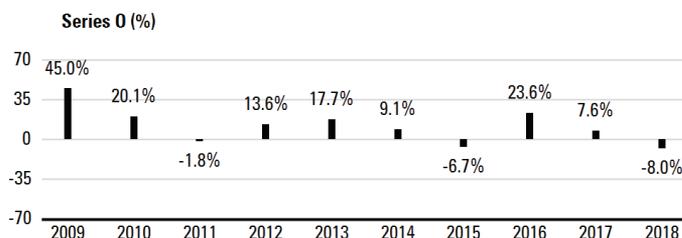
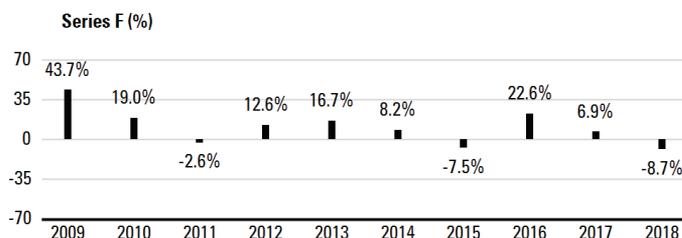
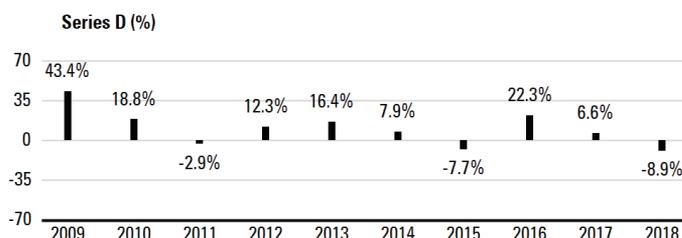
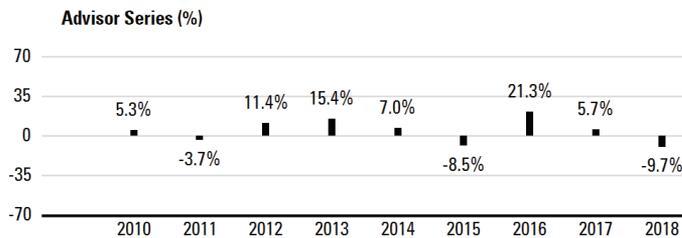
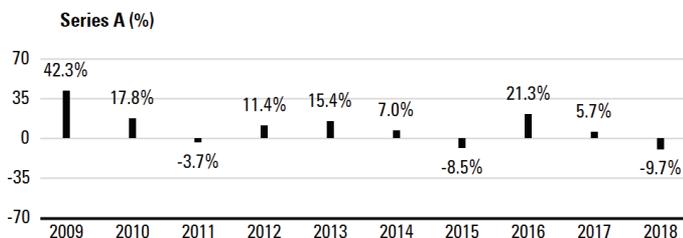
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index, which is also the broad-based index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-9.7	5.0	2.6	8.9	–
Benchmark	-8.9	6.4	4.1	7.9	–
Advisor Series	-9.7	5.0	2.6	–	4.9
Benchmark	-8.9	6.4	4.1	–	4.5
Series D	-8.9	5.9	3.4	9.8	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series F	-8.7	6.2	3.7	10.1	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series O	-8.0	7.0	4.5	11.0	–
Benchmark	-8.9	6.4	4.1	7.9	–

The returns of each series may vary because of differences in management fees and expenses. 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 index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Financials	39.5
Energy	19.8
Industrials	12.1
Communication Services	6.4
Materials	6.0
Real Estate	4.0
Consumer Discretionary	3.3
Utilities	2.9
Information Technology	2.7
Consumer Staples	2.2
Cash/Other	1.1

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	8.7
Toronto-Dominion Bank	7.8
Enbridge Inc.	6.0
Bank of Nova Scotia	5.6
Canadian National Railway Co.	4.6
Brookfield Asset Management Inc., Class A	3.8
Bank of Montreal	3.7
Manulife Financial Corporation	2.5
Shaw Communications Inc., Class B	2.4
TransCanada Corp.	2.3
Nutrien Ltd.	2.2
Alimentation Couche-Tard Inc.	2.2
Canadian Natural Resources Ltd.	2.1
Sun Life Financial Inc.	2.0
Canadian Pacific Railway Ltd.	2.0
Quebecor Inc., Class B	1.8
Brookfield Property Partners LP	1.8
Suncor Energy Inc.	1.8
Fairfax Financial Holdings Ltd.	1.6
Canadian Imperial Bank of Commerce	1.5
Fortis Inc.	1.5
Brookfield Infrastructure Partners LP	1.4
Waste Connections Inc.	1.4
Pembina Pipeline Corp.	1.4
PrairieSky Royalty Ltd.	1.3
Top 25 Holdings	73.4

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
VINTAGE FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 and dividend income by investing primarily in a well-diversified portfolio of Canadian common stocks listed on the TSX. To achieve the Fund's investment objective, the portfolio manager focuses on companies that earned a return on shareholders equity that is above average within their industry over the previous five to 10 years and maintained financial strength. The Fund's investments may also emphasize small-capitalization securities when valuation levels are attractive.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$57 million as of December 31, 2018, from \$68 million at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 9.0%, which underperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Discretionary sector, a position in Sleep Country Canada held back the Fund's returns during the year. The Energy sector hurt performance, with positions in Raging River Exploration and Whitecap Resources having a large negative impact during the period.

In the Industrials sector, the Fund's overweight position in Badger Daylighting added significantly to returns. Positions in the Information Technology sector also aided performance, with contributions from holdings in Blackline Safety and CGI.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$4,000 (2017 – \$3,000), or 11% (2017 – 5%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>31.03</b>	<b>0.83</b>	<b>(0.65)</b>	<b>0.81</b>	<b>(4.32)</b>	<b>(3.33)</b>	—	<b>(0.17)</b>	—	—	<b>(0.17)</b>	<b>27.49</b>
Dec. 31, 2017	29.64	0.66	(0.64)	1.48	(0.11)	1.39	—	—	—	—	—	31.03
Dec. 31, 2016	24.41	0.64	(0.59)	0.59	4.43	5.07	—	—	—	—	—	29.64
Dec. 31, 2015	27.22	0.70	(0.61)	0.30	(3.39)	(3.00)	—	—	—	—	—	24.41
Dec. 31, 2014	24.50	0.57	(0.62)	3.34	(0.73)	2.56	—	—	—	—	—	27.22
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>31.07</b>	<b>0.83</b>	<b>(0.65)</b>	<b>0.81</b>	<b>(4.30)</b>	<b>(3.31)</b>	—	<b>(0.17)</b>	—	—	<b>(0.17)</b>	<b>27.53</b>
Dec. 31, 2017	29.68	0.66	(0.64)	1.48	(0.17)	1.33	—	—	—	—	—	31.07
Dec. 31, 2016	24.44	0.65	(0.59)	0.59	4.60	5.25	—	—	—	—	—	29.68
Dec. 31, 2015	27.25	0.70	(0.61)	0.30	(3.38)	(2.99)	—	—	—	—	—	24.44
Dec. 31, 2014	24.53	0.56	(0.63)	3.31	(0.72)	2.52	—	—	—	—	—	27.25
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>32.38</b>	<b>0.86</b>	<b>(0.41)</b>	<b>0.85</b>	<b>(4.47)</b>	<b>(3.17)</b>	—	<b>(0.43)</b>	—	—	<b>(0.43)</b>	<b>28.67</b>
Dec. 31, 2017	30.83	0.69	(0.40)	1.55	(0.22)	1.62	—	(0.17)	—	—	(0.17)	32.38
Dec. 31, 2016	25.37	0.67	(0.38)	0.61	4.72	5.62	—	(0.24)	—	—	(0.24)	30.83
Dec. 31, 2015	28.25	0.73	(0.41)	0.32	(3.53)	(2.89)	—	(0.17)	—	—	(0.17)	25.37
Dec. 31, 2014	25.26	0.60	(0.40)	3.52	(0.77)	2.95	—	(0.06)	—	—	(0.06)	28.25
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>33.66</b>	<b>0.90</b>	<b>(0.34)</b>	<b>0.88</b>	<b>(4.94)</b>	<b>(3.50)</b>	<b>(0.01)</b>	<b>(0.51)</b>	—	—	<b>(0.52)</b>	<b>29.82</b>
Dec. 31, 2017	32.05	0.71	(0.35)	1.60	0.82	2.78	—	(0.26)	—	—	(0.26)	33.66
Dec. 31, 2016	26.37	0.69	(0.32)	0.63	4.59	5.59	—	(0.33)	—	—	(0.33)	32.05
Dec. 31, 2015	29.37	0.75	(0.36)	0.33	(3.65)	(2.93)	—	(0.24)	—	—	(0.24)	26.37
Dec. 31, 2014	26.25	0.61	(0.35)	3.57	(0.78)	3.05	—	(0.12)	—	—	(0.12)	29.37
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>35.20</b>	<b>0.95</b>	<b>(0.02)</b>	<b>0.92</b>	<b>(5.04)</b>	<b>(3.19)</b>	<b>(0.01)</b>	<b>(0.85)</b>	—	—	<b>(0.86)</b>	<b>31.17</b>
Dec. 31, 2017	33.52	0.75	(0.02)	1.69	—	2.42	(0.01)	(0.62)	—	—	(0.63)	35.20
Dec. 31, 2016	27.56	0.74	(0.02)	0.67	5.47	6.86	—	(0.67)	—	—	(0.67)	33.52
Dec. 31, 2015	30.70	0.79	(0.02)	0.34	(3.83)	(2.72)	—	(0.58)	—	—	(0.58)	27.56
Dec. 31, 2014	27.42	0.65	(0.02)	3.82	(0.84)	3.61	—	(0.46)	—	—	(0.46)	30.70

<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>Dec. 31, 2018</b>	<b>27.49</b>	<b>913</b>	<b>33</b>	<b>2.13</b>	<b>2.13</b>	<b>31.07</b>	<b>0.05</b>
Dec. 31, 2017	31.03	1 349	43	2.13	2.13	56.41	0.09
Dec. 31, 2016	29.64	1 702	57	2.23	2.23	52.97	0.11
Dec. 31, 2015	24.41	1 781	73	2.27	2.28	41.32	0.11
Dec. 31, 2014	27.22	2 160	79	2.29	2.30	59.45	0.11
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>27.53</b>	<b>436</b>	<b>16</b>	<b>2.13</b>	<b>2.13</b>	<b>31.07</b>	<b>0.05</b>
Dec. 31, 2017	31.07	877	28	2.13	2.13	56.41	0.09
Dec. 31, 2016	29.68	797	27	2.22	2.22	52.97	0.11
Dec. 31, 2015	24.44	453	19	2.27	2.28	41.32	0.11
Dec. 31, 2014	27.25	500	18	2.29	2.30	59.45	0.11
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>28.67</b>	<b>24 314</b>	<b>848</b>	<b>1.29</b>	<b>1.29</b>	<b>31.07</b>	<b>0.05</b>
Dec. 31, 2017	32.38	32 105	991	1.29	1.29	56.41	0.09
Dec. 31, 2016	30.83	34 976	1 134	1.37	1.37	52.97	0.11
Dec. 31, 2015	25.37	31 096	1 226	1.45	1.46	41.32	0.11
Dec. 31, 2014	28.25	37 446	1 326	1.45	1.46	59.45	0.11
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>29.82</b>	<b>2 149</b>	<b>72</b>	<b>1.03</b>	<b>1.03</b>	<b>31.07</b>	<b>0.05</b>
Dec. 31, 2017	33.66	2 177	65	1.06	1.06	56.41	0.09
Dec. 31, 2016	32.05	987	31	1.14	1.14	52.97	0.11
Dec. 31, 2015	26.37	2 585	98	1.22	1.23	41.32	0.11
Dec. 31, 2014	29.37	1 685	57	1.19	1.20	59.45	0.11
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>31.17</b>	<b>29 445</b>	<b>945</b>	<b>0.06</b>	<b>0.06</b>	<b>31.07</b>	<b>0.05</b>
Dec. 31, 2017	35.20	31 121	884	0.06	0.06	56.41	0.09
Dec. 31, 2016	33.52	23 929	714	0.07	0.07	52.97	0.11
Dec. 31, 2015	27.56	16 583	602	0.06	0.07	41.32	0.11
Dec. 31, 2014	30.70	8 741	285	0.06	0.07	59.45	0.11

<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.

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 – 2.14%, Advisor Series – 2.14%, Series D – 1.29% and Series F – 1.02%.



**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	1.85%	54%	46%
Advisor Series	1.85%	54%	46%
Series D	1.10%	23%	77%
Series F	0.85%	—	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.

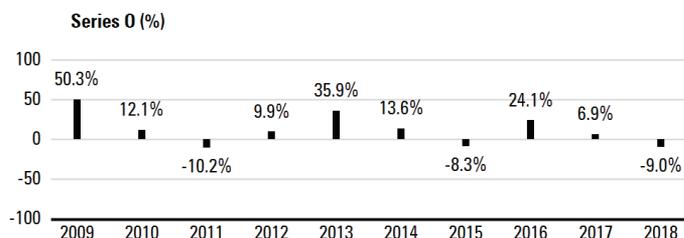
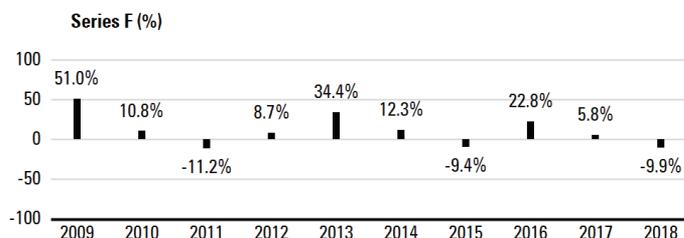
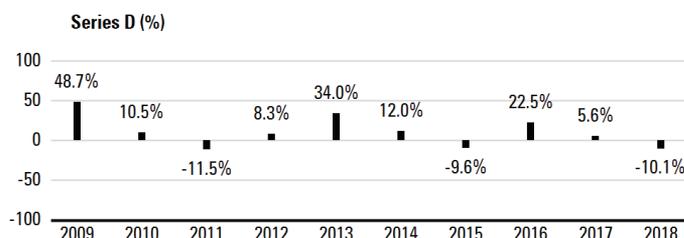
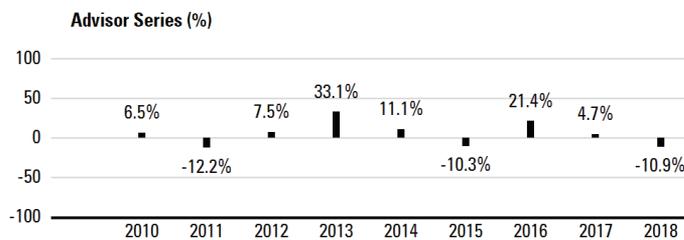
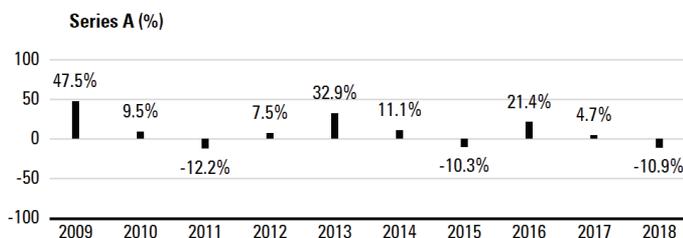
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





## PAST PERFORMANCE (cont.)

### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

#### S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-10.9	4.3	2.5	8.6	–
Benchmark	-8.9	6.4	4.1	7.9	–
Advisor Series	-10.9	4.3	2.5	–	5.2
Benchmark	-8.9	6.4	4.1	–	4.5
Series D	-10.1	5.2	3.3	9.5	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series F	-9.9	5.4	3.6	10.0	–
Benchmark	-8.9	6.4	4.1	7.9	–
Series O	-9.0	6.5	4.7	11.0	–
Benchmark	-8.9	6.4	4.1	7.9	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

### INDEX DESCRIPTION

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Financials	33.3
Energy	17.2
Industrials	14.8
Information Technology	7.0
Consumer Staples	6.8
Materials	6.3
Consumer Discretionary	4.7
Communication Services	4.4
Real Estate	3.4
Utilities	0.9
Cash/Other	1.2

### Top 25 Holdings

	% of Net Asset Value
Royal Bank of Canada	7.2
Toronto-Dominion Bank	6.2
Bank of Nova Scotia	4.6
Enbridge Inc.	4.2
Brookfield Asset Management Inc., Class A	3.7
Alimentation Couche-Tard Inc.	3.3
Stantec Inc.	2.8
Suncor Energy Inc.	2.7
Shaw Communications Inc., Class B	2.7
Badger Daylighting Ltd.	2.5
Bank of Montreal	2.4
Canadian Natural Resources Ltd.	2.3
CGI Group Inc., Class A	2.1
Canadian National Railway Co.	2.1
Pembina Pipeline Corp.	2.0
Manulife Financial Corporation	1.9
Element Fleet Management Corp.	1.9
Open Text Corp.	1.8
Quebecor Inc., Class B	1.7
Franco-Nevada Corp.	1.6
Intact Financial Corp.	1.6
Dollarama Inc.	1.4
Sun Life Financial Inc.	1.4
Blackline Safety Corp.	1.4
Fairfax Financial Holdings Ltd.	1.4
Top 25 Holdings	66.9

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).



U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH  
U.S. DIVIDEND INCOME FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 and income by investing primarily in a well-diversified portfolio of dividend income-producing U.S. securities that have a relatively high yield. To achieve the Fund's investment objective, the portfolio manager invests primarily in large-capitalization dividend-paying U.S. common shares and, to a lesser extent, preferred shares and bonds.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$199 million as of December 31, 2018, from \$214 million at the end of 2017. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 2.3%, which underperformed the 3.8% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

U.S. stocks fell overall in 2018 due to a significant pullback in the fourth quarter of the year. From April to September, U.S. stocks enjoyed a stretch of strong returns driven primarily by earnings growth. However, volatility emerged in October amid concern that rising interest rates would generate headwinds for economic and earnings growth. The recent market pullback has arguably priced in most apparent challenges, in the view of the portfolio manager, as reduced stock-market valuations mean that future returns will not be entirely reliant on earnings growth.

The portfolio underperformed the benchmark in 2018 given that the Fund is not permitted to invest in companies that do not pay dividends. During the year, it was non-dividend-paying companies such as Amazon, Netflix, Berkshire Hathaway and Adobe that generally outperformed. Overweight positions in the tobacco companies Altria Group and Philip Morris International also hurt performance. Philip Morris fell early in the year on weak earnings, largely driven by lower-than-expected sales of its smokeless product in Japan. Altria Group serves an entirely different market but was dragged down by Philip Morris's poor results.

The Fund held up relatively well in the fourth quarter amid volatile markets. Exposure to companies and sectors that tend to fall less in a down market aided relative returns late in the year, as did the portfolio manager's decision to devote a portion of the Fund's assets to fixed income, as allowed under the mandate.

The portfolio manager takes an active approach to managing the Fund, attempting to generate better returns through security and sector selection.

### Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to different outcomes. A policy mistake by the U.S. Federal Reserve (the "Fed") – raising interest rates too fast, for example – or an escalation of protectionist moves by the Trump administration, which could increase the costs of goods, are the most likely causes of a downturn, given the potential for both to stamp out the expansion, in the view of the portfolio manager. In the upside scenario, the expansion would remain intact through 2021, perhaps because the Fed soon pauses its plan to hike rates or the Trump administration reaches a trade agreement with China.

### 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 Investor Services Trust ("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 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 \$24,000 (2017 – \$5,000), or 10% (2017 – 4%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>15.67</b>	<b>0.37</b>	<b>(0.30)</b>	<b>1.53</b>	<b>(1.53)</b>	<b>0.07</b>	–	<b>(0.07)</b>	<b>(1.31)</b>	–	<b>(1.38)</b>	<b>14.35</b>
Dec. 31, 2017	14.30	0.35	(0.28)	0.63	0.88	1.58	–	(0.06)	(0.20)	–	(0.26)	15.67
Dec. 31, 2016	13.52	0.34	(0.26)	1.57	(0.54)	1.11	–	(0.08)	(0.30)	–	(0.38)	14.30
Dec. 31, 2015	12.08	0.41	(0.26)	1.37	0.06	1.58	–	(0.15)	–	–	(0.15)	13.52
Dec. 31, 2014	10.26	0.30	(0.23)	1.56	0.24	1.87	–	(0.07)	–	–	(0.07)	12.08
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>15.67</b>	<b>0.37</b>	<b>(0.30)</b>	<b>1.53</b>	<b>(1.53)</b>	<b>0.07</b>	–	<b>(0.06)</b>	<b>(1.32)</b>	–	<b>(1.38)</b>	<b>14.34</b>
Dec. 31, 2017	14.30	0.35	(0.28)	0.63	0.93	1.63	–	(0.07)	(0.20)	–	(0.27)	15.67
Dec. 31, 2016	13.52	0.34	(0.26)	1.57	(0.62)	1.03	–	(0.08)	(0.30)	–	(0.38)	14.30
Dec. 31, 2015	12.08	0.41	(0.26)	1.37	0.06	1.58	–	(0.15)	–	–	(0.15)	13.52
Dec. 31, 2014	10.26	0.30	(0.23)	1.56	0.24	1.87	–	(0.07)	–	–	(0.07)	12.08
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>15.55</b>	<b>0.37</b>	<b>(0.16)</b>	<b>1.52</b>	<b>(1.52)</b>	<b>0.21</b>	–	<b>(0.20)</b>	<b>(1.32)</b>	–	<b>(1.52)</b>	<b>14.21</b>
Dec. 31, 2017	14.20	0.35	(0.15)	0.62	0.93	1.75	–	(0.21)	(0.20)	–	(0.41)	15.55
Dec. 31, 2016	13.43	0.34	(0.15)	1.56	(0.53)	1.22	–	(0.21)	(0.31)	–	(0.52)	14.20
Dec. 31, 2015	12.01	0.41	(0.15)	1.37	0.06	1.69	–	(0.27)	–	–	(0.27)	13.43
Dec. 31, 2014	10.20	0.30	(0.13)	1.56	0.24	1.97	–	(0.17)	–	–	(0.17)	12.01
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>15.48</b>	<b>0.37</b>	<b>(0.12)</b>	<b>1.52</b>	<b>(1.55)</b>	<b>0.22</b>	–	<b>(0.24)</b>	<b>(1.32)</b>	–	<b>(1.56)</b>	<b>14.15</b>
Dec. 31, 2017	14.15	0.35	(0.11)	0.62	0.98	1.84	–	(0.26)	(0.20)	–	(0.46)	15.48
Dec. 31, 2016	13.40	0.34	(0.11)	1.56	(0.36)	1.43	–	(0.25)	(0.31)	–	(0.56)	14.15
Dec. 31, 2015	11.98	0.41	(0.12)	1.37	0.06	1.72	–	(0.30)	–	–	(0.30)	13.40
Dec. 31, 2014	10.17	0.30	(0.10)	1.56	0.24	2.00	–	(0.20)	–	–	(0.20)	11.98
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>15.55</b>	<b>0.37</b>	<b>(0.01)</b>	<b>1.53</b>	<b>(1.50)</b>	<b>0.39</b>	–	<b>(0.35)</b>	<b>(1.33)</b>	–	<b>(1.68)</b>	<b>14.21</b>
Dec. 31, 2017	14.21	0.35	(0.01)	0.63	0.95	1.92	–	(0.37)	(0.20)	–	(0.57)	15.55
Dec. 31, 2016	13.44	0.34	(0.01)	1.57	(0.54)	1.36	–	(0.35)	(0.31)	–	(0.66)	14.21
Dec. 31, 2015	12.02	0.41	(0.01)	1.37	0.06	1.83	–	(0.43)	–	–	(0.43)	13.44
Dec. 31, 2014	10.21	0.30	(0.01)	1.57	0.24	2.10	–	(0.30)	–	–	(0.30)	12.02

<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>Dec. 31, 2018</b>	<b>14.35</b>	<b>12 432</b>	<b>866</b>	<b>1.88</b>	<b>1.88</b>	<b>139.71</b>	<b>0.11</b>
Dec. 31, 2017	15.67	13 333	851	1.88	1.88	62.26	0.06
Dec. 31, 2016	14.30	13 461	941	1.95	1.95	96.36	0.08
Dec. 31, 2015	13.52	12 974	959	2.04	2.04	76.34	0.07
Dec. 31, 2014	12.08	11 575	958	2.05	2.05	47.76	0.07
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>14.34</b>	<b>12 405</b>	<b>865</b>	<b>1.88</b>	<b>1.88</b>	<b>139.71</b>	<b>0.11</b>
Dec. 31, 2017	15.67	12 497	797	1.88	1.88	62.26	0.06
Dec. 31, 2016	14.30	11 523	806	1.95	1.95	96.36	0.08
Dec. 31, 2015	13.52	12 585	931	2.04	2.04	76.34	0.07
Dec. 31, 2014	12.08	11 345	939	2.05	2.05	47.76	0.07
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>14.21</b>	<b>86 959</b>	<b>6 117</b>	<b>1.03</b>	<b>1.03</b>	<b>139.71</b>	<b>0.11</b>
Dec. 31, 2017	15.55	88 507	5 693	1.04	1.04	62.26	0.06
Dec. 31, 2016	14.20	78 706	5 544	1.10	1.10	96.36	0.08
Dec. 31, 2015	13.43	78 132	5 816	1.19	1.19	76.34	0.07
Dec. 31, 2014	12.01	68 368	5 694	1.19	1.19	47.76	0.07
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>14.15</b>	<b>13 660</b>	<b>966</b>	<b>0.78</b>	<b>0.78</b>	<b>139.71</b>	<b>0.11</b>
Dec. 31, 2017	15.48	14 036	906	0.78	0.78	62.26	0.06
Dec. 31, 2016	14.15	10 012	708	0.85	0.85	96.36	0.08
Dec. 31, 2015	13.40	7 349	548	0.94	0.94	76.34	0.07
Dec. 31, 2014	11.98	4 597	384	0.94	0.94	47.76	0.07
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>14.21</b>	<b>73 417</b>	<b>5 167</b>	<b>0.09</b>	<b>0.09</b>	<b>139.71</b>	<b>0.11</b>
Dec. 31, 2017	15.55	85 168	5 476	0.09	0.09	62.26	0.06
Dec. 31, 2016	14.21	87 618	6 167	0.08	0.08	96.36	0.08
Dec. 31, 2015	13.44	90 426	6 729	0.08	0.08	76.34	0.07
Dec. 31, 2014	12.02	94 196	7 837	0.08	0.08	47.76	0.07

<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.

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 – 1.87%, Advisor Series – 1.87%, Series D – 1.02% and Series F – 0.77%.



