PH&N Investment Services®

Second Quarter Report 2014

Report Highlights

Investors Want to Know

Making the most of pension income splitting – For those 65 years or older, pension income splitting can be a worthwhile practice. We examine how it works and outline the advantages and conditions for using this tax rule to your benefit.

Top of Mind

Measuring economic upside – We take a look at the Economic Upside Index – a novel approach to measuring economic upside – and how it fits into the forecasting toolkit.

Straightforward Advice

The (fund) facts of life: Helping you understand your investments – Fund Facts is a document designed to provide you with key information about a mutual fund. We guide you through its key components and what they mean to you as an investor.

PHILLIPS, HAGER & NORTH 50 YEARS PASSION • PERSPECTIVE • PURPOSE est. 1964

Dear Investor:

The second quarter of 2014 saw strong performance for developed equity markets. In Canada, the S&P/TSX Composite Index moved into record territory, bond markets outperformed expectations and a strong loonie re-emerged. In the U.S. market, we saw the sixth quarter in a row of positive returns as the S&P 500 Index, also at record highs, continued to advance, shrugging off domestic and global unease. While stock markets surged this quarter in Canada, the U.S. and Europe, there are questions as to whether the rally has outpaced the global economic recovery.

The economic spring has arrived on time this year. After a few stumbles in the first half of 2014, green shoots of growth in the Canadian and U.S. economies are apparent this quarter. While the Canadian economy has remained relatively resilient in contrast to the U.S., it is important to be cautious: mounting inflation rates, a strong loonie, a frothy housing market and risks coming out of China could affect future economic performance. The U.S. economy appears to be back on track after tough winter weather. After a significant GDP stumble in early 2014 – forcing economists to revise forecasts – new growth has appeared as hiring levels, retail sales, new home construction and consumer confidence have rebounded.

While investors might be more concerned with the events above, the Canadian investment industry is facing unprecedented regulatory changes at the moment. Some changes have already been implemented and adopted, and additional ones are forthcoming. In this quarter's edition of *Straightforward Advice*, we take a look at one of these changes – Fund Facts, a new document intended to provide information about a mutual fund in a more digestable format. We present a primer on this document, and why it is important for clients. We have also provided information about other regulatory changes in this report: turn to page 9 to find out more about requirements to disclose potential transaction charges prior to placing trades and the U.S. *Foreign Account Tax Compliance Act (FATCA)* legislation. In *Investors Want to Know*, we explore pension income splitting and how it can help offset your tax bill.

I hope you enjoy this quarterly report as part of your summer reading.

Best regards,

John S. Montalbano, CFA
Chief Executive Officer,
RBC Global Asset Management

Table of Contents

Important Dates

Monday, August 4, 2014
Our offices will be closed in British Columbia for B.C. Day, in Alberta for Heritage Day and in Ontario for the Civic Holiday.

Monday, September 1, 2014
All of our offices will be closed for Labour Day.

Monday, October 13, 2014
All of our offices will be closed for Thanksgiving Day.

This report has been prepared by Phillips, Hager & North Investment Funds Ltd., the principal distributor for PH&N Funds and BonaVista Funds, as well as a distributor of RBC Funds. For more information, please refer to the disclosures section of this report.

The quarterly report has a new look

From a new cover to the way it is packaged for delivery, you might have noticed that the quarterly report has a different look and feel to it. We are pleased to roll out this facelift, which makes the report easier to read, lighter and better protected against the elements.

Over the years, many clients have received their report in less-than-perfect condition because the paper envelope was not durable to the elements. The new packaging offers significantly more protection and is 100% degradable and biodegradable. After use and upon exposure to sunlight (UV) or heat, it will begin to break down into small fragments through oxidation, leaving behind only carbon dioxide, water, biomass and a small amount of minerals that will go back into the soil. The packaging is degradable within 12 to 24 months.

Through this initiative, we are also saving a significant amount of paper: around 3,300 pounds per year, estimated to be the equivalent of 56 trees.[1]

As always, clients can view the quarterly report online at www.phn.com.