**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.

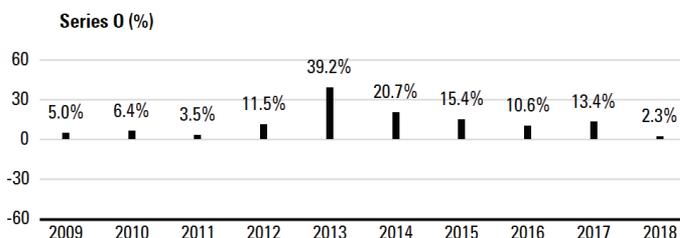
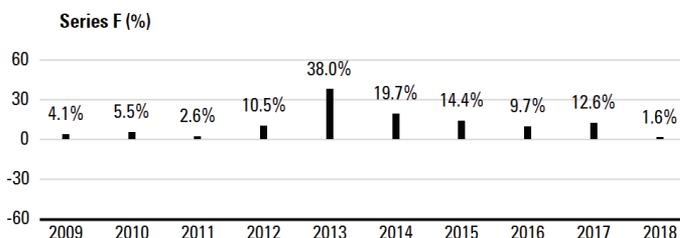
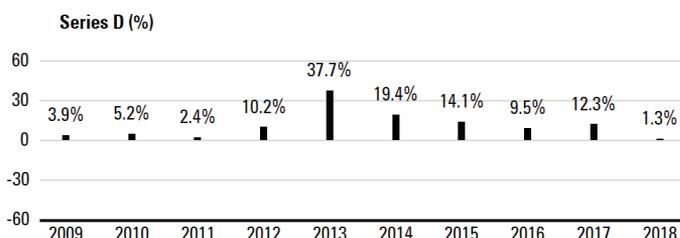
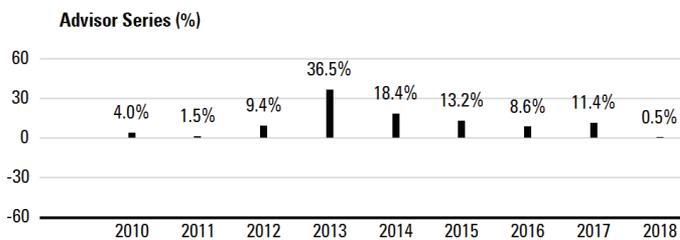
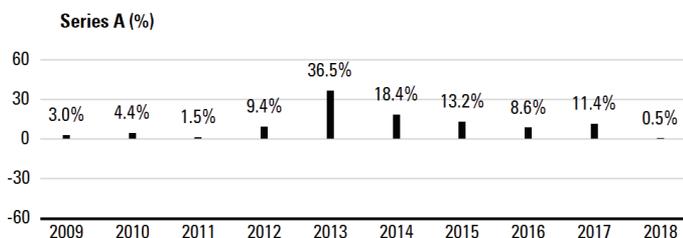
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P 500 Total Return Index (CAD)**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	0.5	6.7	10.2	10.3	–
Benchmark	3.8	8.8	14.1	14.4	–
Advisor Series	0.5	6.7	10.2	–	12.2
Benchmark	3.8	8.8	14.1	–	16.0
Series D	1.3	7.6	11.2	11.2	–
Benchmark	3.8	8.8	14.1	14.4	–
Series F	1.6	7.9	11.4	11.5	–
Benchmark	3.8	8.8	14.1	14.4	–
Series O	2.3	8.7	12.3	12.4	–
Benchmark	3.8	8.8	14.1	14.4	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

**INDEX DESCRIPTION**

**S&P 500 Total Return Index (CAD)** This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Information Technology	24.9
Health Care	18.0
Financials	10.1
Industrials	9.4
Consumer Staples	8.2
Consumer Discretionary	7.5
Utilities	5.1
Energy	3.7
Underlying Funds	3.3
Communication Services	3.2
Real Estate	2.6
Materials	1.3
Cash/Other	2.7

**Top 25 Holdings**

	% of Net Asset Value
Microsoft Corp.	5.2
Apple Inc.	3.6
Cisco Systems Inc.	3.5
iShares Dow Jones US Real Estate Index Fund	3.3
Broadcom Inc.	3.0
Texas Instruments Inc.	2.8
Bank of America Corp.	2.7
Cash & Cash Equivalents	2.6
JPMorgan Chase & Co.	2.6
UnitedHealth Group Incorporated	2.4
Intel Corp.	2.3
Boeing Co.	2.1
Merck & Co. Inc.	2.1
Johnson & Johnson	2.1
Anthem Inc.	1.9
CVS Health Corp.	1.7
Home Depot Inc.	1.7
Pfizer Inc.	1.6
Union Pacific Corp.	1.6
McDonald's Corp.	1.5
Visa Inc., Class A	1.4
The Walt Disney Company	1.4
The Procter & Gamble Co.	1.4
PepsiCo Inc.	1.3
The Coca-Cola Co.	1.3
<b>Top 25 Holdings</b>	<b>57.1</b>

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).



U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH  
U.S. MULTI-STYLE ALL-CAP  
EQUITY FUND**

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December 31, 2018

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

Sub-Advisor: RBC Global Asset Management (U.S.) Inc.

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 in shares of high-quality U.S. companies. To achieve the Fund's investment objective, the portfolio manager invests in quality businesses that have a sustainable competitive advantage, a history of profitability, a solid financial position, opportunities for growth, and a capable management team. Emphasis is placed on a stock's valuation, with effort to select those with relatively low valuations, given the breadth of the U.S. market.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$5.0 billion as of December 31, 2018, from \$5.3 billion at the end of 2017. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 1.3%, which underperformed the 2.9% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

U.S. stocks fell overall in 2018 due to a significant pullback in the fourth quarter of the year. From April to September, U.S. stocks enjoyed a stretch of strong returns driven primarily by earnings growth. However, volatility emerged in October amid concern that rising interest rates would generate headwinds for economic and earnings growth. The recent market pullback has arguably priced in most apparent challenges, in the view of the portfolio manager, as reduced stock-market valuations mean that future returns will not be entirely reliant on earnings growth.

The Fund's Large Cap Growth component outperformed its benchmark, the Russell Large Cap Growth Index, due to favourable sector allocation. An underweight position in the Energy sector and overweight in Information Technology both aided returns. From a stock-selection standpoint, favourable stock picks in the Materials and Energy sectors had a positive impact on performance, offsetting adverse stock selection in Financials.

The Large Cap Value strategy underperformed its benchmark, the Russell Top 200 Value Index, due to adverse stock selection in the Consumer Discretionary, Energy and Financials sectors. Sector-allocation bets had a positive impact on performance, as an overweight allocation to the Health Care sector and an underweight to Consumer Staples both benefited the portfolio.

The Fund's Mid Cap Value sleeve underperformed its benchmark, the Russell Mid Cap Value Index, due primarily to unfavourable stock selection in the Consumer Staples, Industrials and Materials sectors. Favourable stock picks in the Utilities and Health Care sectors had a positive impact on portfolio performance. Overall, sector-allocation decisions held back returns.

### Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to different outcomes. A policy mistake by the U.S. Federal Reserve (the "Fed") – raising interest rates too fast, for example – or an escalation of protectionist moves by the Trump administration, which could increase the costs of goods, are the most likely causes of a downturn, given the potential for both to stamp out the expansion, in the view of the portfolio manager. In the upside scenario, the expansion would remain intact through 2021, perhaps because the Fed soon pauses its plan to hike rates or the Trump administration reaches a trade agreement with China.

### 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.



**Sub-Advisor**

RBC Global Asset Management (U.S.) Inc. is the sub-advisor and provides investment advice for the Fund. The sub-advisor earns a fee which is calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund. The sub-advisor is paid by the manager from the management fee paid by the Fund.

**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 Investor Services Trust ("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 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 \$0 (2017 – \$68,000), or 0% (2017 – 2%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>17.07</b>	<b>0.31</b>	<b>(0.33)</b>	<b>1.31</b>	<b>(1.30)</b>	<b>(0.01)</b>	—	—	<b>(1.26)</b>	—	<b>(1.26)</b>	<b>15.71</b>
Dec. 31, 2017	16.46	0.29	(0.32)	1.39	0.46	1.82	—	—	(1.32)	—	(1.32)	17.07
Dec. 31, 2016	16.05	0.29	(0.30)	0.57	0.29	0.85	—	—	(0.59)	—	(0.59)	16.46
Dec. 31, 2015	14.95	0.31	(0.33)	2.16	0.31	2.45	—	—	(1.51)	—	(1.51)	16.05
Dec. 31, 2014	14.16	0.23	(0.31)	2.25	0.73	2.90	—	—	(1.96)	—	(1.96)	14.95
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>17.10</b>	<b>0.31</b>	<b>(0.34)</b>	<b>1.31</b>	<b>(1.45)</b>	<b>(0.17)</b>	—	—	<b>(1.27)</b>	—	<b>(1.27)</b>	<b>15.73</b>
Dec. 31, 2017	16.49	0.29	(0.32)	1.40	0.34	1.71	—	—	(1.33)	—	(1.33)	17.10
Dec. 31, 2016	16.06	0.29	(0.30)	0.57	0.37	0.93	—	—	(0.57)	—	(0.57)	16.49
Dec. 31, 2015	14.96	0.31	(0.33)	2.18	0.31	2.47	—	—	(1.51)	—	(1.51)	16.06
Dec. 31, 2014	14.16	0.23	(0.31)	2.25	0.73	2.90	—	—	(1.96)	—	(1.96)	14.96
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>17.85</b>	<b>0.32</b>	<b>(0.19)</b>	<b>1.37</b>	<b>(1.43)</b>	<b>0.07</b>	—	<b>(0.15)</b>	<b>(1.33)</b>	—	<b>(1.48)</b>	<b>16.41</b>
Dec. 31, 2017	17.17	0.31	(0.18)	1.46	0.53	2.12	—	(0.13)	(1.37)	—	(1.50)	17.85
Dec. 31, 2016	16.74	0.31	(0.18)	0.60	0.21	0.94	—	(0.11)	(0.65)	—	(0.76)	17.17
Dec. 31, 2015	15.48	0.31	(0.20)	2.22	0.32	2.65	—	(0.04)	(1.56)	—	(1.60)	16.74
Dec. 31, 2014	14.49	0.24	(0.18)	2.31	0.75	3.12	—	(0.01)	(1.96)	—	(1.97)	15.48
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>17.84</b>	<b>0.32</b>	<b>(0.15)</b>	<b>1.38</b>	<b>(1.92)</b>	<b>(0.37)</b>	—	<b>(0.18)</b>	<b>(1.45)</b>	—	<b>(1.63)</b>	<b>16.31</b>
Dec. 31, 2017	17.18	0.31	(0.14)	1.45	0.58	2.20	—	(0.18)	(1.38)	—	(1.56)	17.84
Dec. 31, 2016	16.69	0.31	(0.14)	0.60	0.37	1.14	—	(0.16)	(0.59)	—	(0.75)	17.18
Dec. 31, 2015	15.45	0.32	(0.16)	2.23	0.32	2.71	—	(0.08)	(1.57)	—	(1.65)	16.69
Dec. 31, 2014	14.47	0.24	(0.15)	2.36	0.76	3.21	—	(0.05)	(1.96)	—	(2.01)	15.45
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>17.46</b>	<b>0.32</b>	<b>(0.01)</b>	<b>1.35</b>	<b>(1.28)</b>	<b>0.38</b>	—	<b>(0.31)</b>	<b>(1.31)</b>	—	<b>(1.62)</b>	<b>16.05</b>
Dec. 31, 2017	16.80	0.30	(0.01)	1.43	0.56	2.28	(0.01)	(0.29)	(1.35)	—	(1.65)	17.46
Dec. 31, 2016	16.35	0.30	(0.01)	0.59	0.63	1.51	—	(0.28)	(0.62)	—	(0.90)	16.80
Dec. 31, 2015	15.16	0.30	(0.01)	2.13	0.31	2.73	—	(0.24)	(1.56)	—	(1.80)	16.35
Dec. 31, 2014	14.22	0.23	(0.01)	2.27	0.73	3.22	—	(0.20)	(1.96)	—	(2.16)	15.16

<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>Dec. 31, 2018</b>	<b>15.71</b>	<b>3 349</b>	<b>213</b>	<b>1.85</b>	<b>1.85</b>	<b>53.52</b>	<b>0.03</b>
Dec. 31, 2017	17.07	3 479	204	1.85	1.85	91.40	0.06
Dec. 31, 2016	16.46	2 427	147	1.93	1.93	108.36	0.07
Dec. 31, 2015	16.05	2 558	159	2.02	2.02	133.63	0.12
Dec. 31, 2014	14.95	2 271	152	2.02	2.02	165.12	0.17
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>15.73</b>	<b>912</b>	<b>58</b>	<b>1.85</b>	<b>1.85</b>	<b>53.52</b>	<b>0.03</b>
Dec. 31, 2017	17.10	760	44	1.85	1.85	91.40	0.06
Dec. 31, 2016	16.49	858	52	1.93	1.93	108.36	0.07
Dec. 31, 2015	16.06	870	54	2.02	2.02	133.63	0.12
Dec. 31, 2014	14.96	961	64	2.02	2.02	165.12	0.17
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>16.41</b>	<b>34 661</b>	<b>2 112</b>	<b>1.02</b>	<b>1.02</b>	<b>53.52</b>	<b>0.03</b>
Dec. 31, 2017	17.85	36 102	2 022	1.02	1.02	91.40	0.06
Dec. 31, 2016	17.17	31 493	1 834	1.10	1.10	108.36	0.07
Dec. 31, 2015	16.74	34 522	2 062	1.17	1.17	133.63	0.12
Dec. 31, 2014	15.48	20 754	1 341	1.18	1.18	165.12	0.17
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>16.31</b>	<b>7 071</b>	<b>434</b>	<b>0.79</b>	<b>0.79</b>	<b>53.52</b>	<b>0.03</b>
Dec. 31, 2017	17.84	3 877	217	0.78	0.78	91.40	0.06
Dec. 31, 2016	17.18	641	37	0.86	0.86	108.36	0.07
Dec. 31, 2015	16.69	459	28	0.95	0.95	133.63	0.12
Dec. 31, 2014	15.45	421	27	0.96	0.96	165.12	0.17
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>16.05</b>	<b>4 972 461</b>	<b>309 859</b>	<b>0.06</b>	<b>0.06</b>	<b>53.52</b>	<b>0.03</b>
Dec. 31, 2017	17.46	5 292 729	303 211	0.06	0.06	91.40	0.06
Dec. 31, 2016	16.80	4 663 326	277 653	0.06	0.06	108.36	0.07
Dec. 31, 2015	16.35	3 875 711	237 032	0.06	0.06	133.63	0.12
Dec. 31, 2014	15.16	2 211 641	145 900	0.06	0.06	165.12	0.17

<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.

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 – 1.85%, Advisor Series – 1.85%, 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.

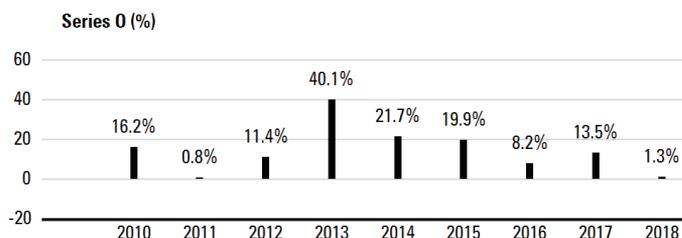
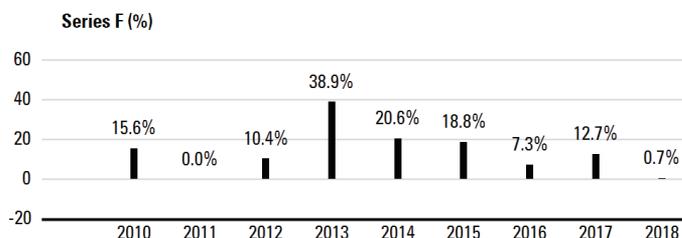
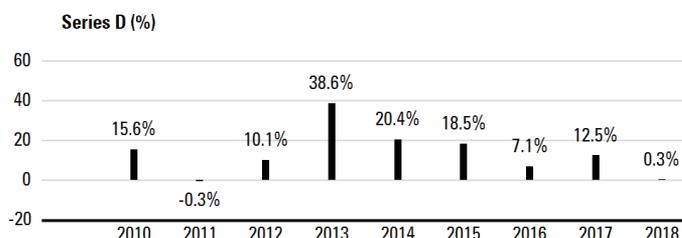
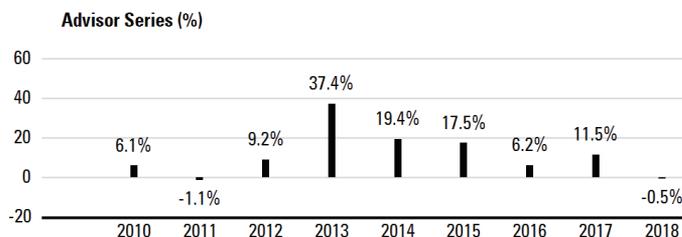
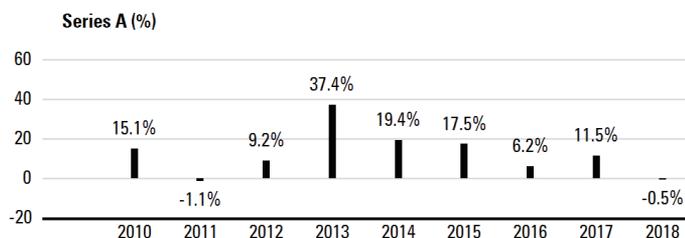
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**Russell 3000 Total Return Index (CAD)**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-0.5	5.6	10.6	—	13.0
Benchmark	2.9	8.5	13.5	—	16.5
Advisor Series	-0.5	5.6	10.6	—	12.4
Benchmark	2.9	8.5	13.5	—	15.8
Series D	0.3	6.5	11.5	—	13.9
Benchmark	2.9	8.5	13.5	—	16.5
Series F	0.7	6.8	11.8	—	14.2
Benchmark	2.9	8.5	13.5	—	16.5
Series O	1.3	7.6	12.7	—	15.2
Benchmark	2.9	8.5	13.5	—	16.5

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010, and Series A, Series D, Series F and Series O units since June 2010.

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.

**INDEX DESCRIPTION**

**Russell 3000 Total Return Index (CAD)** This index measures the Canadian dollar performance of the largest 3,000 U.S. companies representing approximately 98% of the U.S. equity market. The index provides a broader barometer of the equity market than the S&P 500 Index.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Information Technology	21.1
Health Care	15.0
Financials	13.5
Consumer Discretionary	11.2
Industrials	10.5
Consumer Staples	8.2
Communication Services	7.5
Energy	3.9
Utilities	2.7
Materials	2.6
Real Estate	2.4
Underlying Funds	0.1
Cash/Other	1.3

**Top 25 Holdings**

	% of Net Asset Value
Microsoft Corp.	3.4
Apple Inc.	2.8
Amazon.com, Inc.	2.7
Verizon Communications Inc.	1.6
Alphabet Inc., Class C	1.4
JPMorgan Chase & Co.	1.3
Merck & Co. Inc.	1.3
Boeing Co.	1.2
The Procter & Gamble Co.	1.2
Home Depot Inc.	1.2
Cash & Cash Equivalents	1.2
Bank of America Corp.	1.2
Mastercard Inc.	1.1
Pfizer Inc.	1.0
Johnson & Johnson	1.0
Facebook Inc., Class A	1.0
Berkshire Hathaway Inc., Class B	1.0
Cisco Systems Inc.	1.0
Alphabet Inc., Class A	0.9
Intuit Inc.	0.9
Citigroup Inc.	0.8
Philip Morris International Inc.	0.8
Accenture Plc., Class A	0.8
Walmart Inc.	0.8
Exxon Mobil Corp.	0.8
<b>Top 25 Holdings</b>	<b>32.4</b>

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).



U.S. EQUITY FUND

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

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 shares of large-capitalization, high-quality U.S. companies. To achieve the Fund's investment objective, the portfolio manager invests in quality businesses that have a sustainable competitive advantage, a history of profitability, a solid financial position, opportunities for growth, and a capable management team. The portfolio manager places particular emphasis on a company's long-term return on equity, as this measure is a key indicator of a company's ability to consistently generate profits for shareholders. Additional emphasis is placed on a stock's valuation, given the breadth of the U.S. market.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$596 million as of December 31, 2018, from \$580 million at the end of 2017. The increase was due to investment returns, partially offset by net redemptions.

Over the past year, the Fund's Series O units gained 4.3%, which outperformed the 3.8% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

U.S. stocks fell overall in 2018 due to a significant pullback in the fourth quarter of the year. From April to September, U.S. stocks enjoyed a stretch of strong returns driven primarily by earnings growth. However, volatility emerged in October amid concern that rising interest rates would generate headwinds for economic and earnings growth. The recent market pullback has arguably priced in most apparent challenges, in the view of the portfolio manager, as reduced stock-market valuations mean that future returns will not be entirely reliant on earnings growth.

Performance in 2018 was largely driven by the Health Care sector. The Fund's overweight position in the pharmaceutical company Eli Lilly was a boost to relative returns after the company reported positive results in a mid-stage clinical trial of its experimental diabetes drug. Overweight exposure to the health-care equipment company Abbott Laboratories was also positive for the Fund's relative performance.

The Consumer Discretionary sector was the Fund's worst-performing sector, hurt by an overweight position in Mohawk Industries. The manufacturer of flooring products, including carpets and ceramic tile, was exposed to a slower housing market and rising costs for the raw materials used to make its products.

### Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to different outcomes. A policy mistake by the U.S. Federal Reserve (the "Fed") – raising interest rates too fast, for example – or an escalation of protectionist moves by the Trump administration, which could increase the costs of goods, are the most likely causes of a downturn, given the potential for both to stamp out the expansion, in the view of the portfolio manager. In the upside scenario, the expansion would remain intact through 2021, perhaps because the Fed soon pauses its plan to hike rates or the Trump administration reaches a trade agreement with China.

### 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 Investor Services Trust ("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 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 \$23,000 (2017 – \$42,000), or 9% (2017 – 9%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>66.55</b>	<b>1.13</b>	<b>(1.32)</b>	<b>5.06</b>	<b>(3.12)</b>	<b>1.75</b>	—	—	—	—	—	<b>68.17</b>
Dec. 31, 2017	58.44	0.91	(1.17)	6.47	1.94	8.15	—	—	—	—	—	66.55
Dec. 31, 2016	57.22	1.22	(1.06)	0.34	0.16	0.66	—	—	—	—	—	58.44
Dec. 31, 2015	51.52	0.99	(1.13)	13.91	(7.84)	5.93	—	—	—	—	—	57.22
Dec. 31, 2014	43.64	0.86	(0.97)	10.86	(2.88)	7.87	—	(0.19)	—	—	(0.19)	51.52
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>66.56</b>	<b>1.13</b>	<b>(1.32)</b>	<b>5.06</b>	<b>(3.49)</b>	<b>1.38</b>	—	—	—	—	—	<b>68.17</b>
Dec. 31, 2017	58.44	0.91	(1.17)	6.46	1.69	7.89	—	—	—	—	—	66.56
Dec. 31, 2016	57.22	1.22	(1.07)	0.34	(1.47)	(0.98)	—	—	—	—	—	58.44
Dec. 31, 2015	51.52	0.99	(1.13)	13.90	(7.83)	5.93	—	—	—	—	—	57.22
Dec. 31, 2014	43.64	0.86	(0.97)	10.86	(2.88)	7.87	—	(0.19)	—	—	(0.19)	51.52
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>66.69</b>	<b>1.13</b>	<b>(0.73)</b>	<b>5.09</b>	<b>(3.14)</b>	<b>2.35</b>	<b>(0.01)</b>	<b>(0.37)</b>	—	—	<b>(0.38)</b>	<b>68.51</b>
Dec. 31, 2017	58.30	0.91	(0.64)	6.48	1.97	8.72	—	(0.28)	—	—	(0.28)	66.69
Dec. 31, 2016	57.08	1.22	(0.60)	0.34	0.29	1.25	—	(0.50)	—	—	(0.50)	58.30
Dec. 31, 2015	51.27	0.99	(0.65)	13.88	(7.82)	6.40	—	(0.37)	—	—	(0.37)	57.08
Dec. 31, 2014	43.42	0.85	(0.56)	10.76	(2.85)	8.20	—	(0.63)	—	—	(0.63)	51.27
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>66.97</b>	<b>1.14</b>	<b>(0.55)</b>	<b>5.12</b>	<b>(3.43)</b>	<b>2.28</b>	<b>(0.01)</b>	<b>(0.55)</b>	—	—	<b>(0.56)</b>	<b>68.80</b>
Dec. 31, 2017	58.55	0.92	(0.48)	6.52	1.31	8.27	(0.01)	(0.45)	—	—	(0.46)	66.97
Dec. 31, 2016	57.33	1.23	(0.46)	0.34	1.16	2.27	—	(0.65)	—	—	(0.65)	58.55
Dec. 31, 2015	51.51	1.00	(0.52)	14.04	(7.91)	6.61	—	(0.51)	—	—	(0.51)	57.33
Dec. 31, 2014	43.62	0.85	(0.45)	10.79	(2.86)	8.33	—	(0.76)	—	—	(0.76)	51.51
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>67.69</b>	<b>1.16</b>	<b>(0.02)</b>	<b>5.18</b>	<b>(3.22)</b>	<b>3.10</b>	<b>(0.02)</b>	<b>(1.06)</b>	—	—	<b>(1.08)</b>	<b>69.53</b>
Dec. 31, 2017	59.19	0.93	(0.01)	6.61	2.07	9.60	(0.01)	(0.98)	—	—	(0.99)	67.69
Dec. 31, 2016	57.93	1.24	(0.01)	0.34	0.28	1.85	—	(1.14)	—	—	(1.14)	59.19
Dec. 31, 2015	52.07	1.01	(0.01)	14.12	(7.95)	7.17	—	(1.07)	—	—	(1.07)	57.93
Dec. 31, 2014	44.10	0.83	(0.01)	10.48	(2.78)	8.52	—	(1.25)	—	—	(1.25)	52.07

<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>Dec. 31, 2018</b>	<b>68.17</b>	<b>3 896</b>	<b>57</b>	<b>1.87</b>	<b>1.87</b>	<b>62.98</b>	<b>0.04</b>
Dec. 31, 2017	66.55	3 973	60	1.87	1.87	81.57	0.08
Dec. 31, 2016	58.44	4 076	70	1.97	1.97	78.06	0.07
Dec. 31, 2015	57.22	4 615	81	2.05	2.05	106.27	0.08
Dec. 31, 2014	51.52	4 259	83	2.06	2.06	38.62	0.07
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>68.17</b>	<b>1 131</b>	<b>17</b>	<b>1.87</b>	<b>1.87</b>	<b>62.98</b>	<b>0.04</b>
Dec. 31, 2017	66.56	1 157	17	1.87	1.87	81.57	0.08
Dec. 31, 2016	58.44	1 284	22	1.97	1.97	78.06	0.07
Dec. 31, 2015	57.22	1 979	35	2.05	2.05	106.27	0.08
Dec. 31, 2014	51.52	1 815	35	2.06	2.06	38.62	0.07
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>68.51</b>	<b>137 623</b>	<b>2 009</b>	<b>1.02</b>	<b>1.02</b>	<b>62.98</b>	<b>0.04</b>
Dec. 31, 2017	66.69	140 275	2 104	1.02	1.02	81.57	0.08
Dec. 31, 2016	58.30	135 852	2 330	1.10	1.10	78.06	0.07
Dec. 31, 2015	57.08	147 545	2 585	1.18	1.18	106.27	0.08
Dec. 31, 2014	51.27	139 838	2 727	1.18	1.18	38.62	0.07
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>68.80</b>	<b>5 654</b>	<b>82</b>	<b>0.76</b>	<b>0.76</b>	<b>62.98</b>	<b>0.04</b>
Dec. 31, 2017	66.97	4 969	74	0.77	0.77	81.57	0.08
Dec. 31, 2016	58.55	3 777	65	0.84	0.84	78.06	0.07
Dec. 31, 2015	57.33	3 580	62	0.94	0.94	106.27	0.08
Dec. 31, 2014	51.51	2 293	45	0.94	0.94	38.62	0.07
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>69.53</b>	<b>448 049</b>	<b>6 444</b>	<b>0.02</b>	<b>0.02</b>	<b>62.98</b>	<b>0.04</b>
Dec. 31, 2017	67.69	429 910	6 351	0.02	0.02	81.57	0.08
Dec. 31, 2016	59.19	437 136	7 386	0.02	0.02	78.06	0.07
Dec. 31, 2015	57.93	399 193	6 891	0.02	0.02	106.27	0.08
Dec. 31, 2014	52.07	438 672	8 425	0.02	0.02	38.62	0.07

<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.

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 – 1.88%, Advisor Series – 1.88%, Series D – 1.02% and Series F – 0.77%.



**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.

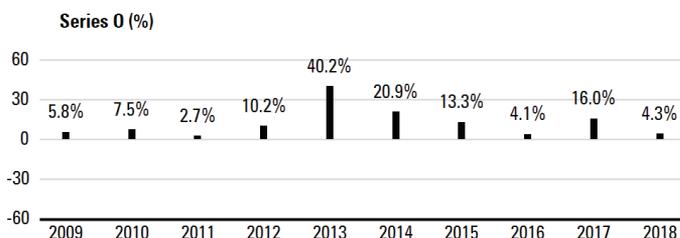
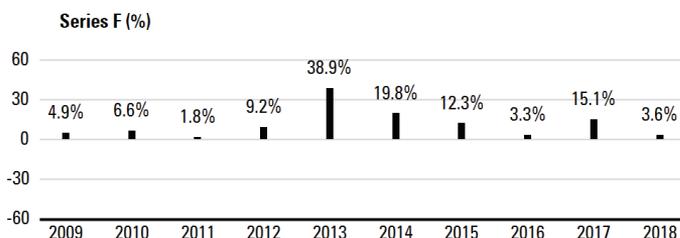
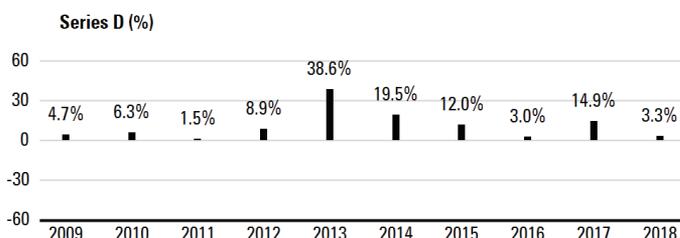
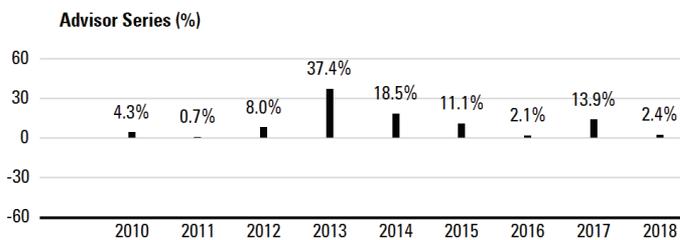
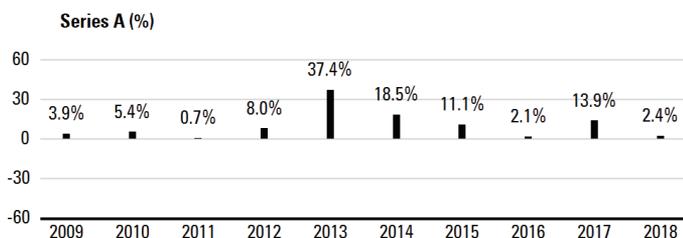
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P 500 Total Return Index (CAD)**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	2.4	6.0	9.4	9.9	–
Benchmark	3.8	8.8	14.1	14.4	–
Advisor Series	2.4	6.0	9.4	–	11.6
Benchmark	3.8	8.8	14.1	–	16.0
Series D	3.3	6.9	10.4	10.8	–
Benchmark	3.8	8.8	14.1	14.4	–
Series F	3.6	7.2	10.6	11.1	–
Benchmark	3.8	8.8	14.1	14.4	–
Series O	4.3	8.0	11.5	12.0	–
Benchmark	3.8	8.8	14.1	14.4	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

**INDEX DESCRIPTION**

**S&P 500 Total Return Index (CAD)** This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Information Technology	20.7
Health Care	17.3
Financials	13.7
Communication Services	9.5
Consumer Discretionary	8.4
Consumer Staples	7.5
Industrials	6.9
Energy	5.2
Materials	2.7
Utilities	2.2
Real Estate	2.0
Cash/Other	3.9

**Top 25 Holdings**

	% of Net Asset Value
Microsoft Corp.	4.3
Cash & Cash Equivalents	3.8
Alphabet Inc., Class C	3.5
Apple Inc.	3.2
Amazon.com, Inc.	3.0
JPMorgan Chase & Co.	2.1
Johnson & Johnson	1.9
Exxon Mobil Corp.	1.9
Berkshire Hathaway Inc., Class B	1.9
Bank of America Corp.	1.9
UnitedHealth Group Incorporated	1.9
Facebook Inc., Class A	1.8
Merck & Co. Inc.	1.5
Visa Inc., Class A	1.5
Verizon Communications Inc.	1.4
Abbott Laboratories	1.4
Cisco Systems Inc.	1.4
Union Pacific Corp.	1.4
Eli Lilly & Co.	1.3
Wells Fargo & Company	1.3
Pfizer Inc.	1.3
Medtronic Plc.	1.2
The Procter & Gamble Co.	1.1
The Walt Disney Company	1.1
Anthem Inc.	1.1
Top 25 Holdings	48.2

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).



U.S. EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CURRENCY-HEDGED U.S. EQUITY FUND**

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December 31, 2018

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

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**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 significant long-term capital growth primarily through exposure to a well-diversified portfolio of large-capitalization, high-quality U.S. companies, while minimizing currency risk. To achieve the Fund's investment objective, the portfolio manager invests primarily in units of the Phillips, Hager & North U.S. Equity Fund ("the Underlying Fund"), as well as derivative instruments that are used to hedge against fluctuations in the value of the U.S. dollar relative to the Canadian dollar.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying fund(s). The Fund is suitable for investors who plan to hold their investments for the long term and can tolerate medium-to-high investment risk.

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

### Results of Operations

The Fund's net asset value fell to \$38 million as of December 31, 2018, from \$45 million at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 5.0%, which outperformed the 5.7% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

U.S. stocks fell overall in 2018 due to a significant pullback in the fourth quarter of the year. From April to September, U.S. stocks enjoyed a stretch of strong returns driven primarily by earnings growth. However, volatility emerged in October amid concern that rising interest rates would generate headwinds for economic and earnings growth. The recent market pullback has arguably priced in most apparent challenges, in the view of the portfolio manager, as reduced stock-market valuations mean that future returns will not be entirely reliant on earnings growth.

Performance in 2018 was largely driven by the Health Care sector. The Fund's overweight position in the pharmaceutical company Eli Lilly was a boost to relative returns after the company reported positive results in a mid-stage clinical trial of its experimental diabetes drug.

Overweight exposure to the health-care equipment company Abbott Laboratories was also positive for the Fund's relative performance.

The Consumer Discretionary sector was the Fund's worst-performing sector, hurt by an overweight position in Mohawk Industries. The manufacturer of flooring products, including carpets and ceramic tile, was exposed to a slower housing market and rising costs for the raw materials used to make its products.

It is the policy of the Fund to maintain currency hedges at all times in order to neutralize exchange-rate movements between the U.S. dollar and the Canadian dollar. This policy had a negative impact on the Fund in 2018.

### Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to different outcomes. A policy mistake by the U.S. Federal Reserve (the "Fed") – raising interest rates too fast, for example – or an escalation of protectionist moves by the Trump administration, which could increase the costs of goods, are the most likely causes of a downturn, given the potential for both to stamp out the expansion, in the view of the portfolio manager. In the upside scenario, the expansion would remain intact through 2021, perhaps because the Fed soon pauses its plan to hike rates or the Trump administration reaches a trade agreement with China.

### 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 Investor Services Trust ("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 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.

***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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>11.84</b>	<b>0.17</b>	<b>(0.23)</b>	<b>0.12</b>	<b>(0.74)</b>	<b>(0.68)</b>	—	—	—	—	—	<b>11.05</b>
Dec. 31, 2017	10.20	0.16	(0.21)	1.45	0.78	2.18	—	—	(0.55)	—	(0.55)	11.84
Dec. 31, 2016	9.81	0.18	(0.19)	0.94	(0.72)	0.21	—	—	—	—	—	10.20
Dec. 31, 2015	10.50	0.19	(0.21)	(0.24)	(0.44)	(0.70)	—	—	—	—	—	9.81
Dec. 31, 2014	9.66	0.17	(0.20)	2.89	(1.92)	0.94	—	(0.03)	—	—	(0.03)	10.50
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>11.84</b>	<b>0.17</b>	<b>(0.23)</b>	<b>0.12</b>	<b>(0.56)</b>	<b>(0.50)</b>	—	—	—	—	—	<b>11.05</b>
Dec. 31, 2017	10.20	0.16	(0.21)	1.45	0.81	2.21	—	—	(0.55)	—	(0.55)	11.84
Dec. 31, 2016	9.81	0.18	(0.19)	0.93	(0.92)	—	—	—	—	—	—	10.20
Dec. 31, 2015	10.50	0.19	(0.20)	(0.24)	(0.44)	(0.69)	—	—	—	—	—	9.81
Dec. 31, 2014	9.66	0.17	(0.20)	2.88	(1.91)	0.94	—	(0.04)	—	—	(0.04)	10.50
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>11.84</b>	<b>0.17</b>	<b>(0.12)</b>	<b>0.12</b>	<b>(0.80)</b>	<b>(0.63)</b>	—	<b>(0.06)</b>	—	—	<b>(0.06)</b>	<b>11.09</b>
Dec. 31, 2017	10.15	0.16	(0.11)	1.45	0.74	2.24	—	(0.04)	(0.55)	—	(0.59)	11.84
Dec. 31, 2016	9.76	0.18	(0.11)	0.94	(0.30)	0.71	—	(0.08)	—	—	(0.08)	10.15
Dec. 31, 2015	10.44	0.19	(0.12)	(0.24)	(0.44)	(0.61)	—	(0.08)	—	—	(0.08)	9.76
Dec. 31, 2014	9.60	0.17	(0.12)	2.84	(1.88)	1.01	—	(0.12)	—	—	(0.12)	10.44
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>11.94</b>	<b>0.17</b>	<b>(0.09)</b>	<b>0.12</b>	<b>(0.67)</b>	<b>(0.47)</b>	—	<b>(0.09)</b>	—	—	<b>(0.09)</b>	<b>11.18</b>
Dec. 31, 2017	10.24	0.16	(0.09)	1.47	0.79	2.33	—	(0.07)	(0.56)	—	(0.63)	11.94
Dec. 31, 2016	9.85	0.18	(0.08)	0.94	(0.02)	1.02	—	(0.11)	—	—	(0.11)	10.24
Dec. 31, 2015	10.53	0.19	(0.10)	(0.24)	(0.44)	(0.59)	—	(0.10)	—	—	(0.10)	9.85
Dec. 31, 2014	9.68	0.17	(0.10)	2.86	(1.89)	1.04	—	(0.15)	—	—	(0.15)	10.53
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>11.97</b>	<b>0.17</b>	<b>(0.01)</b>	<b>0.12</b>	<b>(0.81)</b>	<b>(0.53)</b>	—	<b>(0.16)</b>	—	—	<b>(0.16)</b>	<b>11.21</b>
Dec. 31, 2017	10.28	0.16	(0.01)	1.47	0.80	2.42	—	(0.16)	(0.56)	—	(0.72)	11.97
Dec. 31, 2016	9.87	0.18	(0.01)	0.96	(0.31)	0.82	—	(0.18)	—	—	(0.18)	10.28
Dec. 31, 2015	10.55	0.19	(0.01)	(0.24)	(0.45)	(0.51)	—	(0.18)	—	—	(0.18)	9.87
Dec. 31, 2014	9.70	0.15	(0.01)	2.61	(1.73)	1.02	—	(0.23)	—	—	(0.23)	10.55

<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>Dec. 31, 2018</b>	<b>11.05</b>	<b>741</b>	<b>67</b>	<b>1.88</b>	<b>1.88</b>	<b>1.38</b>	<b>0.04</b>
Dec. 31, 2017	11.84	1 004	85	1.88	1.89	8.77	0.08
Dec. 31, 2016	10.20	888	87	1.96	1.96	30.91	0.07
Dec. 31, 2015	9.81	1 128	115	2.05	2.06	24.20	0.08
Dec. 31, 2014	10.50	1 677	160	2.05	2.05	11.12	0.07
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>11.05</b>	<b>237</b>	<b>21</b>	<b>1.88</b>	<b>1.88</b>	<b>1.38</b>	<b>0.04</b>
Dec. 31, 2017	11.84	331	28	1.88	1.89	8.77	0.08
Dec. 31, 2016	10.20	398	39	1.99	1.99	30.91	0.07
Dec. 31, 2015	9.81	3 153	321	2.05	2.06	24.20	0.08
Dec. 31, 2014	10.50	639	61	2.05	2.05	11.12	0.07
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>11.09</b>	<b>6 991</b>	<b>631</b>	<b>1.03</b>	<b>1.03</b>	<b>1.38</b>	<b>0.04</b>
Dec. 31, 2017	11.84	8 239	696	1.04	1.05	8.77	0.08
Dec. 31, 2016	10.15	9 258	912	1.12	1.12	30.91	0.07
Dec. 31, 2015	9.76	7 793	799	1.21	1.22	24.20	0.08
Dec. 31, 2014	10.44	7 896	756	1.21	1.21	11.12	0.07
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>11.18</b>	<b>1 117</b>	<b>100</b>	<b>0.78</b>	<b>0.78</b>	<b>1.38</b>	<b>0.04</b>
Dec. 31, 2017	11.94	1 538	129	0.78	0.79	8.77	0.08
Dec. 31, 2016	10.24	1 400	137	0.86	0.86	30.91	0.07
Dec. 31, 2015	9.85	761	77	0.95	0.95	24.20	0.08
Dec. 31, 2014	10.53	776	74	0.96	0.96	11.12	0.07
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>11.21</b>	<b>29 031</b>	<b>2 591</b>	<b>0.13</b>	<b>0.13</b>	<b>1.38</b>	<b>0.04</b>
Dec. 31, 2017	11.97	33 735	2 818	0.13	0.14	8.77	0.08
Dec. 31, 2016	10.28	34 469	3 354	0.13	0.13	30.91	0.07
Dec. 31, 2015	9.87	27 937	2 831	0.13	0.14	24.20	0.08
Dec. 31, 2014	10.55	32 305	3 062	0.13	0.13	11.12	0.07

<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.

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 – 1.88%, Advisor Series – 1.88%, Series D – 1.04% 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.

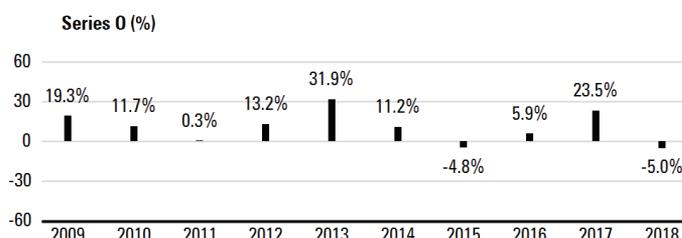
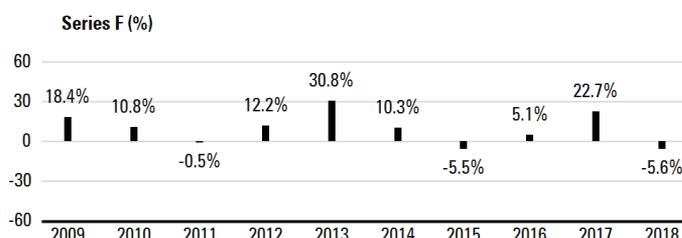
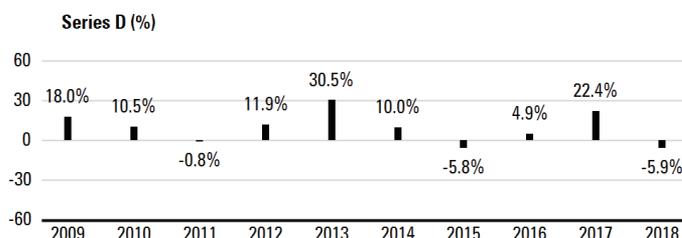
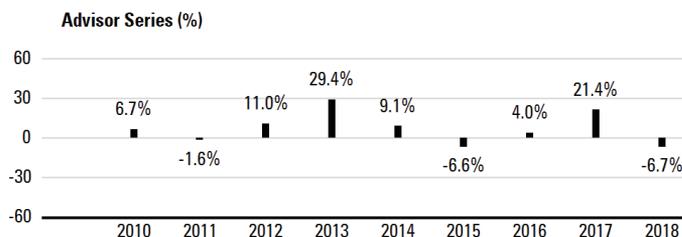
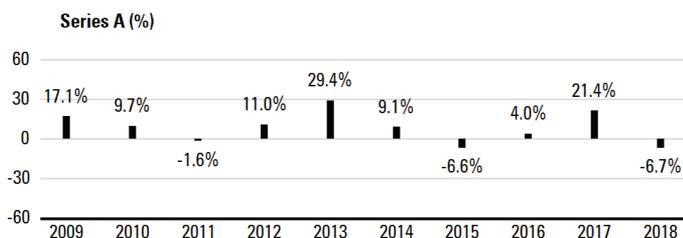
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P 500 Total Return Index (hedged to CAD)**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-6.7	5.6	3.7	8.1	–
Benchmark	-5.7	8.4	8.1	12.5	–
Advisor Series	-6.7	5.6	3.7	–	7.5
Benchmark	-5.7	8.4	8.1	–	12.1
Series D	-5.9	6.5	4.6	9.0	–
Benchmark	-5.7	8.4	8.1	12.5	–
Series F	-5.6	6.8	4.9	9.3	–
Benchmark	-5.7	8.4	8.1	12.5	–
Series O	-5.0	7.5	5.6	10.1	–
Benchmark	-5.7	8.4	8.1	12.5	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

**INDEX DESCRIPTION**

**S&P 500 Total Return Index (hedged to CAD)** This index is a capitalization-weighted index measuring the performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market and is hedged to Canadian dollars.

**SUMMARY OF INVESTMENT PORTFOLIO**

(after consideration of derivative products, if any)

As at December 31, 2018

**Investment Mix**

	% of Net Asset Value
Information Technology	21.1
Health Care	17.6
Financials	14.0
Communication Services	9.7
Consumer Discretionary	8.6
Consumer Staples	7.6
Industrials	7.0
Energy	5.3
Materials	2.8
Utilities	2.2
Real Estate	2.0
Cash/Other	2.1

**Top 25 Holdings\***

	% of Net Asset Value
Microsoft Corp.	4.3
Cash & Cash Equivalents	3.8
Alphabet Inc., Class C	3.5
Apple Inc.	3.2
Amazon.com, Inc.	3.0
JPMorgan Chase & Co.	2.1
Johnson & Johnson	1.9
Exxon Mobil Corp.	1.9
Berkshire Hathaway Inc., Class B	1.9
Bank of America Corp.	1.9
UnitedHealth Group Incorporated	1.9
Facebook Inc., Class A	1.8
Merck & Co. Inc.	1.5
Visa Inc., Class A	1.5
Verizon Communications Inc.	1.4
Abbott Laboratories	1.4
Cisco Systems Inc.	1.4
Union Pacific Corp.	1.4
Eli Lilly & Co.	1.3
Wells Fargo & Company	1.3
Pfizer Inc.	1.3
Medtronic Plc.	1.2
The Procter & Gamble Co.	1.1
The Walt Disney Company	1.1
Anthem Inc.	1.1
<b>Top 25 Holdings</b>	<b>48.2</b>

\* The Fund invests substantially all of its assets directly in the Phillips, Hager & North U.S. Equity Fund. The above are the Top 25 holdings of the Phillips, Hager & North U.S. Equity Fund.

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).



U.S. EQUITY FUND

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

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$108 million as of December 31, 2018, from \$111 million at the end of 2017. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 4.1%, which outperformed the 3.8% rise in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

U.S. stocks fell overall in 2018 due to a significant pullback in the fourth quarter of the year. From April to September, U.S. stocks enjoyed a stretch of strong returns driven primarily by earnings growth. However, volatility emerged in October amid concern that rising interest rates would generate headwinds for economic and earnings growth. The recent market pullback has arguably priced in most apparent challenges, in the view of the portfolio manager, as reduced stock-market valuations mean that future returns will not be entirely reliant on earnings growth.

Performance in 2018 was largely driven by the Health Care sector. The Fund's overweight position in the pharmaceutical company Eli Lilly was a boost to relative returns after the company reported positive results in a mid-stage clinical trial of its experimental diabetes drug. Overweight exposure to the health-care equipment company Abbott Laboratories was also positive for the Fund's relative performance.

The Consumer Discretionary sector was the Fund's worst-performing sector, hurt by an overweight position in Mohawk Industries. The manufacturer of flooring products, including carpets and ceramic tile, was exposed to a slower housing market and rising costs for the raw materials used to make its products.

### Recent Developments

While the portfolio manager's base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to different outcomes. A policy mistake by the U.S. Federal Reserve (the "Fed") – raising interest rates too fast, for example – or an escalation of protectionist moves by the Trump administration, which could increase the costs of goods, are the most likely causes of a downturn, given the potential for both to stamp out the expansion, in the view of the portfolio manager. In the upside scenario, the expansion would remain intact through 2021, perhaps because the Fed soon pauses its plan to hike rates or the Trump administration reaches a trade agreement with China.

### 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 Investor Services Trust ("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 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 \$5,000 (2017 – \$8,000), or 11% (2017 – 9%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>25.35</b>	<b>0.42</b>	<b>(0.49)</b>	<b>2.03</b>	<b>(1.37)</b>	<b>0.59</b>	—	—	—	—	—	<b>25.92</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
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>25.35</b>	<b>0.42</b>	<b>(0.49)</b>	<b>2.02</b>	<b>(1.30)</b>	<b>0.65</b>	—	—	—	—	—	<b>25.91</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
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>26.16</b>	<b>0.44</b>	<b>(0.28)</b>	<b>2.10</b>	<b>(1.38)</b>	<b>0.88</b>	—	<b>(0.15)</b>	—	—	<b>(0.15)</b>	<b>26.82</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
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>26.45</b>	<b>0.45</b>	<b>(0.21)</b>	<b>2.12</b>	<b>(1.61)</b>	<b>0.75</b>	—	<b>(0.23)</b>	—	—	<b>(0.23)</b>	<b>27.10</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
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>26.73</b>	<b>0.45</b>	<b>(0.02)</b>	<b>2.15</b>	<b>(1.40)</b>	<b>1.18</b>	<b>(0.01)</b>	<b>(0.41)</b>	—	—	<b>(0.42)</b>	<b>27.39</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

<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>Dec. 31, 2018</b>	<b>25.92</b>	<b>2 115</b>	<b>82</b>	<b>1.84</b>	<b>1.84</b>	<b>58.15</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	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
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>25.91</b>	<b>274</b>	<b>11</b>	<b>1.84</b>	<b>1.84</b>	<b>58.15</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	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
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>26.82</b>	<b>39 761</b>	<b>1 483</b>	<b>1.02</b>	<b>1.02</b>	<b>58.15</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	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
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>27.10</b>	<b>3 034</b>	<b>112</b>	<b>0.76</b>	<b>0.76</b>	<b>58.15</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	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
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>27.39</b>	<b>62 502</b>	<b>2 282</b>	<b>0.07</b>	<b>0.07</b>	<b>58.15</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

<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.

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.

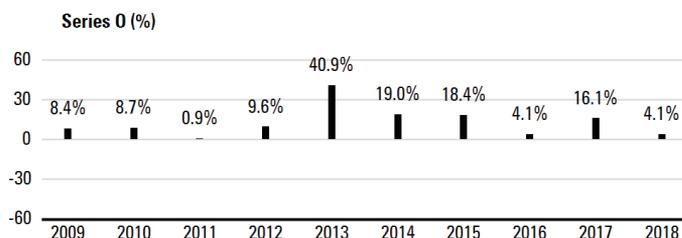
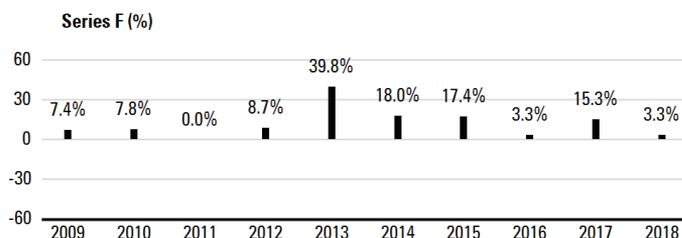
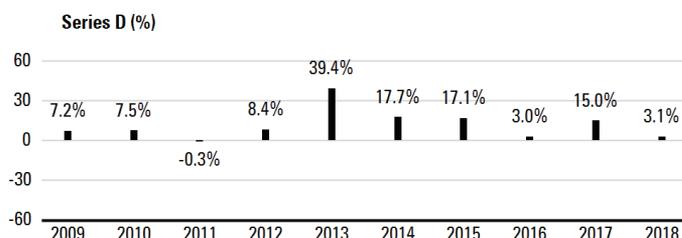
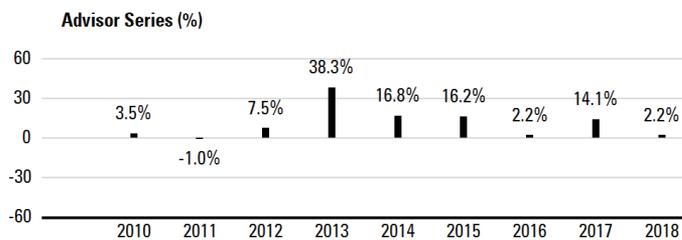
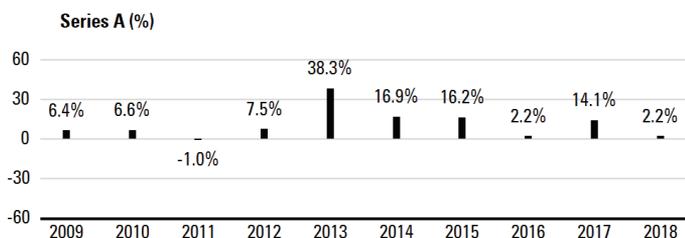
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P 500 Total Return Index (CAD)**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	2.2	6.0	10.1	10.4	–
Benchmark	3.8	8.8	14.1	14.4	–
Advisor Series	2.2	6.0	10.1	–	11.7
Benchmark	3.8	8.8	14.1	–	16.0
Series D	3.1	6.9	11.0	11.3	–
Benchmark	3.8	8.8	14.1	14.4	–
Series F	3.3	7.2	11.3	11.6	–
Benchmark	3.8	8.8	14.1	14.4	–
Series O	4.1	7.9	12.1	12.5	–
Benchmark	3.8	8.8	14.1	14.4	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

**INDEX DESCRIPTION**

**S&P 500 Total Return Index (CAD)** This index is a capitalization-weighted index measuring the Canadian dollar performance of 500 widely held common stocks representing all major industries in the United States. The index gives investors a broad measure of the overall performance of the U.S. stock market.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Information Technology	20.6
Health Care	17.4
Financials	13.6
Communication Services	9.6
Consumer Discretionary	8.3
Consumer Staples	7.6
Industrials	7.0
Energy	5.3
Materials	2.7
Utilities	2.2
Real Estate	1.9
Cash/Other	3.8

**Top 25 Holdings**

	% of Net Asset Value
Microsoft Corp.	4.3
Cash & Cash Equivalents	3.7
Alphabet Inc., Class C	3.6
Apple Inc.	3.2
Amazon.com, Inc.	3.0
JPMorgan Chase & Co.	2.1
Johnson & Johnson	2.0
Berkshire Hathaway Inc., Class B	1.9
Exxon Mobil Corp.	1.9
Bank of America Corp.	1.9
UnitedHealth Group Incorporated	1.8
Facebook Inc., Class A	1.8
Visa Inc., Class A	1.5
Merck & Co. Inc.	1.5
Verizon Communications Inc.	1.5
Abbott Laboratories	1.4
Union Pacific Corp.	1.4
Cisco Systems Inc.	1.4
Eli Lilly & Co.	1.3
Wells Fargo & Company	1.3
Pfizer Inc.	1.2
Medtronic Plc.	1.2
Anthem Inc.	1.1
The Walt Disney Company	1.1
The Procter & Gamble Co.	1.1
Top 25 Holdings	48.2

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).



INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
OVERSEAS EQUITY FUND**

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December 31, 2018

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

Sub-Advisor: RBC Global Asset Management (UK) Limited

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 11, 2019.

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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 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 in common stocks of companies located in countries outside North America, including countries in Europe, as well as Japan, Australia and the rest of the Far East. To achieve the Fund's investment objective, the sub-advisor invests in companies that are attractively valued, possess sound fundamentals and have a strong market position.

### Risk

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

### Results of Operations

The Fund's net asset value was \$1.2 billion as of December 31, 2018, unchanged from the end of 2017.

Over the past year, the Fund's Series O units lost 7.6%, which underperformed the 6.0% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

A decade-long period of investor-friendly monetary stimulus and ultralow interest rates appeared to start receding in 2018, leading to concern about the outlook for earnings and borrowing. The U.S. Federal Reserve, in particular, was clear about its plan to raise interest rates steadily and it followed through, fearful that the relatively strong U.S. economy would experience uncomfortably high inflation if rates did not increase.

Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines, with emerging markets underperforming developed markets. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the "EU"), while in Italy the formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU.

Top contributors to returns included India's HDFC Bank, which benefited from a strong Indian equity market at the end of the year; Swiss pharmaceutical Roche, which posted solid results; and Anglo-Dutch consumer staples company Unilever.

Stocks that had a negative impact on returns included the German package-delivery company Deutsche Post DHL, whose shares declined towards the end of the year on concerns about a slowdown in global trade. Anheuser-Busch InBev, the Belgium-based brewer, hurt relative returns given concerns about volume growth and high exposure to emerging markets; and Komatsu, the Japanese manufacturer of mining and construction machinery.

### Recent Developments

A slowdown in the global economic expansion is among the variables that will influence equity and other financial markets in 2019. Growth has been kept afloat by the U.S. in recent quarters, but stock declines have many investors questioning whether a global recession might soon unfold.

The U.S.-China trade dispute is contributing to the uncertainty, and emerging markets, which have performed poorly since the financial crisis, do not necessarily offer a safe haven. China, the world's second-largest economy and by far the largest emerging market, has high consumer and government debts alongside a slowing economy, and other emerging markets are under pressure from a stronger U.S. dollar and rising U.S. interest rates.

The sub-advisor is committed to minimizing the impact of the weakening macroeconomic environment on the Fund. Picking companies with consistent earnings and strong balance sheets diversified across regions and industries should drive returns.

### 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.



#### **Sub-Advisor**

RBC Global Asset Management (UK) Limited is the sub-advisor and provides investment advice for the Fund. The sub-advisor earns a fee which is calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund. The sub-advisor is paid by the manager from the management fee paid by the Fund.