Expand your horizons: Two new global equity funds available

In an effort to provide you with a wide and expanding range of investment solutions to help meet your portfolio needs, we are pleased to announce two new global equity funds that are available to you. These funds leverage the expertise of the RBC Global Asset Management (RBC GAM) global equity team.

RBC Global Equity Focus Fund is a concentrated global equity solution managed by a highly experienced team of portfolio managers based in the UK. The Fund invests in 30–70 high-quality, industry-leading companies from around the world. It is appropriate for clients who are seeking economic and geographic diversification across the globe. The Fund invests in North American, international developed and emerging markets. It offers the benefits of investing in a concentrated portfolio of world-leading companies across different sectors, economies and geographies. With a global focus strategy, this Fund offers a high-conviction portfolio employing intensive research, with a specific focus on a small number of companies.

RBC International Equity Currency Neutral Fund offers clients the option to diversify their equity portfolio outside of North America. The Fund invests primarily in equity securities outside of North America and provides exposure to economies that offer different business cycles and growth opportunities than those of North American markets. It brings together some of the best ideas from RBC GAM's European equity and Asian equity teams. The Fund is intended for investors who seek exposure to international equities but do not want exposure to currency risk. By employing a passive currency hedging strategy, currency movements will have a minimal effect on the Fund's returns.

Upcoming changes to certain RBC Corporate Class Funds

At a recent special meeting, security holders approved the reorganization and closure of certain RBC Corporate Class Funds impacted by the changes announced in the 2013 Federal Budget. Mutual fund shareholders will receive mutual fund trust units of a corresponding RBC Fund or PH&N Fund, as set out in the table below.

Terminating funds (mutual fund shares)	Corresponding funds (mutual fund trust units)
RBC Bond Capital Class	RBC Bond Fund
Phillips, Hager & North Total Return Bond Capital Class	Phillips, Hager & North Total Return Bond Fund
RBC High Yield Bond Capital Class	RBC High Yield Bond Fund

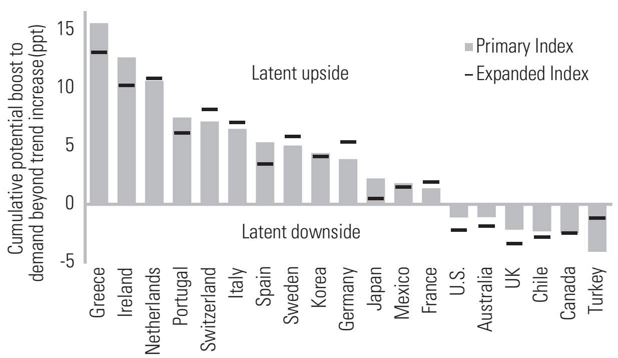
The reorganization and closure of the terminating funds will take effect after close of business on September 12, 2014.

[1] Source: www.ecoverde.ca and www.conservatree.com.

Measuring economic upside

Traditionally, medium-term economic projections are generated on the basis of anticipated developments in monetary and fiscal policy. Policymaker actions are sufficiently predictable and their effects long-enough-lived that plausible forecasts can be spun for variables such as employment, wages, spending and capital expenditures, ultimately congealing into a GDP forecast. This is a standard part of our own forecasting toolkit. Nevertheless, we are always on the hunt for new perspectives. Recently, we began to wonder if this customary approach might be missing the forest for the trees, focused so tightly on the day-to-day actions of policymakers that it fails to account for what policymakers are trying to achieve.

Exhibit 1: Economic Upside Index



Note: These measures estimate the potential cumulative boost to demand over the next five years, beyond the normal trend growth rate for each country. The boost is assumed to come as current account imbalances, fiscal deficits, output gaps and residential investment gaps close, factoring in the effects of demographics, currency movements and structural reforms on capacity. The Expanded Index includes an additional variable that acknowledges the burden of servicing public debt.
Source: Haver Analytics, RBC Global Asset Management

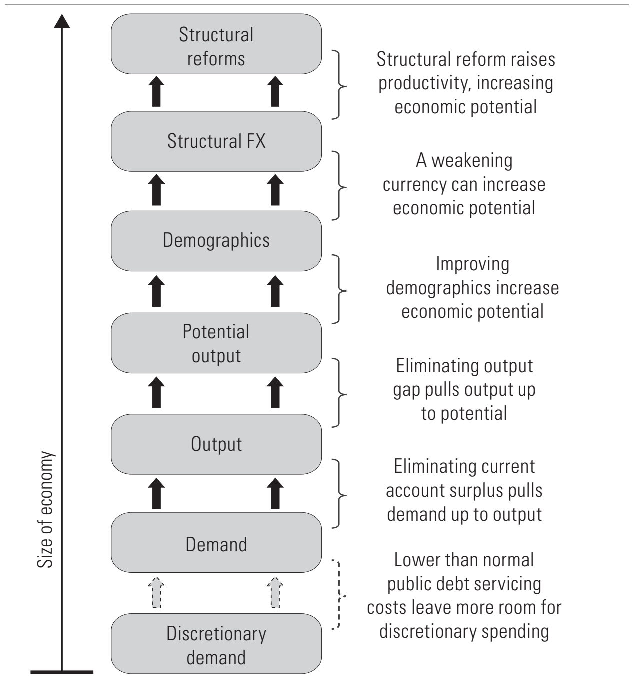
What are policymakers' medium-term goals? Simply put, they seek to balance their budget, minimize any mismatch between demand and output, return their economy to its full potential, engage in reforms that enhance their economy's potential, and nudge their currency toward a reasonable valuation. What if we cut out the intermediate step and focused instead on these end goals? This thinking has inspired the Economic Upside Index, a novel measure that starts with the presumption that policymakers will be successful in their efforts, which permits the luxury of assessing the economic consequences of those eventual victories. The end result is a metric that gauges which of 19 OECD nations are primed for unusually good growth in economic demand over the next five years, relative to their usual trajectory.

As a general (though imprecise) rule, the Economic Upside Index calculates that the countries that fared best through the financial crisis – like Canada and Australia – now have the least economic upside awaiting them, while those that suffered horribly – such as Greece and Ireland – have the potential to zoom forward (Exhibit 1).

Methodology

The Economic Upside Index combines seven variables that collectively assess the extent to which a country's economic demand (on the bottom solid rung of the ladder in Exhibit 2) can be elevated to greater heights.

Exhibit 2: Economic upside ladder



To be clear, the country with the most upside will not necessarily manage the fastest economic growth. In general, emerging market countries will still outgrow developed ones, and younger populations will usually outpace older ones. Rather, the winners in the Economic

Upside Index are the countries most capable of exceeding their historically normal growth rate, whatever that is. This isn't as obscure a consideration as it initially seems. Financial markets are relentlessly forward-looking, pricing in expected earnings and anticipated economic growth. If fast growth is the norm for a country, more of the same provides no guarantee of financial-market fireworks. The key to outsized market returns lies in identifying those countries poised for stronger-than-usual growth, rather than outright strong growth. That is precisely what the Economic Upside Index sniffs out.

The beauty of (all but one of) the included economic variables is that they already speak the language of GDP. Thus, our task is a simple one: add up the effects of each variable to arrive at the aggregate economic upside.

1. Current-account balance

Current-account balances provide a clear assessment of which countries are living beyond (or below) their means. A current-account deficit indicates that a nation's demand races unsustainably ahead of its output, financed by perpetually more borrowing from foreigners. On the other hand, a current-account surplus reveals a country that is consuming less than it can afford. In the parlance of Exhibit 2, demand can sustainably rise up to the level of output.

Inherent in the Economic Upside Model is the assumption that this extra demand will finally be unleashed. It is a fair point that current-account imbalances appear to converge upon desirable levels at a much more leisurely pace than several of the other variables, so there is no guarantee that they will have vanished in five years. Fortunately, there is reason to think that current-account imbalances will make at least some progress toward this ideal: post-financial-crisis policymakers have pushed hard to reduce the so-called "global savings glut" that contributed to credit excesses. They have had considerable success so far.