#### **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 Investor Services Trust ("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 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 \$29,000 (2017 – \$64,000), or 2% (2017 – 3%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>15.71</b>	<b>0.36</b>	<b>(0.33)</b>	<b>0.72</b>	<b>(2.43)</b>	<b>(1.68)</b>	–	<b>(0.04)</b>	–	–	<b>(0.04)</b>	<b>14.18</b>
Dec. 31, 2017	12.55	0.31	(0.30)	0.61	2.55	3.17	–	–	–	–	–	15.71
Dec. 31, 2016	13.81	0.38	(0.28)	0.14	(1.57)	(1.33)	–	(0.11)	–	–	(0.11)	12.55
Dec. 31, 2015	11.44	0.30	(0.29)	0.52	1.85	2.38	–	–	–	–	–	13.81
Dec. 31, 2014	11.21	0.40	(0.26)	2.22	(1.90)	0.46	–	(0.21)	–	–	(0.21)	11.44
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>15.71</b>	<b>0.36</b>	<b>(0.32)</b>	<b>0.72</b>	<b>(2.59)</b>	<b>(1.83)</b>	–	<b>(0.04)</b>	–	–	<b>(0.04)</b>	<b>14.18</b>
Dec. 31, 2017	12.55	0.31	(0.30)	0.61	2.35	2.97	–	–	–	–	–	15.71
Dec. 31, 2016	13.81	0.38	(0.28)	0.14	(1.59)	(1.35)	–	(0.11)	–	–	(0.11)	12.55
Dec. 31, 2015	11.44	0.30	(0.29)	0.52	1.85	2.38	–	–	–	–	–	13.81
Dec. 31, 2014	11.21	0.40	(0.26)	2.22	(1.90)	0.46	–	(0.21)	–	–	(0.21)	11.44
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>15.61</b>	<b>0.36</b>	<b>(0.19)</b>	<b>0.72</b>	<b>(2.21)</b>	<b>(1.32)</b>	–	<b>(0.16)</b>	–	–	<b>(0.16)</b>	<b>14.09</b>
Dec. 31, 2017	12.46	0.31	(0.17)	0.60	2.54	3.28	–	(0.13)	–	–	(0.13)	15.61
Dec. 31, 2016	13.72	0.38	(0.16)	0.14	(1.42)	(1.06)	–	(0.22)	–	–	(0.22)	12.46
Dec. 31, 2015	11.35	0.30	(0.18)	0.52	1.84	2.48	–	(0.11)	–	–	(0.11)	13.72
Dec. 31, 2014	11.13	0.40	(0.15)	2.21	(1.90)	0.56	–	(0.31)	–	–	(0.31)	11.35
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>14.89</b>	<b>0.34</b>	<b>(0.15)</b>	<b>0.68</b>	<b>(2.60)</b>	<b>(1.73)</b>	–	<b>(0.18)</b>	–	–	<b>(0.18)</b>	<b>13.43</b>
Dec. 31, 2017	11.88	0.30	(0.14)	0.58	2.38	3.12	–	(0.16)	–	–	(0.16)	14.89
Dec. 31, 2016	13.08	0.36	(0.13)	0.14	(0.89)	(0.52)	–	(0.23)	–	–	(0.23)	11.88
Dec. 31, 2015	10.83	0.28	(0.14)	0.49	1.75	2.38	–	(0.14)	–	–	(0.14)	13.08
Dec. 31, 2014	10.61	0.38	(0.12)	2.10	(1.80)	0.56	–	(0.32)	–	–	(0.32)	10.83
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>15.92</b>	<b>0.37</b>	–	<b>0.73</b>	<b>(2.37)</b>	<b>(1.27)</b>	–	<b>(0.34)</b>	–	–	<b>(0.34)</b>	<b>14.36</b>
Dec. 31, 2017	12.72	0.32	(0.01)	0.62	2.61	3.54	–	(0.33)	–	–	(0.33)	15.92
Dec. 31, 2016	13.99	0.39	(0.01)	0.15	(1.31)	(0.78)	–	(0.36)	–	–	(0.36)	12.72
Dec. 31, 2015	11.58	0.31	(0.01)	0.53	1.89	2.72	–	(0.29)	–	–	(0.29)	13.99
Dec. 31, 2014	11.35	0.40	(0.01)	2.24	(1.93)	0.70	–	(0.47)	–	–	(0.47)	11.58

<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>Dec. 31, 2018</b>	<b>14.18</b>	<b>4 245</b>	<b>299</b>	<b>2.08</b>	<b>2.08</b>	<b>30.78</b>	<b>0.10</b>
Dec. 31, 2017	15.71	3 758	239	2.09	2.09	37.60	0.21
Dec. 31, 2016	12.55	2 888	230	2.16	2.16	33.49	0.19
Dec. 31, 2015	13.81	3 664	265	2.22	2.22	35.42	0.17
Dec. 31, 2014	11.44	3 100	271	2.22	2.22	146.70	0.42
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>14.18</b>	<b>2 832</b>	<b>200</b>	<b>2.09</b>	<b>2.09</b>	<b>30.78</b>	<b>0.10</b>
Dec. 31, 2017	15.71	1 817	116	2.10	2.10	37.60	0.21
Dec. 31, 2016	12.55	1 013	81	2.16	2.16	33.49	0.19
Dec. 31, 2015	13.81	1 401	101	2.22	2.22	35.42	0.17
Dec. 31, 2014	11.44	1 017	89	2.22	2.22	146.70	0.42
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>14.09</b>	<b>189 954</b>	<b>13 483</b>	<b>1.24</b>	<b>1.24</b>	<b>30.78</b>	<b>0.10</b>
Dec. 31, 2017	15.61	212 598	13 618	1.23	1.23	37.60	0.21
Dec. 31, 2016	12.46	165 905	13 316	1.29	1.29	33.49	0.19
Dec. 31, 2015	13.72	186 721	13 614	1.34	1.34	35.42	0.17
Dec. 31, 2014	11.35	149 793	13 194	1.34	1.34	146.70	0.42
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>13.43</b>	<b>27 552</b>	<b>2 051</b>	<b>1.01</b>	<b>1.01</b>	<b>30.78</b>	<b>0.10</b>
Dec. 31, 2017	14.89	15 288	1 027	1.01	1.01	37.60	0.21
Dec. 31, 2016	11.88	9 150	770	1.06	1.06	33.49	0.19
Dec. 31, 2015	13.08	5 569	426	1.13	1.13	35.42	0.17
Dec. 31, 2014	10.83	3 371	311	1.13	1.13	146.70	0.42
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>14.36</b>	<b>991 388</b>	<b>69 044</b>	<b>0.02</b>	<b>0.02</b>	<b>30.78</b>	<b>0.10</b>
Dec. 31, 2017	15.92	981 663	61 661	0.07	0.07	37.60	0.21
Dec. 31, 2016	12.72	835 297	65 680	0.09	0.09	33.49	0.19
Dec. 31, 2015	13.99	778 286	55 634	0.09	0.09	35.42	0.17
Dec. 31, 2014	11.58	653 668	56 427	0.09	0.09	146.70	0.42

<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.

Effective October 2, 2017, the administration fees were changed in respect of Series O units of the Fund. If the changes to the administration fees would have been in effect throughout 2017, the adjusted MER for each series of the Fund would be: Series O – 0.02%.

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 – 2.10%, Advisor Series – 2.10%, Series D – 1.23% and Series F – 1.01%.



**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	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	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.

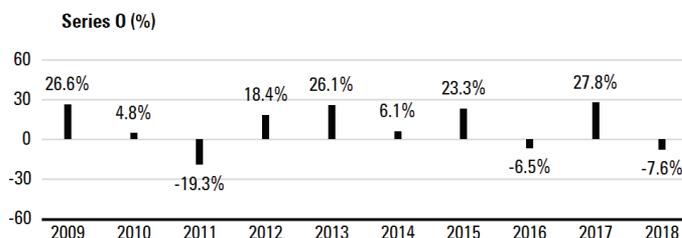
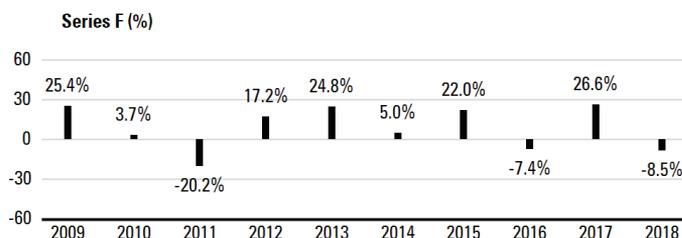
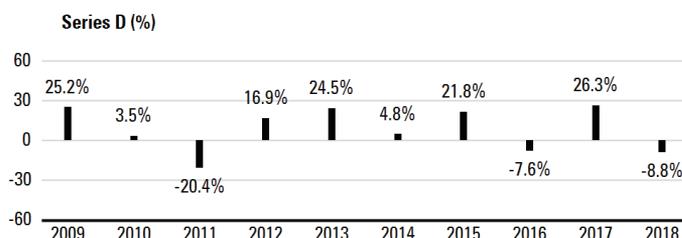
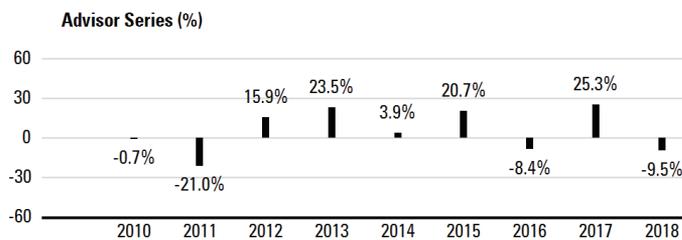
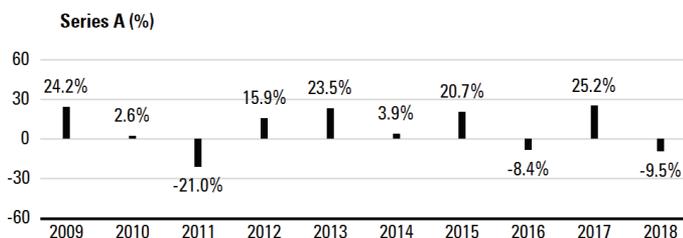
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





## PAST PERFORMANCE (cont.)

### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

#### MSCI EAFE Total Return Net Index (CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-9.5	1.3	5.4	6.5	–
Benchmark	-6.0	2.3	5.7	7.4	–
Advisor Series	-9.5	1.3	5.4	–	4.8
Benchmark	-6.0	2.3	5.7	–	7.4
Series D	-8.8	2.1	6.3	7.4	–
Benchmark	-6.0	2.3	5.7	7.4	–
Series F	-8.5	2.4	6.6	7.6	–
Benchmark	-6.0	2.3	5.7	7.4	–
Series O	-7.6	3.3	7.6	8.7	–
Benchmark	-6.0	2.3	5.7	7.4	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

### INDEX DESCRIPTION

**MSCI EAFE Total Return Net Index (CAD)** This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix – Sectors

	% of Net Asset Value
Financials	22.4
Industrials	16.6
Consumer Discretionary	13.8
Consumer Staples	12.9
Health Care	12.8
Materials	9.8
Energy	5.0
Information Technology	2.8
Utilities	2.7
Cash/Other	1.2

### Investment Mix – Countries/Regions

	% of Net Asset Value
Europe ex-United Kingdom Equities	36.1
United Kingdom Equities	27.3
Japan Equities	18.4
Pacific Rim ex-Japan Equities	14.8
Middle East and Africa Equities	2.2
Cash/Other	1.2



## SUMMARY OF INVESTMENT PORTFOLIO (cont.)

(after consideration of derivative products, if any)

As at December 31, 2018

### Top 25 Holdings

	% of Net Asset Value
Roche Holdings AG Genusscheine	6.5
Unilever Plc.	6.0
Deutsche Post AG	5.6
InterContinental Hotels Group Plc.	5.4
Nidec Corp.	5.2
AIA Group Ltd.	5.0
Anheuser-Busch InBev S.A./N.V.	4.8
St. James's Place Plc.	3.2
Astellas Pharma Inc.	3.2
Linde Plc.	3.1
Oriental Land Co. Ltd.	3.1
HDFC Bank Ltd.	3.1
Oil Search Ltd.	3.0
Rio Tinto Plc.	2.9
Croda International Plc.	2.8
Orsted A/S	2.8
MISUMI Group Inc.	2.8
Partners Group Holding AG	2.6
Paddy Power Betfair Plc.	2.4
Safran S.A.	2.3
Naspers Ltd.	2.2
Shin-Etsu Chemical Co. Ltd.	2.2
Essity AB	2.1
Royal Dutch Shell Plc., B Shares	2.1
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	2.0
Top 25 Holdings	86.4

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).



INTERNATIONAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CURRENCY-HEDGED OVERSEAS  
EQUITY FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 primarily through exposure to a diversified portfolio of companies located in countries outside North America, including countries in Europe, as well as Japan, Australia and the rest of the Far East, while minimizing fluctuations in the value of foreign currencies relative to the Canadian dollar. To achieve the Fund's investment objective, the portfolio manager invests primarily in units of the Phillips, Hager & North Overseas Equity Fund (the "Underlying Fund"), as well as derivative instruments that are used to hedge against fluctuations in the value of foreign currencies relative to the Canadian dollar.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying fund(s). The Fund is suitable for investors who plan to hold their investments for the long term and can tolerate medium investment risk.

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

### Results of Operations

The Fund's net asset value fell to \$153 million as of December 31, 2018, from \$192 million at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 11.7%, which underperformed the 10.1% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

A decade-long period of investor-friendly monetary stimulus and ultralow interest rates appeared to start receding in 2018, leading to concern about the outlook for earnings and borrowing. The U.S. Federal Reserve, in particular, was clear about its plan to raise interest rates steadily and it followed through, fearful that the relatively strong U.S. economy would experience uncomfortably high inflation if rates did not increase.

Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines, with emerging markets underperforming developed markets. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the "EU"), while in Italy the formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU.

Top contributors to returns included India's HDFC Bank, which benefited from a strong Indian equity market at the end of the year; Swiss pharmaceutical Roche, which posted solid results; and Anglo-Dutch consumer staples company Unilever.

Stocks that had a negative impact on returns included the German package-delivery company Deutsche Post DHL, whose shares declined towards the end of the year on concerns about a slowdown in global trade. Anheuser-Busch InBev, the Belgium-based brewer, hurt relative returns given concerns about volume growth and high exposure to emerging markets; and Komatsu, the Japanese manufacturer of mining and construction machinery.

The Fund's currency-hedging mandate had a negative impact on returns in 2018.

### Recent Developments

A slowdown in the global economic expansion is among the variables that will influence equity and other financial markets in 2019. Growth has been kept afloat by the U.S. in recent quarters, but stock declines have many investors questioning whether a global recession might soon unfold.

The U.S.-China trade dispute is contributing to the uncertainty, and emerging markets, which have performed poorly since the financial crisis, do not necessarily offer a safe haven. China, the world's second-largest economy and by far the largest emerging market, has high consumer and government debts alongside a slowing economy, and other emerging markets are under pressure from a stronger U.S. dollar and rising U.S. interest rates.

The portfolio manager is committed to minimizing the impact of the weakening macroeconomic environment on the Fund. Picking companies with consistent earnings and strong balance sheets diversified across regions and industries should drive returns.

### 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 Investor Services Trust ("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 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.

#### ***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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

**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>Dec. 31, 2018</b>	<b>11.69</b>	<b>0.24</b>	<b>(0.24)</b>	<b>0.40</b>	<b>(2.08)</b>	<b>(1.68)</b>	–	<b>(0.03)</b>	–	–	<b>(0.03)</b>	<b>10.08</b>
Dec. 31, 2017	9.38	0.23	(0.22)	0.54	1.75	2.30	–	–	–	–	–	11.69
Dec. 31, 2016	9.73	0.25	(0.20)	0.53	(0.95)	(0.37)	–	(0.06)	–	–	(0.06)	9.38
Dec. 31, 2015	9.10	0.22	(0.22)	(0.42)	0.95	0.53	–	–	–	–	–	9.73
Dec. 31, 2014	8.89	0.30	(0.20)	0.84	(0.55)	0.39	–	(0.15)	(0.09)	–	(0.24)	9.10
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>11.69</b>	<b>0.24</b>	<b>(0.24)</b>	<b>0.40</b>	<b>(2.07)</b>	<b>(1.67)</b>	–	<b>(0.03)</b>	–	–	<b>(0.03)</b>	<b>10.08</b>
Dec. 31, 2017	9.39	0.23	(0.22)	0.54	1.75	2.30	–	–	–	–	–	11.69
Dec. 31, 2016	9.73	0.25	(0.20)	0.53	(0.76)	(0.18)	–	(0.06)	–	–	(0.06)	9.39
Dec. 31, 2015	9.10	0.21	(0.22)	(0.41)	0.93	0.51	–	–	–	–	–	9.73
Dec. 31, 2014	8.89	0.30	(0.20)	0.84	(0.55)	0.39	–	(0.15)	(0.09)	–	(0.24)	9.10
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>11.38</b>	<b>0.23</b>	<b>(0.14)</b>	<b>0.39</b>	<b>(1.80)</b>	<b>(1.32)</b>	–	<b>(0.12)</b>	–	–	<b>(0.12)</b>	<b>9.81</b>
Dec. 31, 2017	9.13	0.23	(0.13)	0.53	1.70	2.33	–	(0.09)	–	–	(0.09)	11.38
Dec. 31, 2016	9.46	0.25	(0.12)	0.52	(0.66)	(0.01)	–	(0.14)	–	–	(0.14)	9.13
Dec. 31, 2015	8.84	0.21	(0.13)	(0.41)	0.93	0.60	–	(0.08)	–	–	(0.08)	9.46
Dec. 31, 2014	8.64	0.29	(0.12)	0.82	(0.54)	0.45	–	(0.22)	(0.09)	–	(0.31)	8.84
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>11.49</b>	<b>0.24</b>	<b>(0.11)</b>	<b>0.40</b>	<b>(2.77)</b>	<b>(2.24)</b>	–	<b>(0.14)</b>	–	–	<b>(0.14)</b>	<b>9.91</b>
Dec. 31, 2017	9.22	0.23	(0.11)	0.54	1.64	2.30	–	(0.11)	–	–	(0.11)	11.49
Dec. 31, 2016	9.55	0.25	(0.10)	0.52	(0.75)	(0.08)	–	(0.16)	–	–	(0.16)	9.22
Dec. 31, 2015	8.93	0.21	(0.11)	(0.41)	0.93	0.62	–	(0.10)	–	–	(0.10)	9.55
Dec. 31, 2014	8.72	0.29	(0.10)	0.82	(0.54)	0.47	–	(0.25)	(0.09)	–	(0.34)	8.93
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>11.53</b>	<b>0.24</b>	–	<b>0.40</b>	<b>(1.86)</b>	<b>(1.22)</b>	–	<b>(0.25)</b>	–	–	<b>(0.25)</b>	<b>9.93</b>
Dec. 31, 2017	9.26	0.23	(0.01)	0.54	1.74	2.50	–	(0.23)	–	–	(0.23)	11.53
Dec. 31, 2016	9.59	0.25	(0.01)	0.53	(0.87)	(0.10)	–	(0.25)	–	–	(0.25)	9.26
Dec. 31, 2015	8.96	0.21	(0.02)	(0.41)	0.94	0.72	–	(0.19)	–	–	(0.19)	9.59
Dec. 31, 2014	8.76	0.30	(0.01)	0.82	(0.54)	0.57	–	(0.34)	(0.09)	–	(0.43)	8.96

<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>Dec. 31, 2018</b>	<b>10.08</b>	<b>1 025</b>	<b>102</b>	<b>2.13</b>	<b>2.13</b>	<b>7.68</b>	<b>0.10</b>
Dec. 31, 2017	11.69	818	70	2.20	2.20	7.99	0.21
Dec. 31, 2016	9.38	570	61	2.28	2.28	18.67	0.18
Dec. 31, 2015	9.73	733	75	2.30	2.30	20.40	0.17
Dec. 31, 2014	9.10	606	67	2.31	2.31	11.71	0.42
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>10.08</b>	<b>1 409</b>	<b>140</b>	<b>2.13</b>	<b>2.13</b>	<b>7.68</b>	<b>0.10</b>
Dec. 31, 2017	11.69	1 491	128	2.19	2.19	7.99	0.21
Dec. 31, 2016	9.39	1 675	178	2.28	2.28	18.67	0.18
Dec. 31, 2015	9.73	1 675	172	2.30	2.30	20.40	0.17
Dec. 31, 2014	9.10	111	12	2.30	2.30	11.71	0.42
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>9.81</b>	<b>8 974</b>	<b>915</b>	<b>1.25</b>	<b>1.25</b>	<b>7.68</b>	<b>0.10</b>
Dec. 31, 2017	11.38	14 618	1 285	1.30	1.30	7.99	0.21
Dec. 31, 2016	9.13	13 610	1 490	1.37	1.37	18.67	0.18
Dec. 31, 2015	9.46	11 977	1 266	1.43	1.43	20.40	0.17
Dec. 31, 2014	8.84	11 692	1 322	1.44	1.44	11.71	0.42
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>9.91</b>	<b>20 272</b>	<b>2 046</b>	<b>1.03</b>	<b>1.03</b>	<b>7.68</b>	<b>0.10</b>
Dec. 31, 2017	11.49	9 589	835	1.10	1.10	7.99	0.21
Dec. 31, 2016	9.22	2 956	321	1.16	1.16	18.67	0.18
Dec. 31, 2015	9.55	3 268	342	1.19	1.19	20.40	0.17
Dec. 31, 2014	8.93	700	78	1.20	1.20	11.71	0.42
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>9.93</b>	<b>121 589</b>	<b>12 245</b>	<b>0.04</b>	<b>0.04</b>	<b>7.68</b>	<b>0.10</b>
Dec. 31, 2017	11.53	165 173	14 326	0.19	0.19	7.99	0.21
Dec. 31, 2016	9.26	146 277	15 799	0.24	0.24	18.67	0.18
Dec. 31, 2015	9.59	153 811	16 036	0.24	0.24	20.40	0.17
Dec. 31, 2014	8.96	121 375	13 542	0.25	0.25	11.71	0.42

<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.

Effective October 2, 2017, the administration fees were changed in respect of Series O units of the Fund. If the changes to the administration fees would have been in effect throughout 2017, the adjusted MER for each series of the Fund would be: Series O – 0.09%.

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 – 2.22%, Advisor Series – 2.22%, Series D – 1.32% and Series F – 1.11%.



**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	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	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.

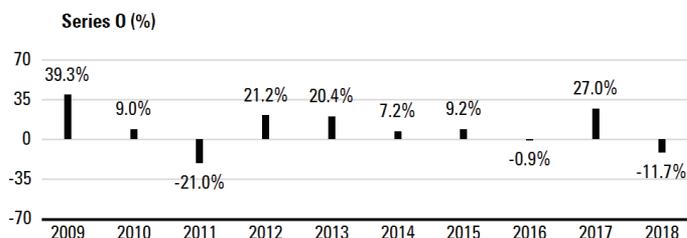
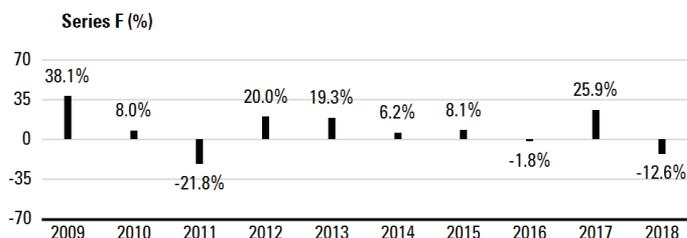
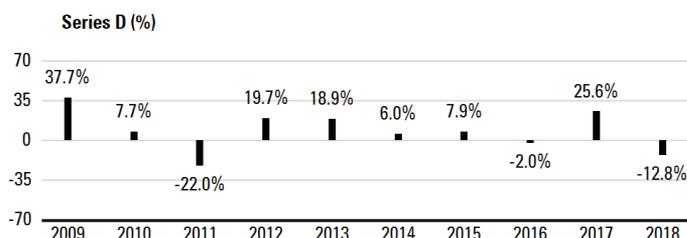
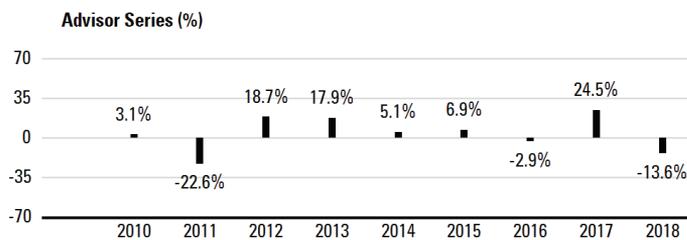
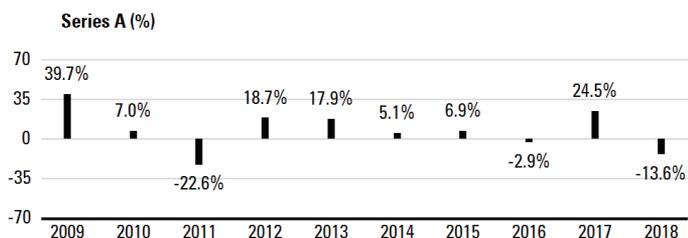
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





## PAST PERFORMANCE (cont.)

### Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

#### MSCI EAFE Total Return Net Index (hedged to CAD)

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	-13.6	1.5	3.3	6.6	–
Benchmark	-10.1	3.5	4.4	7.7	–
Advisor Series	-13.6	1.5	3.3	–	3.4
Benchmark	-10.1	3.5	4.4	–	6.7
Series D	-12.8	2.4	4.2	7.3	–
Benchmark	-10.1	3.5	4.4	7.7	–
Series F	-12.6	2.6	4.4	7.6	–
Benchmark	-10.1	3.5	4.4	7.7	–
Series O	-11.7	3.6	5.4	8.6	–
Benchmark	-10.1	3.5	4.4	7.7	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

## INDEX DESCRIPTION

**MSCI EAFE Total Return Net Index (hedged to CAD)** This index is a broad measure of the Canadian dollar performance of stocks from developed equity markets covering countries in Europe, Australasia and the Far East. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The index is hedged to Canadian dollars.

## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix – Sectors

	% of Net Asset Value
Financials	22.4
Industrials	16.6
Consumer Discretionary	13.8
Consumer Staples	12.9
Health Care	12.8
Materials	9.8
Energy	5.0
Information Technology	2.8
Utilities	2.7
Cash/Other	1.2

### Investment Mix – Countries/Regions

	% of Net Asset Value
Europe ex-United Kingdom Equities	37.6
Pacific Rim ex-Japan Equities	28.4
United Kingdom Equities	19.2
Japan Equities	15.4
Middle East and Africa Equities	2.3
Cash/Other	(2.9)



**SUMMARY OF INVESTMENT PORTFOLIO (cont.)**

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

*As at December 31, 2018*

**Top 25 Holdings\***

	% of Net Asset Value
Roche Holdings AG Genussscheine	6.5
Unilever Plc.	6.0
Deutsche Post AG	5.6
InterContinental Hotels Group Plc.	5.4
Nidec Corp.	5.2
AIA Group Ltd.	5.0
Anheuser-Busch InBev S.A./N.V.	4.8
St. James's Place Plc.	3.2
Astellas Pharma Inc.	3.2
Linde Plc.	3.1
Oriental Land Co. Ltd.	3.1
HDFC Bank Ltd.	3.1
Oil Search Ltd.	3.0
Rio Tinto Plc.	2.9
Croda International Plc.	2.8
Orsted A/S	2.8
MISUMI Group Inc.	2.8
Partners Group Holding AG	2.6
Paddy Power Betfair Plc.	2.4
Safran S.A.	2.3
Naspers Ltd.	2.2
Shin-Etsu Chemical Co. Ltd.	2.2
Essity AB	2.1
Royal Dutch Shell Plc., B Shares	2.1
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	2.0
<b>Top 25 Holdings</b>	<b>86.4</b>

\* The Fund invests substantially all of its assets directly in the Phillips, Hager & North Overseas Equity Fund. The above are the Top 25 holdings of the Phillips, Hager & North Overseas Equity Fund.

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).



GLOBAL EQUITY FUND

**PHILLIPS, HAGER & NORTH  
GLOBAL EQUITY FUND**

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*December 31, 2018*

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

Sub-Advisor: RBC Global Asset Management (UK) Limited

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 common stocks of companies in the world's largest industrialized countries outside Canada, including the United States and countries in Europe, as well as Japan, Australia and the rest of the Far East. The portfolio manager invests primarily in companies that they believe have sound fundamentals, a strong market position, a history of profitability, a capable management team, and attractive valuations.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$528 million as of December 31, 2018, from \$251 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund's Series O units gained 2.0%, which outperformed the 0.5% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

A decade-long period of investor-friendly monetary stimulus and ultralow interest rates appeared to start receding in 2018, leading to concern about the outlook for earnings and borrowing. The U.S. Federal Reserve, in particular, was clear about its plan to raise interest rates steadily and it followed through, fearful that the relatively strong U.S. economy would experience uncomfortably high inflation if rates did not increase.

Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines, with emerging markets underperforming developed markets. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the "EU"), while in Italy the formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU.

Top contributors to the Fund's returns included U.S. discount retailer TJX, which had a strong third quarter; U.S. health-care provider UnitedHealth, which posted strong financial results; and U.S. medical equipment and services company Danaher.

Stocks that had a negative impact on returns included the German package-delivery company Deutsche Post DHL, whose shares declined towards the end of the year on concerns about a slowdown in global trade. Shares of U.S. flooring manufacturer Mohawk declined amid higher costs, and the position was eliminated from the portfolio. Anheuser-Busch InBev, the Belgium-based brewer, hurt relative returns given concerns about volume growth and high exposure to emerging markets.

### Recent Developments

A slowdown in the global economic expansion is among the variables that will influence equity and other financial markets in 2019. Growth has been kept afloat by the U.S. in recent quarters, but stock declines have many investors questioning whether a global recession might soon unfold.

The U.S.-China trade dispute is contributing to the uncertainty, and emerging markets, which have performed poorly since the financial crisis, do not necessarily offer a safe haven. China, the world's second-largest economy and by far the largest emerging market, has high consumer and government debts alongside a slowing economy, and other emerging markets are under pressure from a stronger U.S. dollar and rising U.S. interest rates.

The sub-advisor is committed to minimizing the impact of the weakening macroeconomic environment on the Fund. Picking companies with consistent earnings and strong balance sheets diversified across regions and industries should drive returns.

### 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.



***Sub-Advisor***

RBC Global Asset Management (UK) Limited is the sub-advisor and provides investment advice for the Fund. The sub-advisor earns a fee which is calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund. The sub-advisor is paid by the manager from the management fee paid by the Fund.

***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 Investor Services Trust ("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 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.

***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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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>Dec. 31, 2018</b>	<b>17.85</b>	<b>0.25</b>	<b>(0.39)</b>	<b>0.51</b>	<b>(1.76)</b>	<b>(1.39)</b>	–	–	–	–	–	<b>17.84</b>
Dec. 31, 2017	14.36	0.25	(0.33)	0.94	2.59	3.45	–	–	–	–	–	17.85
Dec. 31, 2016	14.47	0.27	(0.28)	0.71	(0.81)	(0.11)	–	–	–	–	–	14.36
Dec. 31, 2015	11.82	0.23	(0.28)	0.73	1.95	2.63	–	–	–	–	–	14.47
Dec. 31, 2014	10.25	0.06	(0.22)	3.01	(1.28)	1.57	–	–	–	–	–	11.82
<b>Advisor Series</b>												
<b>Dec. 31, 2018</b>	<b>17.84</b>	<b>0.24</b>	<b>(0.39)</b>	<b>0.49</b>	<b>(2.30)</b>	<b>(1.96)</b>	–	–	–	–	–	<b>17.84</b>
Dec. 31, 2017	14.36	0.25	(0.33)	0.94	2.49	3.35	–	–	–	–	–	17.84
Dec. 31, 2016	14.47	0.27	(0.28)	0.70	(0.94)	(0.25)	–	–	–	–	–	14.36
Dec. 31, 2015	11.82	0.23	(0.28)	0.73	1.94	2.62	–	–	–	–	–	14.47
Dec. 31, 2014	10.25	0.06	(0.22)	3.00	(1.27)	1.57	–	–	–	–	–	11.82
<b>Series D</b>												
<b>Dec. 31, 2018</b>	<b>18.35</b>	<b>0.28</b>	<b>(0.23)</b>	<b>0.56</b>	<b>(0.68)</b>	<b>(0.07)</b>	–	<b>(0.01)</b>	–	–	<b>(0.01)</b>	<b>18.50</b>
Dec. 31, 2017	14.67	0.26	(0.20)	0.97	2.69	3.72	–	(0.04)	–	–	(0.04)	18.35
Dec. 31, 2016	14.69	0.28	(0.17)	0.72	(0.81)	0.02	–	(0.04)	–	–	(0.04)	14.67
Dec. 31, 2015	11.94	0.23	(0.16)	0.74	1.98	2.79	–	(0.06)	–	–	(0.06)	14.69
Dec. 31, 2014	10.27	0.06	(0.13)	3.02	(1.28)	1.67	–	–	–	–	–	11.94
<b>Series F</b>												
<b>Dec. 31, 2018</b>	<b>18.59</b>	<b>0.25</b>	<b>(0.19)</b>	<b>0.51</b>	<b>(2.78)</b>	<b>(2.21)</b>	–	<b>(0.03)</b>	–	–	<b>(0.03)</b>	<b>18.76</b>
Dec. 31, 2017	14.86	0.26	(0.16)	0.97	2.59	3.66	–	(0.08)	–	–	(0.08)	18.59
Dec. 31, 2016	14.87	0.27	(0.14)	0.71	(0.58)	0.26	–	(0.07)	–	–	(0.07)	14.86
Dec. 31, 2015	12.10	0.24	(0.13)	0.75	1.99	2.85	–	(0.10)	–	–	(0.10)	14.87
Dec. 31, 2014	10.38	0.06	(0.11)	3.08	(1.31)	1.72	–	–	–	–	–	12.10
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>18.83</b>	<b>0.29</b>	–	<b>0.57</b>	<b>(0.83)</b>	<b>0.03</b>	<b>(0.01)</b>	<b>(0.19)</b>	–	–	<b>(0.20)</b>	<b>19.01</b>
Dec. 31, 2017	15.06	0.27	(0.01)	1.00	2.73	3.99	(0.01)	(0.25)	–	–	(0.26)	18.83
Dec. 31, 2016	15.08	0.28	(0.01)	0.72	(0.85)	0.14	–	(0.21)	–	–	(0.21)	15.06
Dec. 31, 2015	12.26	0.24	(0.01)	0.77	2.04	3.04	–	(0.23)	–	–	(0.23)	15.08
Dec. 31, 2014	10.43	0.06	(0.01)	3.08	(1.31)	1.82	–	–	–	–	–	12.26

<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>Dec. 31, 2018</b>	<b>17.84</b>	<b>30 628</b>	<b>1 717</b>	<b>2.06</b>	<b>2.06</b>	<b>22.56</b>	<b>0.11</b>
Dec. 31, 2017	17.85	10 179	570	2.06	2.06	27.74	0.16
Dec. 31, 2016	14.36	6 953	484	2.06	2.06	47.90	0.20
Dec. 31, 2015	14.47	7 246	501	2.06	2.06	38.75	0.17
Dec. 31, 2014	11.82	3 640	308	2.09	2.09	131.52	0.28
<b>Advisor Series</b>							
<b>Dec. 31, 2018</b>	<b>17.84</b>	<b>57 190</b>	<b>3 205</b>	<b>2.06</b>	<b>2.06</b>	<b>22.56</b>	<b>0.11</b>
Dec. 31, 2017	17.84	6 386	358	2.06	2.06	27.74	0.16
Dec. 31, 2016	14.36	3 353	233	2.06	2.06	47.90	0.20
Dec. 31, 2015	14.47	3 686	255	2.06	2.06	38.75	0.17
Dec. 31, 2014	11.82	879	74	2.09	2.09	131.52	0.28
<b>Series D</b>							
<b>Dec. 31, 2018</b>	<b>18.50</b>	<b>102 140</b>	<b>5 522</b>	<b>1.19</b>	<b>1.19</b>	<b>22.56</b>	<b>0.11</b>
Dec. 31, 2017	18.35	82 019	4 470	1.19	1.19	27.74	0.16
Dec. 31, 2016	14.67	52 931	3 609	1.19	1.19	47.90	0.20
Dec. 31, 2015	14.69	52 874	3 600	1.19	1.19	38.75	0.17
Dec. 31, 2014	11.94	36 737	3 076	1.22	1.22	131.52	0.28
<b>Series F</b>							
<b>Dec. 31, 2018</b>	<b>18.76</b>	<b>123 877</b>	<b>6 603</b>	<b>0.96</b>	<b>0.96</b>	<b>22.56</b>	<b>0.11</b>
Dec. 31, 2017	18.59	16 903	909	0.94	0.94	27.74	0.16
Dec. 31, 2016	14.86	7 292	491	0.95	0.95	47.90	0.20
Dec. 31, 2015	14.87	2 536	171	0.95	0.95	38.75	0.17
Dec. 31, 2014	12.10	435	36	0.97	0.97	131.52	0.28
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>19.01</b>	<b>214 178</b>	<b>11 264</b>	<b>0.02</b>	<b>0.02</b>	<b>22.56</b>	<b>0.11</b>
Dec. 31, 2017	18.83	135 981	7 220	0.05	0.05	27.74	0.16
Dec. 31, 2016	15.06	89 103	5 917	0.07	0.07	47.90	0.20
Dec. 31, 2015	15.08	54 566	3 619	0.07	0.07	38.75	0.17
Dec. 31, 2014	12.26	48 282	3 938	0.10	0.10	131.52	0.28

<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.

Effective October 2, 2017, the administration fees were changed in respect of Series O units of the Fund. If the changes to the administration fees would have been in effect throughout 2017, the adjusted MER for each series of the Fund would be: Series O – 0.02%.



**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	1.75%	57%	43%
Advisor Series	1.75%	57%	43%
Series D	1.00%	25%	75%
Series F	0.75%	—	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.

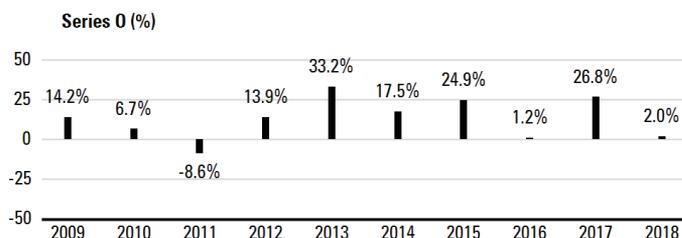
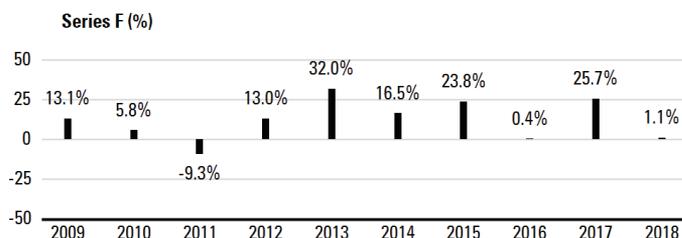
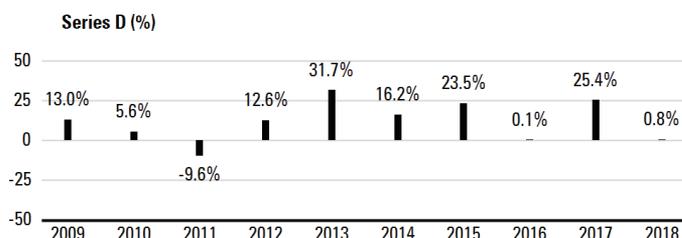
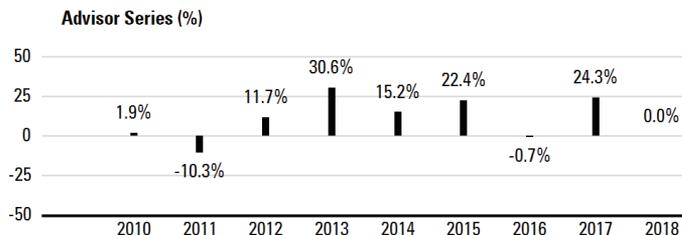
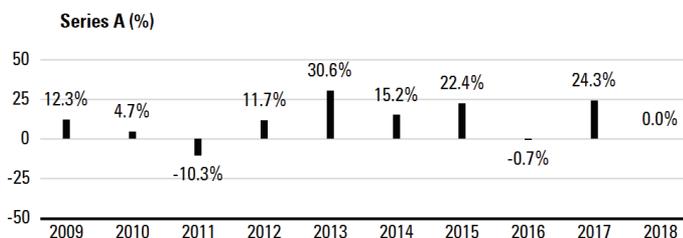
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.





**PAST PERFORMANCE (cont.)**

**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018 compared with the following benchmark:

**MSCI World Total Return Net Index (CAD)**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	0.0	7.2	11.7	10.3	–
Benchmark	-0.5	5.7	9.9	10.8	–
Advisor Series	0.0	7.2	11.7	–	10.8
Benchmark	-0.5	5.7	9.9	–	11.6
Series D	0.8	8.2	12.7	11.3	–
Benchmark	-0.5	5.7	9.9	10.8	–
Series F	1.1	8.4	13.0	11.5	–
Benchmark	-0.5	5.7	9.9	10.8	–
Series O	2.0	9.4	14.0	12.5	–
Benchmark	-0.5	5.7	9.9	10.8	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Advisor Series units have been available for sale to unitholders since October 2010.

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.

**INDEX DESCRIPTION**

**MSCI World Total Return Net Index (CAD)** This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix – Sectors**

	% of Net Asset Value
Financials	20.9
Health Care	19.0
Consumer Discretionary	13.4
Industrials	13.0
Information Technology	12.5
Consumer Staples	11.6
Energy	4.1
Utilities	3.2
Materials	2.2
Cash/Other	0.1

**Investment Mix – Countries/Regions**

	% of Net Asset Value
United States Equities	60.1
Europe ex-United Kingdom Equities	19.5
Pacific Rim ex-Japan Equities	7.4
United Kingdom Equities	6.0
Japan Equities	4.7
Middle East & Africa Equities	2.2
Cash/Other	0.1



## SUMMARY OF INVESTMENT PORTFOLIO (cont.)

(after consideration of derivative products, if any)

As at December 31, 2018

### Top 25 Holdings

	% of Net Asset Value
Danaher Corp.	6.2
Roche Holdings AG Genusscheine	5.8
UnitedHealth Group Incorporated	5.7
Unilever N.V.	5.2
First Republic Bank	5.0
Fortive Corp.	4.4
EOG Resources Inc.	4.1
TJX Companies Inc.	4.1
Deutsche Post AG	3.9
Microsoft Corp.	3.6
Alphabet Inc., Class A	3.5
Estée Lauder Companies Inc., Class A	3.4
Gartner Inc.	3.3
American Water Works Co. Inc.	3.2
Amazon.com, Inc.	3.2
HDFC Bank Ltd. ADR	3.1
Nidec Corp.	3.0
Anheuser-Busch InBev S.A./N.V.	2.9
MarketAxess Holdings Inc.	2.7
Blackstone Group LP	2.7
SVB Financial Group	2.5
Croda International Plc.	2.2
InterContinental Hotels Group Plc.	2.2
AIA Group Ltd.	2.2
Naspers Ltd.	2.2
<b>Top 25 Holdings</b>	<b>90.3</b>

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).



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2015 FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 achieve a balance of income and long-term capital growth relative to its target retirement date of 2015 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in two broad asset classes: equities and fixed income, either directly or indirectly through underlying funds and Canadian or U.S. ETFs. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value fell to \$7 million as of December 31, 2018, from \$8 million at the end of 2017. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund’s Series O units gained 0.9%. The fixed-income benchmark rose 1.4% and the equity benchmark declined 8.9%. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the “EU”), while in Italy the formation of a coalition government committed to higher spending led

to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the “Fed”) boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. Returns in the fixed-income segment of the portfolio were boosted by the Phillips, Hager & North Bond Fund and the Phillips, Hager & North Inflation-Linked Bond Fund.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada’s equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Returns were bolstered by the RBC QUBE Low Volatility Global Equity Fund and the Vanguard Real Estate ETF.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.

Effective June 28, 2018, the Fund’s risk rating changed from low to low-to-medium.



## 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 Investor Services Trust ("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 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.

## **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 D</b>												
<b>Dec. 31, 2018</b>	<b>10.28</b>	<b>0.33</b>	<b>(0.09)</b>	<b>0.18</b>	<b>(0.42)</b>	<b>–</b>	<b>(0.17)</b>	<b>(0.08)</b>	<b>(0.22)</b>	<b>–</b>	<b>(0.47)</b>	<b>9.82</b>
Dec. 31, 2017	11.16	1.01	(0.10)	0.21	(0.73)	0.39	(0.15)	(0.11)	(0.27)	(0.73)	(1.26)	10.28
Dec. 31, 2016	10.96	0.29	(0.10)	0.18	0.19	0.56	(0.09)	(0.09)	(0.19)	–	(0.37)	11.16
Dec. 31, 2015	11.19	0.31	(0.11)	0.65	(0.22)	0.63	(0.13)	(0.09)	(0.65)	–	(0.87)	10.96
Dec. 31, 2014	10.65	0.39	(0.11)	0.46	0.45	1.19	(0.17)	(0.09)	(0.46)	–	(0.72)	11.19
<b>Series F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.12</b>	<b>(0.02)</b>	<b>0.06</b>	<b>(0.40)</b>	<b>(0.24)</b>	<b>(0.18)</b>	<b>(0.08)</b>	<b>(0.21)</b>	<b>–</b>	<b>(0.47)</b>	<b>9.29</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>10.23</b>	<b>0.33</b>	<b>(0.01)</b>	<b>0.18</b>	<b>(0.41)</b>	<b>0.09</b>	<b>(0.24)</b>	<b>(0.10)</b>	<b>(0.22)</b>	<b>–</b>	<b>(0.56)</b>	<b>9.76</b>
Dec. 31, 2017	11.12	1.01	(0.01)	0.21	(0.75)	0.46	(0.16)	(0.12)	(0.27)	(0.81)	(1.36)	10.23
Dec. 31, 2016	10.92	0.29	(0.01)	0.19	0.18	0.65	(0.14)	(0.14)	(0.19)	–	(0.47)	11.12
Dec. 31, 2015	11.16	0.32	(0.01)	0.65	(0.22)	0.74	(0.19)	(0.13)	(0.65)	–	(0.97)	10.92
Dec. 31, 2014	10.63	0.39	(0.01)	0.47	0.46	1.31	(0.23)	(0.13)	(0.46)	–	(0.82)	11.16

<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.

<sup>3</sup> From August 16, 2018.

<sup>†</sup> Initial offering net asset value per unit.



**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 D</b>							
<b>Dec. 31, 2018</b>	<b>9.82</b>	<b>4 034</b>	<b>411</b>	<b>0.89</b>	<b>0.92</b>	<b>21.31</b>	<b>0.01</b>
Dec. 31, 2017	10.28	4 504	438	0.90	0.93	13.53	0.02
Dec. 31, 2016	11.16	6 306	565	0.90	0.92	28.96	0.03
Dec. 31, 2015	10.96	5 187	473	0.90	0.93	85.81	0.03
Dec. 31, 2014	11.19	4 843	433	0.96	1.01	34.41	0.08
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>9.29</b>	<b>1</b>	<b>–</b>	<b>0.65</b>	<b>0.68</b>	<b>21.31</b>	<b>0.01</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>9.76</b>	<b>3 194</b>	<b>327</b>	<b>0.08</b>	<b>0.11</b>	<b>21.31</b>	<b>0.01</b>
Dec. 31, 2017	10.23	3 533	345	0.08	0.11	13.53	0.02
Dec. 31, 2016	11.12	3 381	304	0.08	0.11	28.96	0.03
Dec. 31, 2015	10.92	2 750	252	0.08	0.12	85.81	0.03
Dec. 31, 2014	11.16	2 554	229	0.08	0.13	34.41	0.08

<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.

<sup>4</sup> From August 16, 2018.

**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 D	0.75%	33%	67%
Series F	0.50%	–	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.

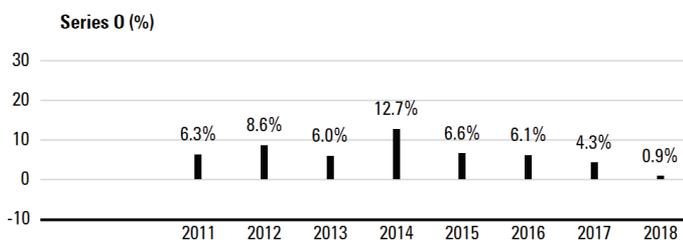
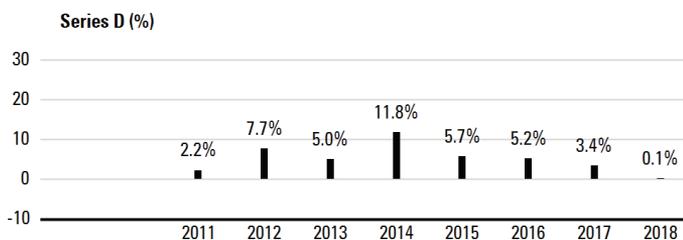


**PAST PERFORMANCE**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

Benchmark 1 – FTSE Canada Universe Bond Index  
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	0.1	2.9	5.2	–	5.4
Benchmark 1	1.4	1.9	3.5	–	3.6
Benchmark 2	-8.9	6.4	4.1	–	4.0
Series F	–	–	–	–	-2.4
Benchmark 1	–	–	–	–	1.0
Benchmark 2	–	–	–	–	-11.2
Series O	0.9	3.7	6.1	–	6.4
Benchmark 1	1.4	1.9	3.5	–	3.8
Benchmark 2	-8.9	6.4	4.1	–	3.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series F units have been available for sale to unitholders since August 20, 2018, Series D units since June 2011, and Series O units since January 2011.

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

**INDEX DESCRIPTIONS**

**FTSE 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.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Bonds	62.2
Global Equities	19.5
Canadian Equities	12.2
United States Equities	2.9
Cash/Other	3.2

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	34.0
Phillips, Hager & North Inflation-Linked Bond Fund	30.5
RBC QUBE Low Volatility Global Equity Fund	19.6
Phillips, Hager & North Canadian Equity Underlying Fund	6.3
Phillips, Hager & North Conservative Equity Income Fund	6.1
Vanguard Real Estate ETF	2.9
Phillips, Hager & North Canadian Money Market Fund	0.6
Cash & Cash Equivalents	—
Total	100.0

\* 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).



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2020 FUND**

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*December 31, 2018*

**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 11, 2019.

**A Note on Forward-looking Statements**

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### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value was \$29 million as of December 31, 2018, unchanged from the end of 2017.

Over the past year, the Fund’s Series O units gained 0.5%. The fixed-income benchmark rose 1.4% and the equity benchmark declined 8.9%. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the “EU”), while in Italy the

formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

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The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada’s equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Returns were bolstered by the RBC QUBE Low Volatility Global Equity Fund and the Vanguard Real Estate ETF.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.



## 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 Investor Services Trust ("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 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.

## **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 D</b>												
<b>Dec. 31, 2018</b>	<b>11.30</b>	<b>0.39</b>	<b>(0.11)</b>	<b>0.24</b>	<b>(0.56)</b>	<b>(0.04)</b>	<b>(0.17)</b>	<b>(0.10)</b>	<b>(0.19)</b>	–	<b>(0.46)</b>	<b>10.79</b>
Dec. 31, 2017	12.42	1.63	(0.12)	0.30	(1.25)	0.56	(0.14)	(0.12)	(0.10)	(1.34)	(1.70)	11.30
Dec. 31, 2016	11.94	0.31	(0.12)	0.17	0.36	0.72	(0.06)	(0.11)	(0.09)	–	(0.26)	12.42
Dec. 31, 2015	11.87	0.34	(0.12)	0.61	(0.22)	0.61	(0.08)	(0.11)	(0.51)	–	(0.70)	11.94
Dec. 31, 2014	10.98	0.39	(0.12)	0.50	0.73	1.50	(0.11)	(0.10)	(0.45)	–	(0.66)	11.87
<b>Series F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.12</b>	<b>(0.02)</b>	<b>0.07</b>	<b>(0.53)</b>	<b>(0.36)</b>	<b>(0.17)</b>	<b>(0.09)</b>	<b>(0.17)</b>	–	<b>(0.43)</b>	<b>9.20</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>11.19</b>	<b>0.39</b>	<b>(0.01)</b>	<b>0.24</b>	<b>(0.58)</b>	<b>0.04</b>	<b>(0.24)</b>	<b>(0.13)</b>	<b>(0.19)</b>	–	<b>(0.56)</b>	<b>10.68</b>
Dec. 31, 2017	12.33	1.64	(0.01)	0.31	(1.24)	0.70	(0.15)	(0.13)	(0.10)	(1.45)	(1.83)	11.19
Dec. 31, 2016	11.85	0.31	(0.01)	0.17	0.36	0.83	(0.10)	(0.18)	(0.09)	–	(0.37)	12.33
Dec. 31, 2015	11.81	0.34	(0.01)	0.61	(0.22)	0.72	(0.13)	(0.17)	(0.51)	–	(0.81)	11.85
Dec. 31, 2014	10.93	0.39	(0.01)	0.50	0.73	1.61	(0.17)	(0.16)	(0.45)	–	(0.78)	11.81

<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.

<sup>3</sup> From August 16, 2018.

<sup>†</sup> Initial offering net asset value per unit.



**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 D</b>							
<b>Dec. 31, 2018</b>	<b>10.79</b>	<b>15 412</b>	<b>1 428</b>	<b>0.97</b>	<b>0.98</b>	<b>24.26</b>	<b>0.02</b>
Dec. 31, 2017	11.30	15 940	1 410	0.96	0.97	19.81	0.03
Dec. 31, 2016	12.42	21 368	1 720	0.97	0.98	19.94	0.05
Dec. 31, 2015	11.94	14 303	1 198	0.96	0.98	63.64	0.04
Dec. 31, 2014	11.87	9 429	794	1.01	1.04	13.80	0.10
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>9.20</b>	<b>1</b>	<b>–</b>	<b>0.71</b>	<b>0.72</b>	<b>24.26</b>	<b>0.02</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>10.68</b>	<b>13 855</b>	<b>1 297</b>	<b>0.09</b>	<b>0.10</b>	<b>24.26</b>	<b>0.02</b>
Dec. 31, 2017	11.19	13 437	1 201	0.09	0.10	19.81	0.03
Dec. 31, 2016	12.33	11 406	925	0.09	0.10	19.94	0.05
Dec. 31, 2015	11.85	8 448	713	0.09	0.10	63.64	0.04
Dec. 31, 2014	11.81	5 951	504	0.08	0.11	13.80	0.10

<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.

<sup>4</sup> From August 16, 2018.

**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 D	0.80%	31%	69%
Series F	0.55%	–	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.

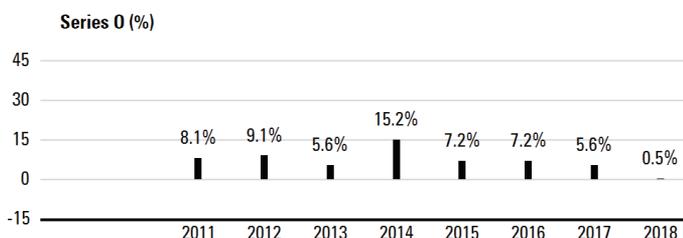
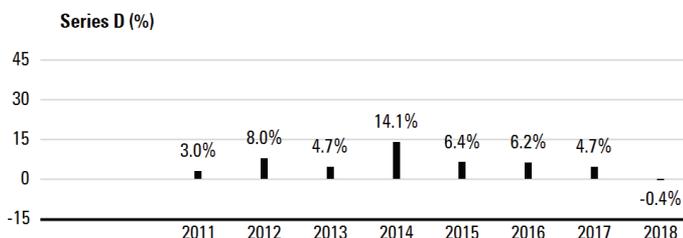


**PAST PERFORMANCE**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

Benchmark 1 – FTSE Canada Universe Bond Index  
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	-0.4	3.5	6.1	–	6.2
Benchmark 1	1.4	1.9	3.5	–	3.6
Benchmark 2	-8.9	6.4	4.1	–	4.0
Series F	–	–	–	–	-3.7
Benchmark 1	–	–	–	–	1.0
Benchmark 2	–	–	–	–	-11.2
Series O	0.5	4.4	7.0	–	7.3
Benchmark 1	1.4	1.9	3.5	–	3.8
Benchmark 2	-8.9	6.4	4.1	–	3.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series F units have been available for sale to unitholders since August 20, 2018, Series D units since June 2011, and Series O units since January 2011.

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

**INDEX DESCRIPTIONS**

**FTSE 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.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Bonds	57.3
Global Equities	23.5
Canadian Equities	12.1
United States Equities	4.8
Cash/Other	2.3

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Inflation-Linked Bond Fund	48.3
RBC QUBE Low Volatility Global Equity Fund	19.3
Phillips, Hager & North Bond Fund	7.2
Phillips, Hager & North Canadian Equity Underlying Fund	6.2
Phillips, Hager & North Conservative Equity Income Fund	6.0
Vanguard Real Estate ETF	3.8
Phillips, Hager & North High Yield Bond Fund	2.9
RBC Global Equity Focus Fund	2.4
RBC Emerging Markets Equity Fund	1.0
RBC QUBE Global Equity Fund	0.8
Cash & Cash Equivalents	0.7
RBC U.S. Mid-Cap Value Equity Fund	0.7
Phillips, Hager & North Canadian Money Market Fund	0.5
RBC U.S. Small-Cap Value Equity Fund	0.2
Total	100.0

\* 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).