This measure bodes especially well for large current-account surplus nations such as Switzerland, the Netherlands, Germany, Ireland and Sweden. It bodes poorly for Turkey, the UK, Chile, Canada and Australia.

2. Fiscal balance

The structural fiscal balance captures how far a country is from balancing its public budget. A government with a fiscal deficit can be thought of as living beyond its means, and a natural medium-term goal of policymakers is to eliminate this deficit via austerity measures. This imposes an economic toll roughly equal in size to the magnitude of the starting deficit. The structural fiscal balance reveals several interesting things. Marking quite an impressive reversal, Greece finds itself in the best position of all, with a structural fiscal surplus. South Korea, Switzerland and Germany also fare particularly well. At the other extreme, Japan's structural fiscal deficit is enormous. The U.S., Spanish, Turkish and Mexican deficits are also sizeable, requiring further austerity.

3. Output gap

The output gap measures the existence of slack in an economy. To continue with the logic of Exhibit 2, closing the output gap raises output to its full potential (in so doing, dragging demand upwards with it). Thus, the countries with the biggest negative output gaps have some of the most outsized growth prospects over the coming years as they converge upon their full capacity. Among the best positioned are the usual European suspects: Greece, Ireland, Portugal, Turkey, Italy and Spain. Those with the least output gap upside are Japan, Chile, Germany and Canada.

4. Residential investment

The residential investment share of GDP is a handy proxy for the extent to which housing activity is unnaturally elevated or depressed. When it is unusually low, the expectation is that it will revert to historical norms, boosting economic output.

Calculating the residential investment gap reveals several European nations with the most upside, given previously devastated housing markets, including Greece, Portugal, Ireland and Spain. Those with the least upside are countries whose housing markets never really suffered, including Chile, Turkey, Canada, Germany and Mexico.

5. Demographics

We now swivel toward a set of three variables that alter the sustainable potential growth rate itself, rather than merely nudging demand toward a pre-existing potential.

At its most simplistic, the sustainable economic growth rate is derived from the growth rate of workers plus the extent to which they become more productive. Demographics naturally play a central role in anticipating trends in the former. We compare each country's cumulative population growth over the past five years to its expected population growth over the next five years. As it happens, demographics are set to cast a shadow on the potential growth rate of all the examined countries over the coming five years, but to varying degrees. The worst effects will be felt in South Korea, Spain, Turkey, Australia and Chile. The best (or, in this case, the least bad) effects will be in Sweden, the UK, Japan and the Netherlands.

6. Currency valuation

We next consider the level of each country's currency relative to its fair value. Contrary to initial instincts, we judge that those countries with the most undervalued exchange rates to be at the greatest disadvantage. The reason for this is that the undervalued countries have been enjoying an artificial (and inherently temporary) competitive advantage and, as currency valuations revert to fair value over the medium run, those countries will suffer an economic drag. The reverse is true for countries with overvalued exchange rates.

Unlike the other variables, currency misvaluations do not map directly onto economic growth. We have to translate every percentage point of expected currency movement into GDP-equivalent terms. The resulting calculations reveal that the countries in the most promising currency position (meaning the most overvalued exchange rates that can afford to decline, boosting growth) are Australia, Switzerland, Canada and Chile. The countries in the least promising position are Japan, the U.S. and the UK.

7. Structural reforms

Another possible avenue for faster potential economic growth comes via structural reforms. There is no simple way to comprehensively assess the progress of such reforms, gauge their future trajectory or map them onto potential GDP growth. As a result, we use our own judgment to assess the likely extent and efficacy of structural reforms by country, basing this assessment on a combination of recent policy pledges, ongoing legislative efforts and anticipated trade deals.

In our opinion, the countries undertaking (or poised to undertake) the most fruitful economic reforms are Japan, Greece, Mexico, Ireland, Italy and Spain. Those undertaking the least are Switzerland, Germany, Turkey and Sweden.

Economic Upside Index results

Taken altogether, the Economic Upside Index contains some fascinating findings. At the aggregate level, most countries – 13 out of 19 – can expect a positive economic upside (meaning above-normal growth) over the coming five years. This squares well with our expectation of global economic recovery.

Upside

In regards to the countries with the most economic upside, it is a European sweep of Greece, Ireland, the Netherlands, Portugal, Switzerland and Italy. Spain just barely misses out, in seventh position.

Downside

The six countries set to fare the worst are Turkey, Canada, Chile, the UK, Australia and the U.S. All six are technically living beyond their means, with the implication that, for them, the Economic Upside Index is really more of an economic downside index.

Proper interpretation

We'll confess that some of the Economic Upside Indexes findings don't align with several of our pre-existing views. Does this mean it is a junk index? No – it offers an unblinking consistency and farsightedness that qualitative human analysis struggles to match. We need more measures like this, though given its rigid construction it should be viewed as a complement to, rather than a replacement for other tools.

In the end, we believe it is presently transmitting a useful reminder about the substantial economic upside in peripheral Europe, just as its message about limited upside for countries including Turkey and Canada may also warrant special heed.

By Eric Lascelles
Chief Economist, RBC Global Asset Management

Making the most of pension income splitting

In 2007, pension income splitting was introduced in Canada, allowing senior couples to split their pension income in order to reduce the overall taxes they pay. This can result in significant savings for seniors, particularly retired couples who have disparate incomes. This article summarizes pension income splitting and how it and other tax rules for seniors can benefit you and your spouse or common-law partner (collectively referred to as "partner").

The basics

The basic idea behind pension income splitting is that you can split the eligible pension income you receive during the year with your partner. This can save a considerable amount of money, as the partner who earns the most income can shift a portion of it to the partner who earns less.

Pension income splitting benefits many senior couples with disparate pension incomes. Due to Canada's progressive tax system (the more income you earn, the higher your marginal tax rate), the partner who receives a pension may pay significantly more tax than the partner who has little or no pension income. In the case of most couples, however, the pension income is used to support both partners. So, by having the ability to split that pension income between their tax returns, the overall tax the couple pays may be greatly reduced (assuming the lower-earning partner pays tax at a lower marginal rate).

The rules

The basic rules of pension income splitting are reasonably straightforward. You can allocate up to 50% of your eligible pension income (see the adjacent box for more details) to your partner by filing a joint tax election form together with your and your partner's income tax returns each year. You do not need to actually transfer the money to your partner to split the income. You must only split the income on your tax return in order to calculate the taxes payable.

Is your pension income eligible for splitting?

If you are 65 years of age or older, the major types of eligible pension income are:

- Lifetime annuity payments under a Registered Pension Plan (RPP)
- Payments out of or under a Registered Retirement Income Fund (RRIF) or a locked-in RRIF
- Payments from an Individual Pension Plan (IPP)
- Income from a Deferred Profit Sharing Plan (DPSP) annuity
- Income from Retirement Compensation Arrangements (RCAs)

If you are under 65 years of age, the major types of eligible pension income are:

- Lifetime annuity payments under an RPP
- Payments from a RRIF or annuity payments from an RRSP or from a DPSP received as the result of the death of a partner
- Payments from an IPP

Income that is not eligible includes:

- Old Age Security (OAS)
- Guaranteed Income Supplement (GIS)
- Canada Pension Plan/Quebec Pension Plan (although existing CPP/QPP splitting will remain)
- RRSP withdrawals

Each year, you and your partner will need to decide together whether to split eligible pension income and make the joint tax election.

When preparing your income tax returns, you will need to review your respective incomes and determine the amount to be split. This will be influenced by the amount of income you each receive as well as your financial planning decisions and investment strategies. It will also be important to consider the impact of the additional pension income on the lower-earning partner's tax situation. Increasing their taxable income may have an effect on the amount of personal tax credits that could either be claimed or transferred to the higher earner. In addition, increasing pension income could affect the lower-earning partner's OAS entitlements and also trigger the requirement for them to pay tax by installments.