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2025 FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 achieve a balance of income and long-term capital growth relative to its target retirement date of 2025 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in two broad asset classes: equities and fixed income, either directly or indirectly through underlying funds and Canadian or U.S. ETFs. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$41 million as of December 31, 2018, from \$37 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund’s Series O units lost 0.7%. The fixed-income benchmark rose 1.4% and the equity benchmark declined 8.9%. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the “EU”), while in Italy the

formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the “Fed”) boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. Returns in the fixed-income segment of the portfolio were held back by the Phillips, Hager & North Long Inflation-Linked Bond Fund.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada’s equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Returns were held back by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Conservative Equity Income Fund.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.



## Related-Party Transactions

### **Manager and Portfolio Manager**

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### **Distributors**

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- (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.



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		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 D</b>												
<b>Dec. 31, 2018</b>	<b>12.28</b>	<b>0.40</b>	<b>(0.12)</b>	<b>0.28</b>	<b>(0.79)</b>	<b>(0.23)</b>	<b>(0.14)</b>	<b>(0.10)</b>	<b>(0.25)</b>	–	<b>(0.49)</b>	<b>11.58</b>
Dec. 31, 2017	12.53	1.02	(0.13)	0.31	(0.47)	0.73	(0.16)	(0.13)	(0.15)	(0.57)	(1.01)	12.28
Dec. 31, 2016	12.01	0.32	(0.12)	0.18	0.41	0.79	(0.07)	(0.10)	(0.11)	–	(0.28)	12.53
Dec. 31, 2015	12.00	0.32	(0.13)	0.71	(0.29)	0.61	(0.06)	(0.10)	(0.59)	–	(0.75)	12.01
Dec. 31, 2014	10.96	0.38	(0.13)	0.50	0.85	1.60	(0.11)	(0.09)	(0.45)	–	(0.65)	12.00
<b>Series F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.11</b>	<b>(0.02)</b>	<b>0.08</b>	<b>(0.69)</b>	<b>(0.52)</b>	<b>(0.13)</b>	<b>(0.09)</b>	<b>(0.20)</b>	–	<b>(0.42)</b>	<b>9.05</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>12.19</b>	<b>0.39</b>	<b>(0.01)</b>	<b>0.28</b>	<b>(0.78)</b>	<b>(0.12)</b>	<b>(0.21)</b>	<b>(0.15)</b>	<b>(0.24)</b>	–	<b>(0.60)</b>	<b>11.49</b>
Dec. 31, 2017	12.44	1.01	(0.01)	0.31	(0.41)	0.90	(0.19)	(0.14)	(0.15)	(0.65)	(1.13)	12.19
Dec. 31, 2016	11.93	0.32	(0.01)	0.18	0.42	0.91	(0.12)	(0.17)	(0.11)	–	(0.40)	12.44
Dec. 31, 2015	11.92	0.32	(0.01)	0.71	(0.29)	0.73	(0.11)	(0.17)	(0.59)	–	(0.87)	11.93
Dec. 31, 2014	10.90	0.38	(0.01)	0.50	0.85	1.72	(0.18)	(0.15)	(0.45)	–	(0.78)	11.92

<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.

<sup>3</sup> From August 16, 2018.

<sup>†</sup> Initial offering net asset value per unit.



**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 D</b>							
<b>Dec. 31, 2018</b>	<b>11.58</b>	<b>13 124</b>	<b>1 133</b>	<b>1.03</b>	<b>1.04</b>	<b>13.78</b>	<b>0.03</b>
Dec. 31, 2017	12.28	12 511	1 019	1.03	1.04	13.92	0.04
Dec. 31, 2016	12.53	13 440	1 073	1.03	1.03	15.09	0.06
Dec. 31, 2015	12.01	9 384	781	1.02	1.03	43.06	0.05
Dec. 31, 2014	12.00	5 862	488	1.07	1.10	11.45	0.10
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>9.05</b>	<b>1</b>	<b>–</b>	<b>0.77</b>	<b>0.78</b>	<b>13.78</b>	<b>0.03</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>11.49</b>	<b>28 186</b>	<b>2 452</b>	<b>0.09</b>	<b>0.10</b>	<b>13.78</b>	<b>0.03</b>
Dec. 31, 2017	12.19	24 178	1 983	0.09	0.10	13.92	0.04
Dec. 31, 2016	12.44	18 663	1 501	0.09	0.10	15.09	0.06
Dec. 31, 2015	11.93	13 925	1 168	0.09	0.11	43.06	0.05
Dec. 31, 2014	11.92	9 957	835	0.08	0.11	11.45	0.10

<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.

<sup>4</sup> From August 16, 2018.

**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 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.

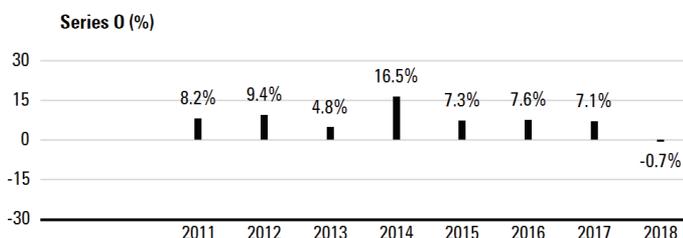
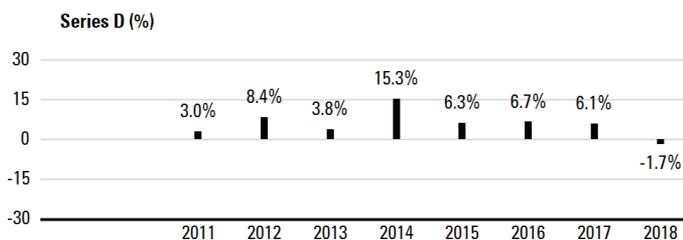


**PAST PERFORMANCE**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

Benchmark 1 – FTSE Canada Universe Bond Index  
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	-1.7	3.6	6.4	–	6.3
Benchmark 1	1.4	1.9	3.5	–	3.6
Benchmark 2	-8.9	6.4	4.1	–	4.0
Series F	–	–	–	–	-5.2
Benchmark 1	–	–	–	–	1.0
Benchmark 2	–	–	–	–	-11.2
Series O	-0.7	4.6	7.4	–	7.5
Benchmark 1	1.4	1.9	3.5	–	3.8
Benchmark 2	-8.9	6.4	4.1	–	3.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series F units have been available for sale to unitholders since August 20, 2018, Series D units since June 2011, and Series O units since January 2011.

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

**INDEX DESCRIPTIONS**

**FTSE 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.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Bonds	51.6
Global Equities	26.6
Canadian Equities	12.9
United States Equities	6.8
Cash/Other	2.1

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Inflation-Linked Bond Fund	29.2
Phillips, Hager & North Long Inflation-linked Bond Fund	20.1
RBC QUBE Low Volatility Global Equity Fund	13.1
RBC Global Equity Focus Fund	7.5
Phillips, Hager & North Canadian Equity Underlying Fund	6.6
Vanguard Real Estate ETF	4.7
Phillips, Hager & North Conservative Equity Income Fund	4.1
RBC Emerging Markets Equity Fund	3.7
Phillips, Hager & North High Yield Bond Fund	3.0
Phillips, Hager & North Canadian Equity Value Fund	2.4
RBC QUBE Global Equity Fund	2.4
RBC U.S. Mid-Cap Value Equity Fund	1.7
RBC U.S. Small-Cap Value Equity Fund	0.5
Phillips, Hager & North Canadian Money Market Fund	0.5
Cash & Cash Equivalents	0.5
<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).



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2030 FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 achieve a balance of income and long-term capital growth relative to its target retirement date of 2030 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in two broad asset classes: equities and fixed income, either directly or indirectly through underlying funds and Canadian or U.S. ETFs. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$43 million as of December 31, 2018, from \$39 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund’s Series O units lost 1.8%. The fixed-income benchmark rose 1.4% and the equity benchmark declined 8.9%. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the “EU”), while in Italy the

formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the “Fed”) boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. Returns in the fixed-income segment of the portfolio were held back by the Phillips, Hager & North Long Inflation-Linked Bond Fund.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada’s equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Returns were held back by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Canadian Equity Value Fund.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.



## 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 Investor Services Trust ("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 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.

## **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 D</b>												
<b>Dec. 31, 2018</b>	<b>12.75</b>	<b>0.37</b>	<b>(0.13)</b>	<b>0.32</b>	<b>(0.92)</b>	<b>(0.36)</b>	<b>(0.11)</b>	<b>(0.09)</b>	<b>(0.30)</b>	–	<b>(0.50)</b>	<b>11.88</b>
Dec. 31, 2017	12.32	0.44	(0.13)	0.34	0.21	0.86	(0.16)	(0.10)	(0.18)	(0.02)	(0.46)	12.75
Dec. 31, 2016	11.86	0.35	(0.13)	0.23	0.33	0.78	(0.09)	(0.09)	(0.21)	–	(0.39)	12.32
Dec. 31, 2015	11.93	0.32	(0.13)	0.75	(0.30)	0.64	(0.07)	(0.08)	(0.65)	–	(0.80)	11.86
Dec. 31, 2014	10.93	0.39	(0.13)	0.53	0.83	1.62	(0.10)	(0.09)	(0.46)	–	(0.65)	11.93
<b>Series F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.10</b>	<b>(0.03)</b>	<b>0.08</b>	<b>(0.66)</b>	<b>(0.51)</b>	<b>(0.10)</b>	<b>(0.08)</b>	<b>(0.24)</b>	–	<b>(0.42)</b>	<b>8.92</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>12.65</b>	<b>0.37</b>	<b>(0.01)</b>	<b>0.32</b>	<b>(0.96)</b>	<b>(0.28)</b>	<b>(0.18)</b>	<b>(0.14)</b>	<b>(0.30)</b>	–	<b>(0.62)</b>	<b>11.79</b>
Dec. 31, 2017	12.23	0.44	(0.01)	0.34	0.27	1.04	(0.24)	(0.14)	(0.18)	(0.03)	(0.59)	12.65
Dec. 31, 2016	11.77	0.35	(0.01)	0.24	0.38	0.96	(0.15)	(0.16)	(0.21)	–	(0.52)	12.23
Dec. 31, 2015	11.86	0.32	(0.01)	0.74	(0.30)	0.75	(0.12)	(0.16)	(0.65)	–	(0.93)	11.77
Dec. 31, 2014	10.87	0.38	(0.01)	0.52	0.82	1.71	(0.17)	(0.15)	(0.46)	–	(0.78)	11.86

<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.

<sup>3</sup> From August 16, 2018.

<sup>†</sup> Initial offering net asset value per unit.



**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 D</b>							
<b>Dec. 31, 2018</b>	<b>11.88</b>	<b>6 516</b>	<b>549</b>	<b>1.08</b>	<b>1.09</b>	<b>15.21</b>	<b>0.03</b>
Dec. 31, 2017	12.75	7 146	561	1.08	1.09	9.21	0.05
Dec. 31, 2016	12.32	7 614	618	1.07	1.08	10.91	0.06
Dec. 31, 2015	11.86	3 752	316	1.07	1.08	34.53	0.06
Dec. 31, 2014	11.93	2 958	248	1.11	1.14	9.51	0.11
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>8.92</b>	<b>1</b>	<b>–</b>	<b>0.83</b>	<b>0.84</b>	<b>15.21</b>	<b>0.03</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>11.79</b>	<b>36 873</b>	<b>3 129</b>	<b>0.09</b>	<b>0.10</b>	<b>15.21</b>	<b>0.03</b>
Dec. 31, 2017	12.65	31 858	2 518	0.10	0.11	9.21	0.05
Dec. 31, 2016	12.23	24 169	1 976	0.09	0.10	10.91	0.06
Dec. 31, 2015	11.77	17 077	1 450	0.09	0.11	34.53	0.06
Dec. 31, 2014	11.86	11 316	954	0.09	0.12	9.51	0.11

<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.

<sup>4</sup> From August 16, 2018.

**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 D	0.90%	28%	72%
Series F	0.65%	–	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.

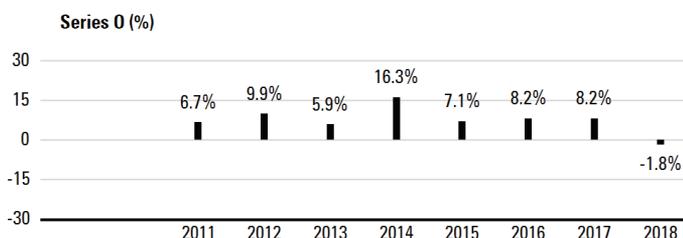
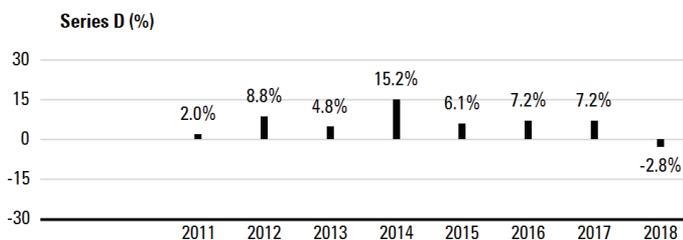


**PAST PERFORMANCE**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

- Benchmark 1 – FTSE Canada Universe Bond Index
- Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	-2.8	3.7	6.4	–	6.3
Benchmark 1	1.4	1.9	3.5	–	3.6
Benchmark 2	-8.9	6.4	4.1	–	4.0
Series F	–	–	–	–	-6.5
Benchmark 1	–	–	–	–	1.0
Benchmark 2	–	–	–	–	-11.2
Series O	-1.8	4.8	7.5	–	7.5
Benchmark 1	1.4	1.9	3.5	–	3.8
Benchmark 2	-8.9	6.4	4.1	–	3.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series F units have been available for sale to unitholders since August 20, 2018, Series D units since June 2011, and Series O units since January 2011.

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

**INDEX DESCRIPTIONS**

**FTSE 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.

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\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Bonds	49.2
Global Equities	27.5
Canadian Equities	13.0
United States Equities	7.6
Cash/Other	2.7

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	41.4
RBC Global Equity Focus Fund	11.4
RBC QUBE Low Volatility Global Equity Fund	7.7
Phillips, Hager & North Canadian Equity Underlying Fund	7.1
Phillips, Hager & North Canadian Equity Value Fund	5.0
Phillips, Hager & North Inflation-Linked Bond Fund	4.8
Vanguard Real Estate ETF	4.7
RBC Emerging Markets Equity Fund	4.6
Phillips, Hager & North High Yield Bond Fund	4.1
RBC QUBE Global Equity Fund	3.8
RBC U.S. Mid-Cap Value Equity Fund	2.3
Phillips, Hager & North Conservative Equity Income Fund	1.2
RBC U.S. Small-Cap Value Equity Fund	0.7
Cash & Cash Equivalents	0.7
Phillips, Hager & North Canadian Money Market Fund	0.5
<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).



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2035 FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 achieve a balance of income and long-term capital growth relative to its target retirement date of 2035 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in two broad asset classes: equities and fixed income, either directly or indirectly through underlying funds and Canadian or U.S. ETFs. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$55 million as of December 31, 2018, from \$48 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund’s Series O units lost 2.2%. The fixed-income benchmark rose 1.4% and the equity benchmark declined 8.9%. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the “EU”), while in Italy the formation of a coalition government committed to higher spending led

to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the “Fed”) boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. Returns in the fixed-income segment of the portfolio were held back by the Phillips, Hager & North Long Inflation-Linked Bond Fund.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada’s equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Returns were held back by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Canadian Equity Value Fund.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.



## 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 Investor Services Trust ("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 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.

## **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 D</b>												
<b>Dec. 31, 2018</b>	<b>13.13</b>	<b>0.37</b>	<b>(0.15)</b>	<b>0.40</b>	<b>(1.11)</b>	<b>(0.49)</b>	<b>(0.11)</b>	<b>(0.09)</b>	<b>(0.36)</b>	–	<b>(0.56)</b>	<b>12.14</b>
Dec. 31, 2017	12.52	0.41	(0.14)	0.36	0.41	1.04	(0.14)	(0.10)	(0.20)	–	(0.44)	13.13
Dec. 31, 2016	12.07	0.34	(0.14)	0.25	0.41	0.86	(0.08)	(0.09)	(0.22)	–	(0.39)	12.52
Dec. 31, 2015	12.13	0.32	(0.14)	0.82	(0.27)	0.73	(0.06)	(0.09)	(0.74)	–	(0.89)	12.07
Dec. 31, 2014	11.19	0.39	(0.14)	0.62	0.74	1.61	(0.09)	(0.09)	(0.53)	–	(0.71)	12.13
<b>Series F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.09</b>	<b>(0.03)</b>	<b>0.10</b>	<b>(0.84)</b>	<b>(0.68)</b>	<b>(0.09)</b>	<b>(0.07)</b>	<b>(0.27)</b>	–	<b>(0.43)</b>	<b>8.85</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>13.04</b>	<b>0.37</b>	<b>(0.01)</b>	<b>0.40</b>	<b>(1.11)</b>	<b>(0.35)</b>	<b>(0.19)</b>	<b>(0.14)</b>	<b>(0.36)</b>	–	<b>(0.69)</b>	<b>12.05</b>
Dec. 31, 2017	12.43	0.41	(0.01)	0.36	0.45	1.21	(0.23)	(0.15)	(0.20)	–	(0.58)	13.04
Dec. 31, 2016	11.99	0.34	(0.01)	0.25	0.38	0.96	(0.14)	(0.17)	(0.22)	–	(0.53)	12.43
Dec. 31, 2015	12.05	0.32	(0.01)	0.82	(0.27)	0.86	(0.11)	(0.17)	(0.74)	–	(1.02)	11.99
Dec. 31, 2014	11.13	0.38	(0.01)	0.62	0.73	1.72	(0.15)	(0.18)	(0.53)	–	(0.86)	12.05

<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.

<sup>3</sup> From August 16, 2018.

<sup>†</sup> Initial offering net asset value per unit.



**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 D</b>							
<b>Dec. 31, 2018</b>	<b>12.14</b>	<b>7 404</b>	<b>610</b>	<b>1.13</b>	<b>1.13</b>	<b>11.44</b>	<b>0.03</b>
Dec. 31, 2017	13.13	6 996	533	1.14	1.15	6.10	0.06
Dec. 31, 2016	12.52	6 356	508	1.13	1.14	11.65	0.08
Dec. 31, 2015	12.07	5 209	432	1.13	1.14	36.79	0.08
Dec. 31, 2014	12.13	4 286	353	1.19	1.21	10.77	0.12
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>8.85</b>	<b>2</b>	<b>–</b>	<b>0.89</b>	<b>0.89</b>	<b>11.44</b>	<b>0.03</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>12.05</b>	<b>47 125</b>	<b>3 912</b>	<b>0.09</b>	<b>0.09</b>	<b>11.44</b>	<b>0.03</b>
Dec. 31, 2017	13.04	40 599	3 114	0.10	0.11	6.10	0.06
Dec. 31, 2016	12.43	30 818	2 480	0.10	0.11	11.65	0.08
Dec. 31, 2015	11.99	21 230	1 771	0.10	0.11	36.79	0.08
Dec. 31, 2014	12.05	14 155	1 174	0.09	0.11	10.77	0.12

<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.

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<sup>4</sup> From August 16, 2018.

**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 D	0.95%	26%	74%
Series F	0.70%	–	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.

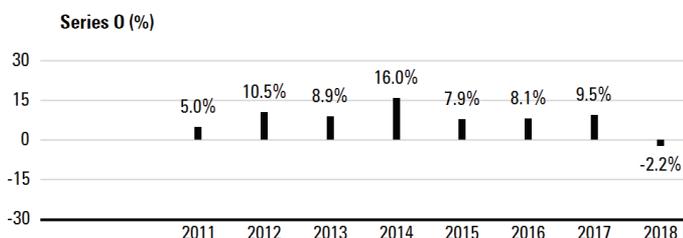
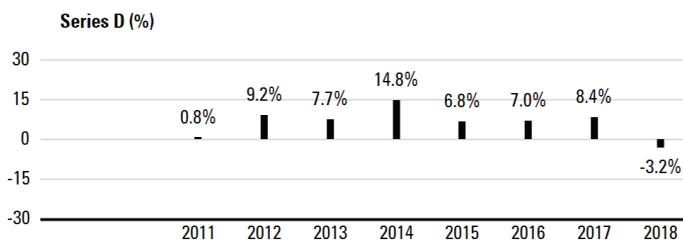


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**Year-by-Year Returns (%)**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

Benchmark 1 – FTSE Canada Universe Bond Index  
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	-3.2	3.9	6.6	–	6.7
Benchmark 1	1.4	1.9	3.5	–	3.6
Benchmark 2	-8.9	6.4	4.1	–	4.0
Series F	–	–	–	–	-7.1
Benchmark 1	–	–	–	–	1.0
Benchmark 2	–	–	–	–	-11.2
Series O	-2.2	5.0	7.7	–	7.9
Benchmark 1	1.4	1.9	3.5	–	3.8
Benchmark 2	-8.9	6.4	4.1	–	3.7

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\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Bonds	47.2
Global Equities	29.3
Canadian Equities	12.7
United States Equities	8.2
Cash/Other	2.6

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	43.5
RBC Global Equity Focus Fund	16.2
Phillips, Hager & North Canadian Equity Underlying Fund	7.2
RBC Emerging Markets Equity Fund	5.7
Phillips, Hager & North Canadian Equity Value Fund	5.6
RBC QUBE Global Equity Fund	5.2
Phillips, Hager & North High Yield Bond Fund	5.1
Vanguard Real Estate ETF	4.7
RBC U.S. Mid-Cap Value Equity Fund	2.7
RBC QUBE Low Volatility Global Equity Fund	2.2
RBC U.S. Small-Cap Value Equity Fund	0.9
Phillips, Hager & North Canadian Money Market Fund	0.5
Cash & Cash Equivalents	0.3
Phillips, Hager & North Conservative Equity Income Fund	0.2
Total	100.0

\* 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).



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2040 FUND**

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*December 31, 2018*

**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 11, 2019.

**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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*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 achieve a balance of income and long-term capital growth relative to its target retirement date of 2040 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in two broad asset classes: equities and fixed income, either directly or indirectly through underlying funds and Canadian or U.S. ETFs. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$55 million as of December 31, 2018, from \$48 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund’s Series O units lost 2.4%. The fixed-income benchmark rose 1.4% and the equity benchmark declined 8.9%. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the “EU”), while in Italy the formation of a coalition government committed to higher spending led

to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by the U.S. Congress, would supplant the North American Free Trade Agreement.

Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the “Fed”) boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. Returns in the fixed-income segment of the portfolio were held back by the Phillips, Hager & North Long Inflation-Linked Bond Fund.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada’s equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Returns were held back by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Canadian Equity Value Fund.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.



## 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 Investor Services Trust ("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 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.

## **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 D</b>												
<b>Dec. 31, 2018</b>	<b>13.22</b>	<b>0.37</b>	<b>(0.15)</b>	<b>0.37</b>	<b>(1.12)</b>	<b>(0.53)</b>	<b>(0.09)</b>	<b>(0.09)</b>	<b>(0.33)</b>	–	<b>(0.51)</b>	<b>12.25</b>
Dec. 31, 2017	12.60	0.41	(0.15)	0.40	0.54	1.20	(0.12)	(0.10)	(0.35)	–	(0.57)	13.22
Dec. 31, 2016	12.14	0.34	(0.14)	0.25	0.41	0.86	(0.07)	(0.09)	(0.24)	–	(0.40)	12.60
Dec. 31, 2015	12.14	0.34	(0.15)	0.83	(0.29)	0.73	(0.05)	(0.09)	(0.72)	–	(0.86)	12.14
Dec. 31, 2014	11.29	0.38	(0.15)	0.72	0.63	1.58	(0.07)	(0.09)	(0.61)	–	(0.77)	12.14
<b>Series F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.09</b>	<b>(0.03)</b>	<b>0.09</b>	<b>(0.88)</b>	<b>(0.73)</b>	<b>(0.08)</b>	<b>(0.08)</b>	<b>(0.24)</b>	–	<b>(0.40)</b>	<b>8.87</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>13.11</b>	<b>0.37</b>	<b>(0.01)</b>	<b>0.37</b>	<b>(1.11)</b>	<b>(0.38)</b>	<b>(0.17)</b>	<b>(0.16)</b>	<b>(0.33)</b>	–	<b>(0.66)</b>	<b>12.13</b>
Dec. 31, 2017	12.50	0.41	(0.01)	0.40	0.56	1.36	(0.21)	(0.16)	(0.35)	–	(0.72)	13.11
Dec. 31, 2016	12.05	0.34	(0.01)	0.25	0.42	1.00	(0.13)	(0.17)	(0.24)	–	(0.54)	12.50
Dec. 31, 2015	12.06	0.34	(0.01)	0.83	(0.29)	0.87	(0.11)	(0.18)	(0.72)	–	(1.01)	12.05
Dec. 31, 2014	11.22	0.38	(0.01)	0.72	0.63	1.72	(0.14)	(0.18)	(0.61)	–	(0.93)	12.06

<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.

<sup>3</sup> From August 16, 2018.

<sup>†</sup> Initial offering net asset value per unit.



**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 D</b>							
<b>Dec. 31, 2018</b>	<b>12.25</b>	<b>4 919</b>	<b>402</b>	<b>1.18</b>	<b>1.18</b>	<b>8.61</b>	<b>0.04</b>
Dec. 31, 2017	13.22	4 702	356	1.18	1.19	4.59	0.06
Dec. 31, 2016	12.60	4 048	321	1.18	1.19	13.04	0.07
Dec. 31, 2015	12.14	3 294	271	1.21	1.22	35.55	0.08
Dec. 31, 2014	12.14	1 687	139	1.26	1.28	12.35	0.14
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>8.87</b>	<b>1</b>	<b>–</b>	<b>0.94</b>	<b>0.94</b>	<b>8.61</b>	<b>0.04</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>12.13</b>	<b>50 561</b>	<b>4 168</b>	<b>0.09</b>	<b>0.09</b>	<b>8.61</b>	<b>0.04</b>
Dec. 31, 2017	13.11	42 935	3 275	0.10	0.11	4.59	0.06
Dec. 31, 2016	12.50	31 436	2 515	0.10	0.11	13.04	0.07
Dec. 31, 2015	12.05	22 083	1 833	0.10	0.12	35.55	0.08
Dec. 31, 2014	12.06	14 556	1 206	0.10	0.12	12.35	0.14

<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.

<sup>4</sup> From August 16, 2018.

**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 D	1.00%	25%	75%
Series F	0.75%	–	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.

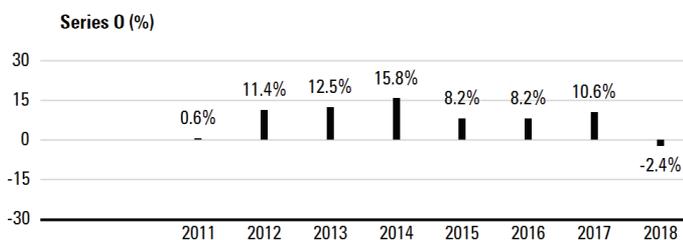
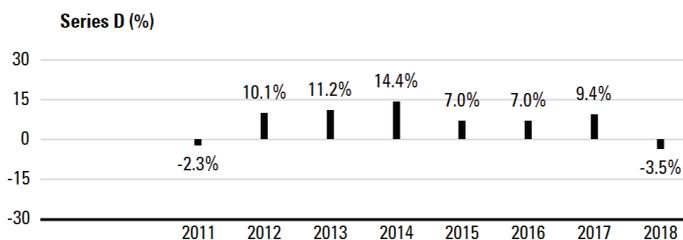


**PAST PERFORMANCE**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

Benchmark 1 – FTSE Canada Universe Bond Index  
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	-3.5	4.2	6.7	–	7.0
Benchmark 1	1.4	1.9	3.5	–	3.6
Benchmark 2	-8.9	6.4	4.1	–	4.0
Series F	–	–	–	–	-7.3
Benchmark 1	–	–	–	–	1.0
Benchmark 2	–	–	–	–	-11.2
Series O	-2.4	5.3	7.9	–	8.0
Benchmark 1	1.4	1.9	3.5	–	3.8
Benchmark 2	-8.9	6.4	4.1	–	3.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series F units have been available for sale to unitholders since August 20, 2018, Series D units since June 2011, and Series O units since January 2011.