Possible tax savings from pension income splitting

As everyone's financial situation is different, tax implications from pension income splitting will provide different levels of benefit for different couples. Consider the following hypothetical example:

Both partners are 65 years old. The husband receives $75,000 in eligible pension income (i.e. RPP or RRIF). The wife earns $10,000 in interest and taxable capital gains. By jointly electing to report $32,500 of the husband's pension income on the wife's return – making their incomes equal – the couple pays a reduced total amount of taxes and takes greater advantage of the age and pension credits. These tax measures help the couple save approximately $3,600 (based on combined federal/provincial average tax rates) on their family tax.

How to split your pension income

Below, we outline the steps you can follow to determine how to split your pension income with your partner. Due to the possible domino effect pension splitting may have on your overall tax situation, we recommend consulting an accountant or tax advisor to assist you.

Steps to splitting your pension income

1. Calculate the amount of eligible pension income that you and your partner earned during the previous year.
2. Determine the impact of allocating different amounts of income from the higher-earning partner to the lower-earning partner on each of your tax returns.
3. Decide the amount that will be allocated (up to 50% of eligible income) from the higher-earning partner to the lower-earning partner.
4. Complete the joint tax election form.
5. If you are the pensioner, claim a deduction of the elected split pension amount on your tax return.
6. If you are the pension transferee, include the elected split pension amount on your tax return.
7. Referring to the joint tax election form, determine the amount of tax deducted at source to be reported on each of your tax returns.
8. Since reallocating pension income may increase the lower-earning partner's tax payable, both individuals must jointly agree to this allocation. Each partner must file an election with his/her income tax return each year.

Here are a few other examples that outline the tax benefits of income splitting:

		Taxable income		**Tax payable**		**Tax savings**
		Before	After	Before	After	
EXAMPLE 1	Higher-earning partner	75,000	50,000	15,979	7,503	8,476
	Lower-earning partner	25,000	50,000	1,209	7,503	-6,294
	TOTAL	**100,000**	**100,000**	**17,188**	**15,006**	**$2,182**
EXAMPLE 2	Higher-earning partner	90,000	50,000	19,790	7,503	12,287
	Lower-earning partner	10,000	50,000	0	7,503	-7,503
	TOTAL	**100,000**	**100,000**	**19,790**	**15,006**	**$4,784**
EXAMPLE 3	Higher-earning partner	140,000	75,000	38,482	15,979	22,503
	Lower-earning partner	10,000	75,000	0	15,979	-15,979
	TOTAL	**150,000**	**150,000**	**38,482**	**31,958**	**$6,524**

These figures are provided for example only. These examples use 2014 provincial (Ontario) and federal tax rates. Both partners are assumed to be residents of Ontario, age 65 and earning eligible pension income. Exact figures will vary depending on your personal circumstances and the province or territory.

9. Consult with your accountant or tax advisor on the best way to maximize the opportunities available through these tax rules. There may be options that your financial advisor could propose that will provide you with better results than you could ascertain on your own.

Part of your overall financial plan

Pension income splitting is just one of many tax measures designed to benefit seniors in Canada. Other changes in recent years include increases to the Pension Income Tax Credit, enhancements to the Age Credit and an increase to the age limit for converting RRSPs to RRIFs. To make the most out of retirement, it makes sense to be familiar with the tax credits available to Canadian seniors.

Pension Income Tax Credit

This credit is available to Canadians who receive eligible pension income. It allows you to reduce your taxes payable. The tax credit on $2,000 of eligible pension income provides for a federal tax savings of $300. The amount of the tax credit varies among the provinces.

Age Credit

This federal credit is intended to help middle- and lower-income seniors who are 65 years or older by the end of the year. In 2014, if your income is less than $34,873, the federal tax credit will be $1,037. If your income is above this amount, the federal tax credit will be reduced and completely eliminated if your income exceeds $80,980. If the person claiming the credit cannot utilize the entire amount before reducing his or her taxes to zero, the unclaimed amount can be transferred to your partner and claimed on his or her income tax return.

Old Age Security limits and clawback

Pension income splitting may help higher-income earners who are affected by the OAS clawback to gain access to additional retirement funds. The OAS clawback is an issue for Canadian seniors who exceed the maximum income amounts for OAS eligibility. These individuals may be able to transfer a portion of their pension income to a lower-earning partner to bring themselves within eligibility levels. For 2014, the maximum OAS benefit for April to June 2014 is $551.54 (the maximum OAS benefit is indexed quarterly). In 2014, the clawback of OAS benefits begins if your net annual income is greater than $71,592 and OAS is fully eliminated when your net income reaches $115,716. This means that if your net income exceeds $71,592, taking advantage of the pension income splitting provisions could make you eligible for OAS benefits that would otherwise be clawed back.

Spousal RRSPs

As pension income and CPP can now be shared or split, a common question is whether or not it still makes sense to contribute to a spousal RRSP. A spousal RRSP is a plan to which one partner has contributed with the other partner as the owner and eventual recipient of taxable withdrawals from the plan. Spousal RRSPs are often used to allow the higher-earning partner to receive the tax deduction benefit during the contribution period. They are also used for income splitting purposes after retirement since the amount withdrawn may be included in the income of the other partner and often taxed at a lower marginal rate. However, now that pension income splitting is an option for retired couples, the question is, do spousal RRSPs remain a useful tool?

The short answer is yes. Spousal RRSPs have a role to play in many financial plans; however, they may be less attractive for certain investors. Because pension income splitting is not available for individuals under 65 with respect to RRIF withdrawals, a spousal RRSP may still be worthwhile for those planning to retire before age 65. The couple may be able to draw on a spousal RRSP owned by the lower-income spouse to fund the shortfall and keep the family's tax bill at a minimum. It may also help younger couples save for a down payment on a first home. By accumulating money in a spousal RRSP, both spouses may be able to make use of the Home Buyers' Plan and Lifelong Learning Plan.

Conclusion

Consider splitting your pension income with your partner to help reduce the amount of tax you pay. Pension income splitting is a powerful way for senior couples to achieve tax savings and it can also enhance eligibility for a number of federal benefits and other tax credits. If you have questions or would like to explore the best way to take advantage of these tax rules for you and your family, please contact one of our Investment Funds Advisors at 1-800-661-6141.

Regulatory news and changes for clients

In Canada, a number of regulatory changes affecting the investment industry are being phased in. Below, we have highlighted two recent changes: the requirements to disclose potential transaction charges prior to placing trades and the U.S. Foreign Account Tax Compliance Act (FATCA) *legislation.*

We support these changes and any industry-wide initiatives that provide Canadians with greater understanding and transparency of the financial services they receive, the risks related to their investments and the value of their comprehensive wealth management experience. We believe that greater transparency is good for both our clients and the industry.

1. When placing a trade, be aware of these requirements

We've always worked hard to let you know about the full cost of your investment products and services and the value you are receiving for the fees you pay. A recent Canadian regulatory change requires that all Canadian mutual fund investors receive detailed information about fees, compensation and account performance at specified times. As of July 15, 2014, all investors must be informed of any applicable transaction charges before placing trades in their accounts.

At PH&N Investment Services, you pay no initial sales charge, deferred sales charge, switch or service fee. The funds we offer also have among the lowest Management Expense Ratios (MERs) of all actively managed Canadian mutual fund families. A fund's MER includes the trailing commission paid to PH&N Investment Services for the ongoing services and advice we provide to you. A short-term trading fee may be charged if you invest in units of a fund (excluding money market funds) for a period of seven days or less.

If you place trades online, by phone or by mail or fax using our standard transaction forms, any potential charges will be communicated to you before we process your transaction. However, if you place a trade using another method (e.g. by letter), it will be delayed until we contact you to ensure you understand any potential transaction charges.

2. Foreign Account Tax Compliance Act (FATCA)

FATCA is U.S. legislation that was signed into law in 2010. Its objective is to identify U.S. persons who may evade U.S. taxes by investing through foreign (non-U.S.) accounts.

FATCA will likely have no impact for most of you. However, if you are considered a U.S. person* for tax purposes, it may affect you. On July 1, 2014, the first phase of FATCA went into effect and includes new account opening procedures to identify U.S. reportable accounts. As such, clients who open a new non-registered investment account at PH&N Investment Services will be asked to identify whether they are U.S. residents for tax purposes and may need to complete an Internal Revenue Service (IRS) Form W-9, Request for Taxpayer Identification Number and Certification, to keep on file.