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

**INDEX DESCRIPTIONS**

**FTSE 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.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Bonds	40.4
Global Equities	33.7
Canadian Equities	13.4
United States Equities	9.7
Cash/Other	2.8

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	36.6
RBC Global Equity Focus Fund	19.2
RBC Emerging Markets Equity Fund	8.2
Phillips, Hager & North Canadian Equity Underlying Fund	7.2
Phillips, Hager & North Canadian Equity Value Fund	6.6
RBC QUBE Global Equity Fund	6.4
Phillips, Hager & North High Yield Bond Fund	5.1
Vanguard Real Estate ETF	4.7
RBC U.S. Mid-Cap Value Equity Fund	3.8
RBC U.S. Small-Cap Value Equity Fund	1.3
Cash & Cash Equivalents	0.5
Phillips, Hager & North Canadian Money Market Fund	0.4
Total	100.0

\* The Fund holds fewer than 25 holdings.

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



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2045 FUND**

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*December 31, 2018*

**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 11, 2019.

**A Note on Forward-looking Statements**

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The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in two broad asset classes: equities and fixed income, either directly or indirectly through underlying funds and Canadian or U.S. ETFs. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$106 million as of December 31, 2018, from \$94 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund’s Series O units lost 2.4%. The fixed-income benchmark rose 1.4% and the equity benchmark declined 8.9%. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the “EU”), while in Italy the

formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

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The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada’s equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Returns were held back by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Canadian Equity Value Fund.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.



## 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 Investor Services Trust ("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 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.

## **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 D</b>												
<b>Dec. 31, 2018</b>	<b>14.16</b>	<b>0.38</b>	<b>(0.17)</b>	<b>0.48</b>	<b>(1.30)</b>	<b>(0.61)</b>	<b>(0.08)</b>	<b>(0.10)</b>	<b>(0.42)</b>	–	<b>(0.60)</b>	<b>13.05</b>
Dec. 31, 2017	13.16	0.40	(0.17)	0.49	0.74	1.46	(0.09)	(0.10)	(0.26)	–	(0.45)	14.16
Dec. 31, 2016	12.59	0.35	(0.16)	0.28	0.48	0.95	(0.04)	(0.11)	(0.18)	–	(0.33)	13.16
Dec. 31, 2015	12.38	0.36	(0.16)	0.82	(0.09)	0.93	(0.04)	(0.11)	(0.71)	–	(0.86)	12.59
Dec. 31, 2014	11.59	0.40	(0.16)	0.88	0.48	1.60	(0.04)	(0.10)	(0.68)	–	(0.82)	12.38
<b>Series F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.09</b>	<b>(0.03)</b>	<b>0.11</b>	<b>(0.93)</b>	<b>(0.76)</b>	<b>(0.06)</b>	<b>(0.09)</b>	<b>(0.29)</b>	–	<b>(0.44)</b>	<b>8.80</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>14.05</b>	<b>0.38</b>	<b>(0.01)</b>	<b>0.48</b>	<b>(1.25)</b>	<b>(0.40)</b>	<b>(0.15)</b>	<b>(0.19)</b>	<b>(0.42)</b>	–	<b>(0.76)</b>	<b>12.94</b>
Dec. 31, 2017	13.07	0.40	(0.01)	0.49	0.73	1.61	(0.16)	(0.20)	(0.26)	–	(0.62)	14.05
Dec. 31, 2016	12.51	0.35	(0.01)	0.28	0.48	1.10	(0.09)	(0.22)	(0.18)	–	(0.49)	13.07
Dec. 31, 2015	12.31	0.36	(0.01)	0.83	(0.10)	1.08	(0.09)	(0.21)	(0.71)	–	(1.01)	12.51
Dec. 31, 2014	11.53	0.39	(0.01)	0.86	0.47	1.71	(0.09)	(0.21)	(0.68)	–	(0.98)	12.31

<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.

<sup>3</sup> From August 16, 2018.

<sup>†</sup> Initial offering net asset value per unit.



**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 D</b>							
<b>Dec. 31, 2018</b>	<b>13.05</b>	<b>7 621</b>	<b>584</b>	<b>1.25</b>	<b>1.25</b>	<b>10.83</b>	<b>0.05</b>
Dec. 31, 2017	14.16	6 907	488	1.26	1.26	4.95	0.08
Dec. 31, 2016	13.16	5 875	446	1.26	1.26	10.52	0.11
Dec. 31, 2015	12.59	4 379	348	1.25	1.26	37.28	0.10
Dec. 31, 2014	12.38	1 956	158	1.31	1.32	10.51	–
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>8.80</b>	<b>1</b>	<b>–</b>	<b>1.01</b>	<b>1.01</b>	<b>10.83</b>	<b>0.05</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>12.94</b>	<b>98 790</b>	<b>7 636</b>	<b>0.10</b>	<b>0.10</b>	<b>10.83</b>	<b>0.05</b>
Dec. 31, 2017	14.05	86 997	6 192	0.11	0.11	4.95	0.08
Dec. 31, 2016	13.07	65 082	4 981	0.11	0.11	10.52	0.11
Dec. 31, 2015	12.51	45 335	3 625	0.11	0.11	37.28	0.10
Dec. 31, 2014	12.31	28 545	2 320	0.10	0.11	10.51	–

<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.

<sup>4</sup> From August 16, 2018.

**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 D	1.05%	24%	76%
Series F	0.80%	–	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.

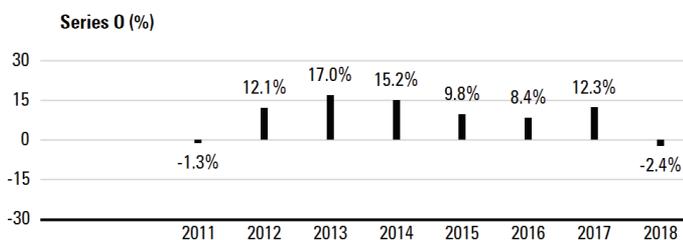
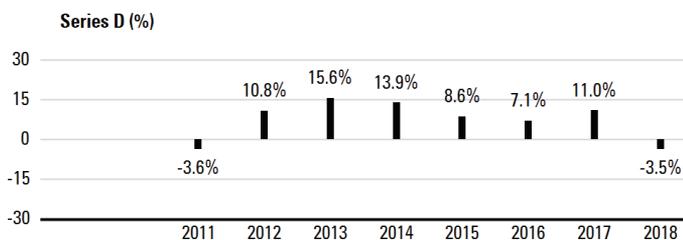


**PAST PERFORMANCE**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

Benchmark 1 – FTSE Canada Universe Bond Index  
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	-3.5	4.7	7.2	–	7.8
Benchmark 1	1.4	1.9	3.5	–	3.6
Benchmark 2	-8.9	6.4	4.1	–	4.0
Series F	–	–	–	–	-7.5
Benchmark 1	–	–	–	–	1.0
Benchmark 2	–	–	–	–	-11.2
Series O	-2.4	5.9	8.5	–	8.8
Benchmark 1	1.4	1.9	3.5	–	3.8
Benchmark 2	-8.9	6.4	4.1	–	3.7

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series F units have been available for sale to unitholders since August 20, 2018, Series D units since June 2011, and Series O units since January 2011.

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

**INDEX DESCRIPTIONS**

**FTSE 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.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Global Equities	39.1
Bonds	32.3
Canadian Equities	15.3
United States Equities	10.7
Cash/Other	2.6

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Long Inflation-linked Bond Fund	28.4
RBC Global Equity Focus Fund	22.4
RBC Emerging Markets Equity Fund	9.5
Phillips, Hager & North Canadian Equity Underlying Fund	7.9
Phillips, Hager & North Canadian Equity Value Fund	7.8
RBC QUBE Global Equity Fund	7.3
Phillips, Hager & North High Yield Bond Fund	5.1
Vanguard Real Estate ETF	4.7
RBC U.S. Mid-Cap Value Equity Fund	4.6
RBC U.S. Small-Cap Value Equity Fund	1.6
Phillips, Hager & North Canadian Money Market Fund	0.5
Cash & Cash Equivalents	0.2
Total	100.0

\* 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).



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2050 FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 achieve a balance of income and long-term capital growth relative to its target retirement date of 2050 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in two broad asset classes: equities and fixed income, either directly or indirectly through underlying funds and Canadian or U.S. ETFs. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund’s net asset value rose to \$45 million as of December 31, 2018, from \$26 million at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund’s Series O units lost 2.4%. The fixed-income benchmark rose 1.4% and the equity benchmark declined 8.9%. The Fund’s return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the “EU”), while in Italy the

formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU. In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the “Fed”) boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. Returns in the fixed-income segment of the portfolio were held back by the Phillips, Hager & North Long Inflation-Linked Bond Fund.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada’s equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Returns were held back by the Phillips, Hager & North Canadian Equity Underlying Fund and the Phillips, Hager & North Canadian Equity Value Fund.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.



## Related-Party Transactions

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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.

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## **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**

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- (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

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### 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 D</b>												
<b>Dec. 31, 2018</b>	<b>11.62</b>	<b>0.34</b>	<b>(0.15)</b>	<b>0.37</b>	<b>(1.14)</b>	<b>(0.58)</b>	<b>(0.05)</b>	<b>(0.08)</b>	<b>(0.30)</b>	–	<b>(0.43)</b>	<b>10.78</b>
Dec. 31, 2017	10.81	0.38	(0.15)	0.53	0.62	1.38	(0.04)	(0.09)	(0.39)	–	(0.52)	11.62
Dec. 31, 2016	10.34	0.40	(0.14)	0.27	0.33	0.86	(0.03)	(0.07)	(0.18)	–	(0.28)	10.81
Dec. 31, 2015	9.88	0.48	(0.16)	0.68	(0.51)	0.49	(0.02)	(0.07)	(0.33)	–	(0.42)	10.34
Dec. 31, 2014 <sup>3</sup>	10.00 <sup>†</sup>	0.22	(0.25)	0.49	(0.24)	0.22	(0.45)	(0.13)	–	–	(0.58)	9.88
<b>Series F</b>												
<b>Dec. 31, 2018<sup>4</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.09</b>	<b>(0.03)</b>	<b>0.09</b>	<b>(0.93)</b>	<b>(0.78)</b>	<b>(0.05)</b>	<b>(0.08)</b>	<b>(0.25)</b>	–	<b>(0.38)</b>	<b>8.85</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>11.50</b>	<b>0.34</b>	<b>(0.01)</b>	<b>0.37</b>	<b>(1.16)</b>	<b>(0.46)</b>	<b>(0.10)</b>	<b>(0.16)</b>	<b>(0.30)</b>	–	<b>(0.56)</b>	<b>10.67</b>
Dec. 31, 2017	10.71	0.37	(0.01)	0.52	0.63	1.51	(0.09)	(0.19)	(0.39)	–	(0.67)	11.50
Dec. 31, 2016	10.25	0.37	(0.01)	0.25	0.47	1.08	(0.06)	(0.18)	(0.18)	–	(0.42)	10.71
Dec. 31, 2015	9.79	0.48	(0.03)	0.68	(0.50)	0.63	(0.05)	(0.18)	(0.33)	–	(0.56)	10.25
Dec. 31, 2014 <sup>3</sup>	10.00 <sup>†</sup>	0.24	(0.20)	0.52	(0.25)	0.31	(0.55)	(0.16)	–	–	(0.71)	9.79

<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.

<sup>3</sup> From June 2014.

<sup>4</sup> From August 16, 2018.

<sup>†</sup> Initial offering net asset value per unit.



**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 D</b>							
<b>Dec. 31, 2018</b>	<b>10.78</b>	<b>2 712</b>	<b>252</b>	<b>1.31</b>	<b>1.32</b>	<b>4.84</b>	<b>0.06</b>
Dec. 31, 2017	11.62	1 140	98	1.32	1.33	3.53	0.10
Dec. 31, 2016	10.81	610	56	1.32	1.35	16.14	0.12
Dec. 31, 2015	10.34	417	40	1.36	1.55	34.42	0.11
Dec. 31, 2014 <sup>4</sup>	9.88	35	4	1.30	3.20	1.15	–
<b>Series F</b>							
<b>Dec. 31, 2018<sup>5</sup></b>	<b>8.85</b>	<b>1</b>	<b>–</b>	<b>1.06</b>	<b>1.07</b>	<b>4.84</b>	<b>0.06</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>10.67</b>	<b>42 273</b>	<b>3 964</b>	<b>0.10</b>	<b>0.11</b>	<b>4.84</b>	<b>0.06</b>
Dec. 31, 2017	11.50	25 141	2 185	0.11	0.12	3.53	0.10
Dec. 31, 2016	10.71	11 318	1 057	0.11	0.14	16.14	0.12
Dec. 31, 2015	10.25	3 140	306	0.11	0.30	34.42	0.11
Dec. 31, 2014 <sup>4</sup>	9.79	157	16	0.06	1.96	1.15	–

<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.

<sup>4</sup> From June 2014.

<sup>5</sup> From August 16, 2018.

**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 D	1.10%	23%	77%
Series F	0.85%	–	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.

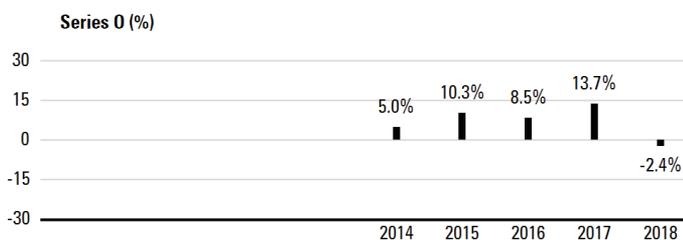
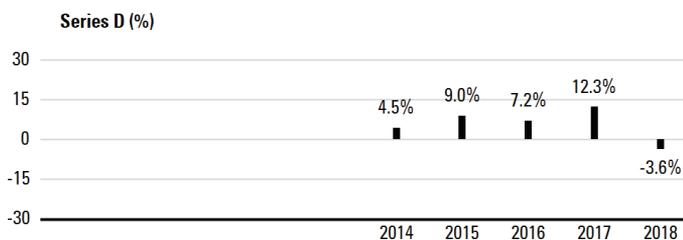


**PAST PERFORMANCE**

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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

Benchmark 1 – FTSE Canada Universe Bond Index  
 Benchmark 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series D	-3.6	5.1	–	–	6.6
Benchmark 1	1.4	1.9	–	–	2.7
Benchmark 2	-8.9	6.4	–	–	1.6
Series F	–	–	–	–	-7.7
Benchmark 1	–	–	–	–	1.0
Benchmark 2	–	–	–	–	-11.2
Series O	-2.4	6.4	–	–	7.9
Benchmark 1	1.4	1.9	–	–	2.7
Benchmark 2	-8.9	6.4	–	–	1.6

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark indexes.

Series F units have been available for sale to unitholders since August 20, 2018, and Series D and Series O units since August 2014.

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

**INDEX DESCRIPTIONS**

**FTSE 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.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Global Equities	45.5
Bonds	21.9
Canadian Equities	17.5
United States Equities	12.0
Cash/Other	3.1

### Top 25 Holdings\*

	% of Net Asset Value
RBC Global Equity Focus Fund	26.2
Phillips, Hager & North Long Inflation-linked Bond Fund	18.0
RBC Emerging Markets Equity Fund	10.8
Phillips, Hager & North Canadian Equity Underlying Fund	9.0
Phillips, Hager & North Canadian Equity Value Fund	8.9
RBC QUBE Global Equity Fund	8.7
RBC U.S. Mid-Cap Value Equity Fund	5.7
Phillips, Hager & North High Yield Bond Fund	5.0
Vanguard Real Estate ETF	4.7
RBC U.S. Small-Cap Value Equity Fund	1.8
Cash & Cash Equivalents	0.7
Phillips, Hager & North Canadian Money Market Fund	0.5
Total	100.0

\* 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).



TARGET DATE FUND

**PHILLIPS, HAGER & NORTH  
LIFETIME 2055 FUND**

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*December 31, 2018*

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 achieve a balance of income and long-term capital growth relative to its target retirement date of 2055 by investing primarily in investment funds that hold equity, fixed income, income trust and money market securities and exchange traded funds (“ETFs”), or by investing directly in such securities.

The Fund invests primarily in underlying funds. The Fund seeks to achieve its investment strategies by investing in two broad asset classes: equities and fixed income, either directly or indirectly through underlying funds and Canadian or U.S. ETFs. ETFs purchased by the Fund will initially be limited to those that track the investment performance of broad based real estate investment trust indices but may include other ETFs where permitted by applicable securities laws. At all times, the Fund will use a dynamic asset mix or glide path that adjusts the asset mix of the Fund on a quarterly basis relative to its target date.

### Risk

The Fund has multiple risks, which are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund was launched on October 9, 2018, and its net asset value was \$147,000 as of December 31, 2018. Investment performance is not provided for a fund that has been available for less than one year.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.

### 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 Investor Services Trust (“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 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.



***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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

**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 D</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.20</b>	<b>(0.10)</b>	<b>0.24</b>	<b>(0.86)</b>	<b>(0.52)</b>	<b>(0.02)</b>	<b>(0.06)</b>	<b>(0.24)</b>	<b>–</b>	<b>(0.32)</b>	<b>9.06</b>
<b>Series F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.20</b>	<b>(0.09)</b>	<b>0.25</b>	<b>(0.97)</b>	<b>(0.61)</b>	<b>(0.03)</b>	<b>(0.09)</b>	<b>(0.24)</b>	<b>–</b>	<b>(0.36)</b>	<b>9.04</b>
<b>Series O</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.20</b>	<b>(0.07)</b>	<b>0.25</b>	<b>(0.97)</b>	<b>(0.59)</b>	<b>(0.06)</b>	<b>(0.14)</b>	<b>(0.24)</b>	<b>–</b>	<b>(0.44)</b>	<b>8.97</b>

<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.

<sup>3</sup> From October 2, 2018.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series D</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>9.06</b>	<b>7</b>	<b>1</b>	<b>1.42</b>	<b>2.11</b>	<b>1.38</b>	<b>0.06</b>
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>9.04</b>	<b>1</b>	<b>–</b>	<b>1.12</b>	<b>1.81</b>	<b>1.38</b>	<b>0.06</b>
<b>Series O</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>8.97</b>	<b>139</b>	<b>16</b>	<b>0.11</b>	<b>0.80</b>	<b>1.38</b>	<b>0.06</b>

<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.

<sup>4</sup> From October 2, 2018.



**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 D	1.15%	22%	78%
Series F	0.90%	—	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**

Investment performance in respect of a fund that has been available for less than one year is not provided. Series D, Series F and Series O units of this Fund were launched on October 9, 2018.

**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Global Equities	46.1
Bonds	19.8
Canadian Equities	18.6
United States Equities	12.8
Cash/Other	2.7

**Top 25 Holdings\***

	% of Net Asset Value
RBC Global Equity Focus Fund	26.4
Phillips, Hager & North Long Inflation-linked Bond Fund	15.3
RBC Emerging Markets Equity Fund	11.7
Phillips, Hager & North Canadian Equity Value Fund	9.4
Phillips, Hager & North Canadian Equity Underlying Fund	9.4
RBC QUBE Global Equity Fund	8.9
RBC U.S. Mid-Cap Value Equity Fund	5.6
Phillips, Hager & North High Yield Bond Fund	5.2
Vanguard Real Estate ETF	5.1
RBC U.S. Small-Cap Value Equity Fund	1.9
Cash & Cash Equivalents	0.6
Phillips, Hager & North Canadian Money Market Fund	0.5
<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).



BALANCED FUND

**PHILLIPS, HAGER & NORTH  
BALANCED PENSION TRUST**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 and income by investing primarily in a strategic asset mix of Canadian and foreign equities, Canadian fixed income securities and money market instruments. Its asset mix is adjusted periodically to reflect changing economic and market conditions. The magnitude and timing of all rebalancing decisions within the Fund are made by a team of investment professionals who focus on determining the best asset mix in any given economic environment. To achieve the Fund's investment objective, the portfolio manager invests a significant portion or even all of the net asset value of the Fund in other funds managed by RBC GAM where the investment is consistent with the investment objectives and strategies of the Fund.

### Risk

The Fund has multiple risks associated with investing in various asset classes. These risks are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

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

### Results of Operations

The Fund's net asset value fell to \$1.2 billion as of December 31, 2018, from \$1.3 billion at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 2.5%, which underperformed the 2.4% decline in the benchmark. The broad-based index 1 rose 1.4% and the broad-based index 2 declined 8.9%. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The big macroeconomic themes in 2018 were tightening financial conditions, rising protectionism and slowing global growth. Escalating trade conflicts, especially between the U.S. and China, and geopolitical uncertainty helped trigger global stock-market declines. In Europe, U.K. politicians failed to agree on terms by which the U.K. would leave the European Union (the "EU"), while in Italy the formation of a coalition government committed to higher spending led to bond- and equity-market volatility, as well as friction with the EU.

In North America, protectionism fears eased following renegotiations culminating in Canada, the U.S. and Mexico agreeing to a trade deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

The Fund's overweight position in equities and underweight position in fixed income had a negative impact on performance. Canadian bond prices posted modest gains in 2018, outperforming U.S. Treasuries, as domestic yields were pressured lower by a weakening economic expansion and falling oil prices in the latter stages of 2018. These negatives, as well as rising global trade tensions, prompted the Bank of Canada, in December, to express reluctance at pushing forward with additional rate increases after hiking three times earlier in the year. The U.S. Federal Reserve (the "Fed") boosted the federal funds rate four times in 2018, putting the benchmark short-term rate at its highest level since 2008, and continued scaling back its bond holdings. The European Central Bank began preparing investors for the possibility that it, too, might start gradually raising rates. The Fund's sole fixed-income holding, the Phillips, Hager & North Bond Fund, had a positive impact on performance.

The sell-off in equities was led by emerging markets and Europe earlier in the year, and while U.S. equities had been quite resilient throughout most of 2018, they joined the declines later in the year. The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. Emerging markets underperformed developed markets as interest-rate hikes by the Fed and U.S. tax reform bolstered the U.S. dollar. Emerging markets have historically underperformed when the U.S. dollar strengthens. Overall, the Fund's equity positions were a drag on portfolio performance, led by the Phillips, Hager & North Canadian Equity Underlying Fund.

### Recent Developments

The portfolio manager expects the trend of slowing global growth to continue into 2019. That said, further gradual tightening of monetary policy is expected, and rising rates could limit bond returns. While the portfolio manager expects equity-market volatility to continue, stocks still offer superior return potential versus bonds, as long as earnings continue to grow as analysts expect. The Fund's asset mix remains underweight fixed income and overweight stocks.

Protectionism is arguably the largest macroeconomic risk today, although European politics, the U.S. government shutdown, possible central-bank-policy mistakes and troubles besetting specific emerging-market countries also threaten economic progress and investor confidence.

Effective June 28, 2018, Series A units were renamed Series F units.



## 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 Investor Services Trust ("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 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.

## **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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 F</b>												
<b>Dec. 31, 2018</b>	<b>20.54</b>	<b>0.56</b>	<b>(0.12)</b>	<b>0.66</b>	<b>(1.61)</b>	<b>(0.51)</b>	<b>(0.17)</b>	<b>(0.25)</b>	<b>(0.54)</b>	–	<b>(0.96)</b>	<b>18.94</b>
Dec. 31, 2017	19.70	0.54	(0.12)	0.90	0.68	2.00	(0.17)	(0.27)	(0.63)	–	(1.07)	20.54
Dec. 31, 2016	19.01	0.54	(0.11)	0.64	0.42	1.49	(0.19)	(0.25)	(0.37)	–	(0.81)	19.70
Dec. 31, 2015	19.38	0.57	(0.12)	1.04	(0.48)	1.01	(0.20)	(0.27)	(0.90)	–	(1.37)	19.01
Dec. 31, 2014	18.46	0.51	(0.11)	1.76	0.04	2.20	(0.19)	(0.24)	(0.85)	–	(1.28)	19.38
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>20.38</b>	<b>0.55</b>	–	<b>0.65</b>	<b>(1.71)</b>	<b>(0.51)</b>	<b>(0.22)</b>	<b>(0.32)</b>	<b>(0.54)</b>	–	<b>(1.08)</b>	<b>18.78</b>
Dec. 31, 2017	19.53	0.54	–	0.89	0.53	1.96	(0.21)	(0.32)	(0.63)	–	(1.16)	20.38
Dec. 31, 2016	18.86	0.53	–	0.64	0.42	1.59	(0.24)	(0.31)	(0.37)	–	(0.92)	19.53
Dec. 31, 2015	19.23	0.57	–	1.03	(0.48)	1.12	(0.25)	(0.34)	(0.89)	–	(1.48)	18.86
Dec. 31, 2014	18.30	0.51	–	1.75	0.04	2.30	(0.23)	(0.28)	(0.85)	–	(1.36)	19.23

<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.

### 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 F</b>							
<b>Dec. 31, 2018</b>	<b>18.94</b>	<b>186 183</b>	<b>9 831</b>	<b>0.60</b>	<b>0.60</b>	<b>10.63</b>	<b>0.04</b>
Dec. 31, 2017	20.54	245 278	11 943	0.61	0.61	9.46	0.07
Dec. 31, 2016	19.70	382 349	19 414	0.60	0.60	13.63	0.08
Dec. 31, 2015	19.01	364 023	19 147	0.61	0.61	21.97	0.07
Dec. 31, 2014	19.38	357 027	18 425	0.60	0.60	40.26	0.07
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>18.78</b>	<b>1 031 577</b>	<b>54 920</b>	<b>0.04</b>	<b>0.04</b>	<b>10.63</b>	<b>0.04</b>
Dec. 31, 2017	20.38	1 047 872	51 418	0.04	0.04	9.46	0.07
Dec. 31, 2016	19.53	814 076	41 684	0.04	0.04	13.63	0.08
Dec. 31, 2015	18.86	896 919	47 554	0.04	0.04	21.97	0.07
Dec. 31, 2014	19.23	956 262	49 722	0.04	0.04	40.26	0.07

<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.



**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:

Series F	Management Fees	Breakdown of Services	
		Distribution	Other*
	0.50%	–	100%

Series 0 – no management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

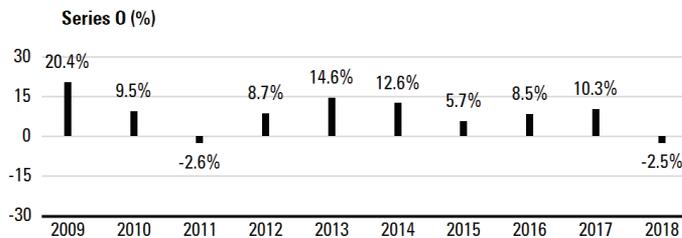
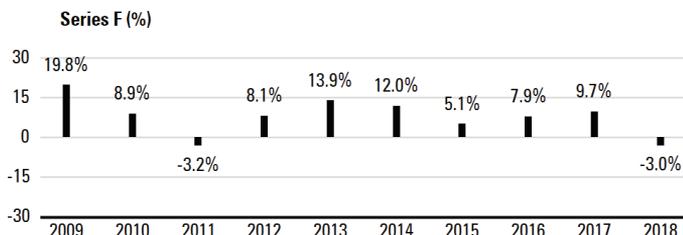
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 38% FTSE Canada Universe Bond Index
- 30% S&P/TSX Capped Composite Total Return Index
- 26% MSCI World Total Return Net Index (CAD)
- 4% MSCI Emerging Markets Total Return Net Index (CAD)
- 2% FTSE Canada 30 Day TBill Index

The following are the broad-based indexes:

Broad-based index 1 – FTSE Canada Universe Bond Index

Broad-based index 2 – S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series F	-3.0	4.7	6.2	7.7	–
Benchmark	-2.4	4.6	5.6	7.3	–
Broad-based index 1	1.4	1.9	3.5	4.2	–
Broad-based index 2	-8.9	6.4	4.1	7.9	–
Series 0	-2.5	5.3	6.8	8.3	–
Benchmark	-2.4	4.6	5.6	7.3	–
Broad-based index 1	1.4	1.9	3.5	4.2	–
Broad-based index 2	-8.9	6.4	4.1	7.9	–

The returns of each series may vary because of differences in management fees and expenses. 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.

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

All outstanding Series A units were renamed Series F units effective June 28, 2018.



## PAST PERFORMANCE (cont.)

### INDEX DESCRIPTIONS

**FTSE 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.

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

**MSCI World Total Return Net Index (CAD)** This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**MSCI Emerging Markets Total Return Net Index (CAD)** This index is a broad measure of the Canadian dollar performance of emerging-market equities. As of May 2010, the index consisted of the following 21 emerging-market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**FTSE Canada 30 Day TBill Index\*** This index is a measure of the performance of Canadian short-term cash investments.

\* FTSE Canada benchmarks were known as the FTSE TMX Canada benchmarks before a name change.

## SUMMARY OF INVESTMENT PORTFOLIO

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

*As at December 31, 2018*

### Investment Mix

	% of Net Asset Value
Bonds	37.2
Canadian Equities	32.0
Global Equities	30.4
Cash/Other	0.4

### Top 25 Holdings\*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	37.2
Phillips, Hager & North Canadian Equity Underlying Fund	30.4
RBC QUBE Global Equity Fund	13.2
RBC Global Equity Focus Fund	13.1
RBC Emerging Markets Equity Fund	4.1
Phillips, Hager & North Canadian Money Market Fund	1.5
Cash & Cash Equivalents	0.5
<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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CONSERVATIVE EQUITY INCOME FUND**

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December 31, 2018

**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 11, 2019.

**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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*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 a high and sustainable level of income by investing primarily in common shares of dividend paying Canadian companies. To achieve the Fund's investment objective, the portfolio manager invests in companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and the potential for strong earnings and dividend growth.

### Risk

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

### Results of Operations

The Fund's net asset value rose to \$2.0 billion as of December 31, 2018, from \$1.7 billion at the end of 2017. The increase was due to net inflows, partially offset by investment losses.

Over the past year, the Fund's Series O units lost 7.2%, which outperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Discretionary sector, a position in Dollarama held back the Fund's returns during the year. The Energy sector hurt performance, with positions in Parkland Fuel and Whitecap Resources having a large negative impact.

In the Information Technology sector, the Fund's overweight position in CGI added significantly to returns. Positions in the Communication Services sector also aided performance, led by a holding in Quebecor.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$110,000 (2017 – \$71,000), or 11% (2017 – 8%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 F</b>												
<b>Dec. 31, 2018<sup>3</sup></b>	<b>10.00<sup>†</sup></b>	<b>0.12</b>	<b>(0.03)</b>	<b>0.04</b>	<b>(1.58)</b>	<b>(1.45)</b>	–	<b>(0.13)</b>	<b>(0.11)</b>	–	<b>(0.24)</b>	<b>8.68</b>
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>12.56</b>	<b>0.43</b>	<b>(0.01)</b>	<b>0.15</b>	<b>(1.47)</b>	<b>(0.90)</b>	<b>(0.01)</b>	<b>(0.37)</b>	<b>(0.14)</b>	–	<b>(0.52)</b>	<b>11.14</b>
Dec. 31, 2017	12.07	0.35	(0.01)	0.02	0.51	0.87	(0.01)	(0.34)	(0.02)	–	(0.37)	12.56
Dec. 31, 2016	10.21	0.36	(0.01)	0.38	1.85	2.58	–	(0.34)	(0.22)	–	(0.56)	12.07
Dec. 31, 2015	11.94	0.41	(0.01)	0.25	(1.50)	(0.85)	(0.01)	(0.45)	(0.45)	–	(0.91)	10.21
Dec. 31, 2014	12.05	0.39	(0.01)	1.16	0.13	1.67	–	(0.41)	(1.29)	–	(1.70)	11.94

<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.

<sup>3</sup> From August 16, 2018.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series F</b>							
<b>Dec. 31, 2018<sup>4</sup></b>	<b>8.68</b>	<b>1 689</b>	<b>195</b>	<b>0.79</b>	<b>0.79</b>	<b>19.13</b>	<b>0.05</b>
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>11.14</b>	<b>2 046 968</b>	<b>183 740</b>	<b>0.06</b>	<b>0.06</b>	<b>19.13</b>	<b>0.05</b>
Dec. 31, 2017	12.56	1 745 157	139 000	0.06	0.06	26.74	0.05
Dec. 31, 2016	12.07	1 576 375	130 572	0.06	0.06	52.18	0.11
Dec. 31, 2015	10.21	117 220	11 479	0.06	0.06	35.35	0.09
Dec. 31, 2014	11.94	214 256	17 951	0.06	0.06	60.46	0.08

<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> From August 16, 2018.



**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 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.

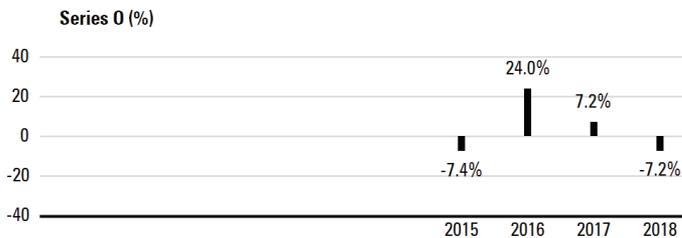
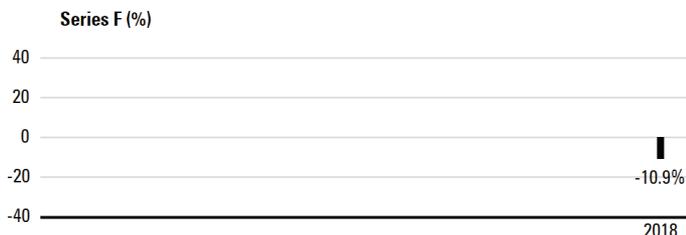
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series F	—	—	—	—	-10.9
Benchmark	—	—	—	—	-11.2
Series O	-7.2	7.2	—	—	3.8
Benchmark	-8.9	6.4	—	—	5.1

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series F units have been available for sale to unitholders since August 20, 2018.

Although Series O units of the Fund were created in April 2012, units were not offered for sale under a simplified prospectus until June 2015.

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

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.



**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Financials	34.7
Energy	20.4
Industrials	13.5
Communication Services	8.6
Real Estate	5.8
Utilities	4.8
Information Technology	4.6
Consumer Discretionary	2.6
Consumer Staples	2.2
Materials	1.8
Cash/Other	1.0

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	5.7
Enbridge Inc.	5.4
Toronto-Dominion Bank	5.1
Bank of Nova Scotia	4.9
Canadian National Railway Co.	4.0
Bank of Montreal	3.9
Brookfield Asset Management Inc., Class A	3.7
Shaw Communications Inc., Class B	2.8
Manulife Financial Corporation	2.6
Fortis Inc.	2.5
TransCanada Corp.	2.5
Rogers Communications Inc., Class B	2.4
Intact Financial Corp.	2.3
Brookfield Infrastructure Partners LP	2.3
Quebecor Inc., Class B	2.2
Sun Life Financial Inc.	2.2
Alimentation Couche-Tard Inc.	2.2
First Capital Realty Inc.	2.2
Canadian Pacific Railway Ltd.	2.1
Canadian Natural Resources Ltd.	2.1
CGI Group Inc., Class A	2.0
Stantec Inc.	2.0
Suncor Energy Inc.	2.0
Pembina Pipeline Corp.	1.9
Waste Connections Inc.	1.8
Top 25 Holdings	72.8

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY PENSION TRUST**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 common shares of Canadian companies, which are chosen primarily for their growth potential. To achieve the Fund's investment objective, the portfolio manager invests in companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and strong earnings potential.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$391 million as of December 31, 2018, from \$461 million at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 8.9%, which matched the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Staples sector, a position in Dollarama held back the Fund's returns over the year. The Energy sector held back performance, with positions in Raging River Exploration and Whitecap Resources having large negative impacts during the period.

In the Industrials sector, the Fund's overweight position in Badger Daylighting added significantly to returns. Various positions in the Financials sector also aided relative performance, with contributions from holdings in Brookfield Asset Management and Toronto-Dominion Bank.

### Recent Developments

The portfolio manager's GDP growth forecast for 2019 is below consensus but nevertheless represents a slight increase from the prior forecast thanks to the tentative resolution of trade negotiations. The portfolio manager expects the overall pace of interest-rate increases in Canada to lag that of the U.S. Economic competitiveness is a cause for concern because Canada's tax rates and regulatory and environmental framework are seen as less business-friendly than in the U.S. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

### 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 Investor Services Trust ("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 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 \$20,000 (2017 – \$9,000), or 9% (2017 – 5%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 N</b>												
<b>Dec. 31, 2018</b>	<b>10.69</b>	<b>0.30</b>	–	<b>0.10</b>	<b>0.80</b>	<b>1.20</b>	<b>(0.02)</b>	<b>(0.30)</b>	<b>(0.17)</b>	–	<b>(0.49)</b>	<b>9.24</b>
Dec. 31, 2017	10.41	0.28	–	0.23	0.07	0.58	(0.02)	(0.19)	(0.19)	–	(0.40)	10.69
Dec. 31, 2016 <sup>3</sup>	10.00 <sup>†</sup>	0.09	–	0.01	0.82	0.92	(0.04)	(0.23)	(0.02)	–	(0.29)	10.41
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>8.44</b>	<b>0.24</b>	–	<b>0.08</b>	<b>(1.06)</b>	<b>(0.74)</b>	<b>(0.01)</b>	<b>(0.25)</b>	<b>(0.13)</b>	–	<b>(0.39)</b>	<b>7.30</b>
Dec. 31, 2017	8.22	0.22	–	0.18	0.18	0.58	(0.01)	(0.15)	(0.15)	–	(0.31)	8.44
Dec. 31, 2016	6.84	0.21	–	0.02	1.44	1.67	(0.03)	(0.18)	(0.02)	–	(0.23)	8.22
Dec. 31, 2015	7.53	0.22	–	(0.03)	(0.78)	(0.59)	(0.01)	(0.15)	(0.02)	–	(0.18)	6.84
Dec. 31, 2014	7.01	0.21	–	0.53	(0.02)	0.72	(0.01)	(0.10)	(0.24)	–	(0.35)	7.53

<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.

<sup>3</sup> From August 22, 2016.

<sup>†</sup> 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 (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series N</b>							
<b>Dec. 31, 2018</b>	<b>9.24</b>	<b>1</b>	–	<b>0.02</b>	<b>0.02</b>	<b>34.89</b>	<b>0.05</b>
Dec. 31, 2017	10.69	6	1	0.02	0.02	28.65	0.06
Dec. 31, 2016 <sup>4</sup>	10.41	11	1	0.02	0.02	48.86	0.09
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>7.30</b>	<b>391 389</b>	<b>53 612</b>	<b>0.02</b>	<b>0.02</b>	<b>34.89</b>	<b>0.05</b>
Dec. 31, 2017	8.44	460 564	54 545	0.02	0.02	28.65	0.06
Dec. 31, 2016	8.22	309 082	37 622	0.02	0.02	48.86	0.09
Dec. 31, 2015	6.84	193 017	28 224	0.03	0.03	39.46	0.09
Dec. 31, 2014	7.53	130 555	17 343	0.04	0.04	47.43	0.11

<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> From August 22, 2016.



**FINANCIAL HIGHLIGHTS (cont.)**

**Management Fees**

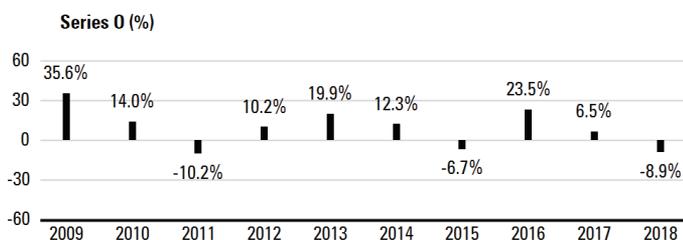
RBC GAM is the manager and portfolio manager of the Fund. No management fees are paid by the Fund with respect to Series N and Series O units. Series N and Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

**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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series N	-8.9	—	—	—	1.6
Benchmark	-8.9	—	—	—	1.8
Series O	-8.9	6.2	4.6	8.7	—
Benchmark	-8.9	6.4	4.1	7.9	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series N units have been available for sale to unitholders since August 22, 2016.

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

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.



## SUMMARY OF INVESTMENT PORTFOLIO

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

*As at December 31, 2018*

### Investment Mix

	% of Net Asset Value
Financials	34.7
Energy	18.7
Underlying Funds	10.7
Materials	9.2
Industrials	8.8
Information Technology	4.0
Communication Services	3.8
Consumer Discretionary	2.8
Consumer Staples	2.6
Utilities	2.0
Real Estate	1.3
Cash/Other	1.4

### Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	10.7
Royal Bank of Canada	7.7
Toronto-Dominion Bank	6.8
Enbridge Inc.	5.0
Bank of Nova Scotia	4.5
Canadian National Railway Co.	3.8
Brookfield Asset Management Inc., Class A	3.5
Bank of Montreal	3.3
Suncor Energy Inc.	2.7
Manulife Financial Corporation	2.7
Canadian Natural Resources Ltd.	2.7
Alimentation Couche-Tard Inc.	2.6
Sun Life Financial Inc.	2.2
TransCanada Corp.	2.1
CGI Group Inc., Class A	2.0
Shaw Communications Inc., Class B	2.0
Nutrien Ltd.	1.9
Pembina Pipeline Corp.	1.5
Waste Connections Inc.	1.4
Open Text Corp.	1.3
Fairfax Financial Holdings Ltd.	1.3
Dollarama Inc.	1.3
Fortis Inc.	1.2
Cash & Cash Equivalents	1.2
Canadian Imperial Bank of Commerce	1.2
<b>Top 25 Holdings</b>	<b>76.6</b>

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
SMALL FLOAT FUND**

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December 31, 2018

**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 11, 2019.

**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 annual management report of fund performance ("MRFP") contains financial highlights but does not contain 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 generally in a diversified portfolio of common stocks of small-float, high-quality Canadian companies. To achieve the Fund's investment objective, the portfolio manager generally invests in small capitalization growth companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their competitors, and strong earnings potential.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$232 million as of December 31, 2018, from \$296 million at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 7.8%, which outperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Discretionary sector, a position in Sleep Country Canada held back the Fund's returns during the year. The Energy sector hurt performance, with positions in Raging River Exploration and Baytex Energy having a large negative impact during the period.

In the Industrials sector, the Fund's overweight position in Badger Daylighting added significantly to returns. Positions in the Information Technology sector also aided performance, led in part by a holding in Blackline Safety.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

Effective June 28, 2018, Series A units were renamed Series F units.

### 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 Investor Services Trust ("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 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 \$8,000 (2017 – \$7,000), or 5% (2017 – 3%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 F</b>												
<b>Dec. 31, 2018</b>	<b>33.71</b>	<b>0.44</b>	<b>(0.37)</b>	<b>5.20</b>	<b>(8.25)</b>	<b>(2.98)</b>	<b>(0.01)</b>	<b>(0.14)</b>	–	–	<b>(0.15)</b>	<b>30.59</b>
Dec. 31, 2017	31.89	0.39	(0.36)	(0.83)	2.66	1.86	–	(0.04)	–	–	(0.04)	33.71
Dec. 31, 2016	25.43	0.37	(0.31)	2.09	4.34	6.49	–	(0.04)	–	–	(0.04)	31.89
Dec. 31, 2015	25.73	0.40	(0.29)	0.33	(0.57)	(0.13)	(0.01)	(0.14)	–	–	(0.15)	25.43
Dec. 31, 2014	24.26	0.37	(0.29)	7.96	(5.98)	2.06	(0.01)	(0.13)	–	–	(0.14)	25.73
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>32.54</b>	<b>0.43</b>	–	<b>5.03</b>	<b>(7.68)</b>	<b>(2.22)</b>	<b>(0.03)</b>	<b>(0.43)</b>	–	–	<b>(0.46)</b>	<b>29.53</b>
Dec. 31, 2017	30.77	0.38	–	(0.80)	2.61	2.19	(0.04)	(0.34)	–	–	(0.38)	32.54
Dec. 31, 2016	24.55	0.35	–	2.03	4.13	6.51	(0.02)	(0.36)	–	–	(0.38)	30.77
Dec. 31, 2015	24.85	0.39	–	0.32	(0.55)	0.16	(0.02)	(0.40)	–	–	(0.42)	24.55
Dec. 31, 2014	23.42	0.35	–	7.66	(5.76)	2.25	(0.02)	(0.38)	–	–	(0.40)	24.85

<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.

### 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 F</b>							
<b>Dec. 31, 2018</b>	<b>30.59</b>	<b>886</b>	<b>29</b>	<b>1.10</b>	<b>1.10</b>	<b>24.58</b>	<b>0.05</b>
Dec. 31, 2017	33.71	971	29	1.10	1.10	23.66	0.09
Dec. 31, 2016	31.89	917	29	1.10	1.10	24.75	0.07
Dec. 31, 2015	25.43	730	29	1.10	1.10	32.48	0.09
Dec. 31, 2014	25.73	813	32	1.09	1.09	55.46	0.13
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>29.53</b>	<b>231 581</b>	<b>7 842</b>	–	–	<b>24.58</b>	<b>0.05</b>
Dec. 31, 2017	32.54	294 658	9 056	–	–	23.66	0.09
Dec. 31, 2016	30.77	290 835	9 453	–	–	24.75	0.07
Dec. 31, 2015	24.55	253 380	10 322	–	–	32.48	0.09
Dec. 31, 2014	24.85	261 900	10 540	–	–	55.46	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 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.



**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 F	1.00%	—	100%

Series 0 – no management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

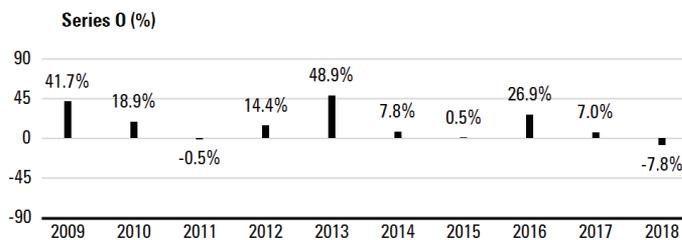
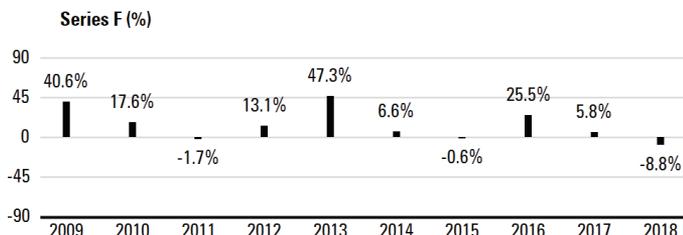
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series F	-8.8	6.6	5.1	13.3	—
Benchmark	-8.9	6.4	4.1	7.9	—
Series 0	-7.8	7.8	6.3	14.5	—
Benchmark	-8.9	6.4	4.1	7.9	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

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

All outstanding Series A units were renamed Series F units effective June 28, 2018.

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.



## SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2018

### Investment Mix

	% of Net Asset Value
Industrials	30.6
Consumer Discretionary	14.4
Consumer Staples	11.4
Real Estate	10.6
Financials	8.9
Materials	7.0
Information Technology	6.8
Energy	4.9
Communication Services	4.6
Cash/Other	0.8

### Top 25 Holdings

	% of Net Asset Value
Badger Daylighting Ltd.	6.1
Element Fleet Management Corp.	5.9
Stantec Inc.	5.7
Quebecor Inc., Class B	4.6
Toromont Industries Ltd.	4.4
Stella-Jones Inc.	4.0
Boyd Group Income Fund	3.7
Ritchie Bros. Auctioneers Inc.	3.7
Kinaxis Inc.	3.7
Tricon Capital Group Inc.	3.6
Secure Energy Services Inc.	3.6
Jamieson Wellness Inc.	3.5
Aritzia Inc.	3.5
Sleep Country Canada Holdings Inc.	3.5
Blackline Safety Corp.	3.2
CCL Industries, Class B	3.0
Great Canadian Gaming Corp.	2.9
The Westaim Corp.	2.9
Richelieu Hardware Ltd.	2.9
Mainstreet Equity Corp.	2.7
Maple Leaf Foods Inc.	2.6
FirstService Corp.	2.5
Leon's Furniture Ltd.	2.5
Morneau Shepell Inc.	2.2
Mav Beauty Brands Inc.	2.2
Top 25 Holdings	89.1

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).



CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH  
CANADIAN EQUITY PLUS  
PENSION TRUST**

December 31, 2018

**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 11, 2019.

**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.

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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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*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 Canadian common stocks that are qualified investments for registered Canadian pension plans. The Fund may also invest a portion of its assets in U.S. and international securities. To achieve the Fund's investment objective, the portfolio manager invests primarily in large-capitalization companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their competitors, and strong earnings potential.

### Risk

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

### Results of Operations

The Fund's net asset value fell to \$90 million as of December 31, 2018, from \$114 million at the end of 2017. The decrease was due to a combination of net redemptions and investment losses.

Over the past year, the Fund's Series O units lost 8.5%, which outperformed the 8.9% decline in the benchmark. The Fund's return is after the deduction of 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 any other series, which may vary because of differences in management fees and expenses.

The S&P/TSX Composite Index, Canada's equity benchmark, lagged many global markets in 2018 as a result of headwinds such as falling energy prices, poor competitiveness, a cooling housing market and trade uncertainty. In the Energy sector, a number of proposed crude-oil pipelines are stalled due to regulatory delays and/or the opposition of environmental activists. In the housing market, regulatory changes to mortgage underwriting have cooled housing activity. On the trade front, protectionism fears have eased following trade renegotiations culminating in Canada, the U.S. and Mexico agreeing to a deal that, if approved by U.S. Congress, would supplant the North American Free Trade Agreement.

In the Consumer Staples sector, a position in Metro Inc. held back the Fund's returns during the year. The Energy sector hurt performance, with positions in Raging River Exploration and Whitecap Resources having a large negative impact.

In the Information Technology sector, the Fund's overweight position in CGI added significantly to returns. Positions in the Communication Services sector also aided performance, led in part by a holding in Quebecor.

### Recent Developments

The year ended with global equity markets in retreat as rising interest rates, diminished fiscal stimulus and protectionist trade wars impeded economic growth across most economies. Among the headwinds facing the Canadian economy in 2019 are a lack of pipeline space to transport oil, debt-burdened consumers and a weakening housing market, all of which may stifle Canadian growth in the year ahead. The federal government's recent decision to allow accelerated depreciation may help level the playing field.

Effective June 28, 2018, Series A units were renamed Series F units.

### Related-Party Transactions

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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.

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**Trustee and Custodian**

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 \$4,000 (2017 – \$3,000), or 10% (2017 – 6%) 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

### 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 F</b>												
<b>Dec. 31, 2018</b>	<b>88.46</b>	<b>2.35</b>	<b>(0.51)</b>	<b>4.95</b>	<b>(7.67)</b>	<b>(0.88)</b>	<b>(0.09)</b>	<b>(1.91)</b>	–	–	<b>(2.00)</b>	<b>78.47</b>
Dec. 31, 2017	83.30	2.08	(0.53)	6.59	(1.27)	6.87	(0.05)	(1.68)	–	–	(1.73)	88.46
Dec. 31, 2016	70.33	2.01	(0.47)	6.68	2.61	10.83	(0.07)	(1.66)	–	–	(1.73)	83.30
Dec. 31, 2015	77.00	2.04	(0.49)	3.03	(8.58)	(4.00)	(0.07)	(1.75)	–	–	(1.82)	70.33
Dec. 31, 2014	70.00	1.83	(0.48)	5.14	2.06	8.55	(0.06)	(1.39)	–	–	(1.45)	77.00
<b>Series O</b>												
<b>Dec. 31, 2018</b>	<b>108.66</b>	<b>2.95</b>	<b>(0.04)</b>	<b>6.23</b>	<b>(18.19)</b>	<b>(9.05)</b>	<b>(0.13)</b>	<b>(2.94)</b>	–	–	<b>(3.07)</b>	<b>96.29</b>
Dec. 31, 2017	102.33	2.56	(0.04)	8.12	(1.69)	8.95	(0.08)	(2.70)	–	–	(2.78)	108.66
Dec. 31, 2016	86.45	2.51	(0.03)	8.34	7.63	18.45	(0.11)	(2.69)	–	–	(2.80)	102.33
Dec. 31, 2015	94.65	2.52	(0.03)	3.73	(10.59)	(4.37)	(0.11)	(2.67)	–	–	(2.78)	86.45
Dec. 31, 2014	86.05	2.26	(0.03)	6.33	2.54	11.10	(0.09)	(2.26)	–	–	(2.35)	94.65

<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.

### 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 F</b>							
<b>Dec. 31, 2018</b>	<b>78.47</b>	<b>180</b>	<b>2</b>	<b>0.59</b>	<b>0.59</b>	<b>19.80</b>	<b>0.04</b>
Dec. 31, 2017	88.46	1 513	17	0.61	0.61	22.29	0.05
Dec. 31, 2016	83.30	1 456	17	0.63	0.63	36.50	0.07
Dec. 31, 2015	70.33	4 280	61	0.64	0.64	21.78	0.06
Dec. 31, 2014	77.00	5 994	78	0.63	0.63	26.75	0.07
<b>Series O</b>							
<b>Dec. 31, 2018</b>	<b>96.29</b>	<b>90 105</b>	<b>936</b>	<b>0.03</b>	<b>0.03</b>	<b>19.80</b>	<b>0.04</b>
Dec. 31, 2017	108.66	112 001	1 031	0.03	0.03	22.29	0.05
Dec. 31, 2016	102.33	117 394	1 147	0.03	0.03	36.50	0.07
Dec. 31, 2015	86.45	114 521	1 325	0.04	0.04	21.78	0.06
Dec. 31, 2014	94.65	149 694	1 582	0.03	0.03	26.75	0.07

<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.



**FINANCIAL HIGHLIGHTS (cont.)**

**Management Fees**

RBC GAM is the manager, portfolio manager and registrar 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 F	0.50%	—	100%

Series 0 – no management fees are paid by the Fund with respect to Series 0 units. Series 0 unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

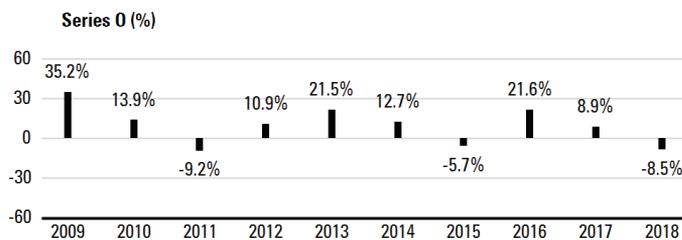
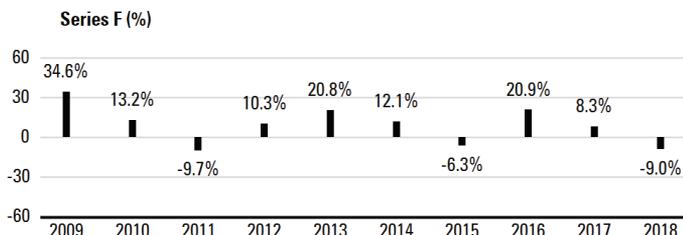
\* Includes all costs related to management, investment advisory services, general administration and profit.

**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.



**Annual Compound Returns (%)**

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2018, compared with the following benchmark:

**S&P/TSX Capped Composite Total Return Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series F	-9.0	6.0	4.6	8.6	—
Benchmark	-8.9	6.4	4.1	7.9	—
Series 0	-8.5	6.6	5.2	9.3	—
Benchmark	-8.9	6.4	4.1	7.9	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

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

All outstanding Series A units were renamed Series F units effective June 28, 2018.

**INDEX DESCRIPTION**

**S&P/TSX Capped Composite Total Return Index** This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.



**SUMMARY OF INVESTMENT PORTFOLIO**

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

*As at December 31, 2018*

**Investment Mix**

	% of Net Asset Value
Financials	31.2
Energy	16.0
Industrials	10.6
Underlying Funds	8.9
Information Technology	8.8
Materials	7.7
Consumer Staples	4.7
Communication Services	3.4
Consumer Discretionary	2.4
Health Care	2.4
Utilities	1.7
Real Estate	1.1
Cash/Other	1.1

**Top 25 Holdings**

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	8.9
Royal Bank of Canada	6.5
Toronto-Dominion Bank	5.7
Enbridge Inc.	4.2
Bank of Nova Scotia	3.7
Canadian National Railway Co.	3.3
Microsoft Corp.	3.1
Brookfield Asset Management Inc., Class A	3.0
Bank of Montreal	2.8
PepsiCo Inc.	2.7
Suncor Energy Inc.	2.3
Manulife Financial Corporation	2.3
Canadian Natural Resources Ltd.	2.3
Alimentation Couche-Tard Inc.	2.1
Sun Life Financial Inc.	2.0
TransCanada Corp.	1.8
Wells Fargo & Company	1.7
CGI Group Inc., Class A	1.7
Shaw Communications Inc., Class B	1.7
Emerson Electric Co.	1.6
Nutrien Ltd.	1.6
Oracle Corporation	1.5
Pembina Pipeline Corp.	1.3
Johnson & Johnson	1.2
Fairfax Financial Holdings Ltd.	1.2
<b>Top 25 Holdings</b>	<b>70.2</b>

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).

### **RBC Funds and RBC Private Pools**

#### **By Phone**

Investors: **1-800-463-FUND (3863)**

Dealers: **1-800-662-0652**

#### **On the Internet**

Visit our website at: **[www.rbcgam.com/funds](http://www.rbcgam.com/funds)**

Email us at: **[funds.investments@rbc.com](mailto:funds.investments@rbc.com)**

### **Phillips, Hager & North Funds**

#### **By Phone**

Investors: **1-800-661-6141**

Dealers: **1-800-662-0652**

#### **On the Internet**

Visit our website at: **[www.rbcgam.com/funds](http://www.rbcgam.com/funds)**

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**Global Asset  
Management**