The second phase, which is expected to be completed between now and 2016, includes the identification and reporting of existing accounts opened prior to July 1, 2014. We will provide a further update once more details about this phase of the legislation have been announced.

If you need additional help in determining how FATCA will affect your accounts, please contact us at 1-800-661-6141 or consult a professional tax advisor. You can also find out more by referring to the April 2014 FATCA article at phn.com (*Investment Insights > Articles*).

* Under U.S. tax law, a "U.S. person" includes a U.S. citizen, U.S. resident (including a U.S. green card holder) or a person who resides in the U.S.

The (fund) facts of life: Helping you understand your investments

At PH&N Investment Services, we have long voiced our support of transparency when it comes to ensuring that our clients have a clear understanding of their investments. From quarterly publications and account statements to regulatory documents, all our clients have access to timely and valuable information to help them understand their portfolios and make informed decisions.

In recent months, a number of regulatory changes have come into force in the Canadian investment industry. In this edition of Straightforward Advice*, I'm going to explore the addition of a document called Fund Facts and what it means for you as an investor, including an overview of some of its key areas.*

The basics

Over the years, you would have received a simplified prospectus in the mail after purchasing a mutual fund through PH&N Investment Services. This document can be a bit complicated and confusing at times, with some of the key information being somewhat difficult to locate.

I'm pleased to formally introduce you to Fund Facts, a short, easy-to-read document designed to provide you with key information about a mutual fund. As of June 13, 2014, Fund Facts is being delivered to investors instead of the simplified prospectus. It highlights a number of key facts about a fund: inception date, total value, a snapshot of its investments and investment mix, risk rating, performance, costs and more.

Fund Facts is one way to help Canadians better understand their investments, as it provides important information in no more than two pages (double-sided).

Enhancing transparency and empowering investors

At PH&N Investment Services, we believe the Fund Facts document will be beneficial for Canadian investors. On a broad level, it should do a good job of replacing the magazine-sized simplified prospectus introduced by regulators. Fund Facts, also introduced by regulators, is a shorter, plain-language document that does a reasonable job of covering off information about a mutual fund, while also providing a simpler way of comparing funds when making investment decisions.

Our view at PH&N Investment Services is that investors need to be empowered to make the best choices based on their unique preferences. Fund Facts clearly states a fund's investment mandate and publishes up-to-date information about its holdings to help investors make informed decisions and select the funds that are right for them.

We always encourage our clients to learn more about their investments and Fund Facts gives clients yet one more tool – in a larger toolbox – to use. And don't forget, the simplified prospectus and Management Reports of Fund Performance are still available on phn.com if you want more detailed information about the funds we offer.

Fund Facts at-a-glance

Below is an overview of some of the key features of the Fund Facts document.

1. Quick facts

Provides basic information about the fund, including the Management Expense Ratio (MER), distributions and investment minimums.

2. What does the fund invest in?

Summarizes the fund's top 10 investments, the total number of its investments as well as the investment mix breakdown.

3. How risky is it?

Explains volatility in the context of mutual fund investing and specifies the fund's risk rating based on a scale ranging from low to high.

4. How has the fund performed?

Illustrates the calendar-year performance and annual compound return of the fund since inception or for the past 10 years – whichever is longer – including its best and worst three-month performance returns over that same time period.

5. Who is the fund for?

Outlines some of the goals and characteristics of a typical investor in the fund.

6. A word about tax

Provides basic information on the taxation of mutual funds held in registered and non-registered investment accounts, including the taxation of distributions.

7. How much does it cost?

Provides a detailed breakdown of the various fees and expenses related to buying, owning and selling the fund. These are grouped into *Sales charges*, *Fund expenses* and *Other fees*.

- ***Sales Charges***

  Funds offered by PH&N Investment Services are no load, which means you pay no sales charges if you buy, redeem or switch your units.

- ***Fund Expenses***

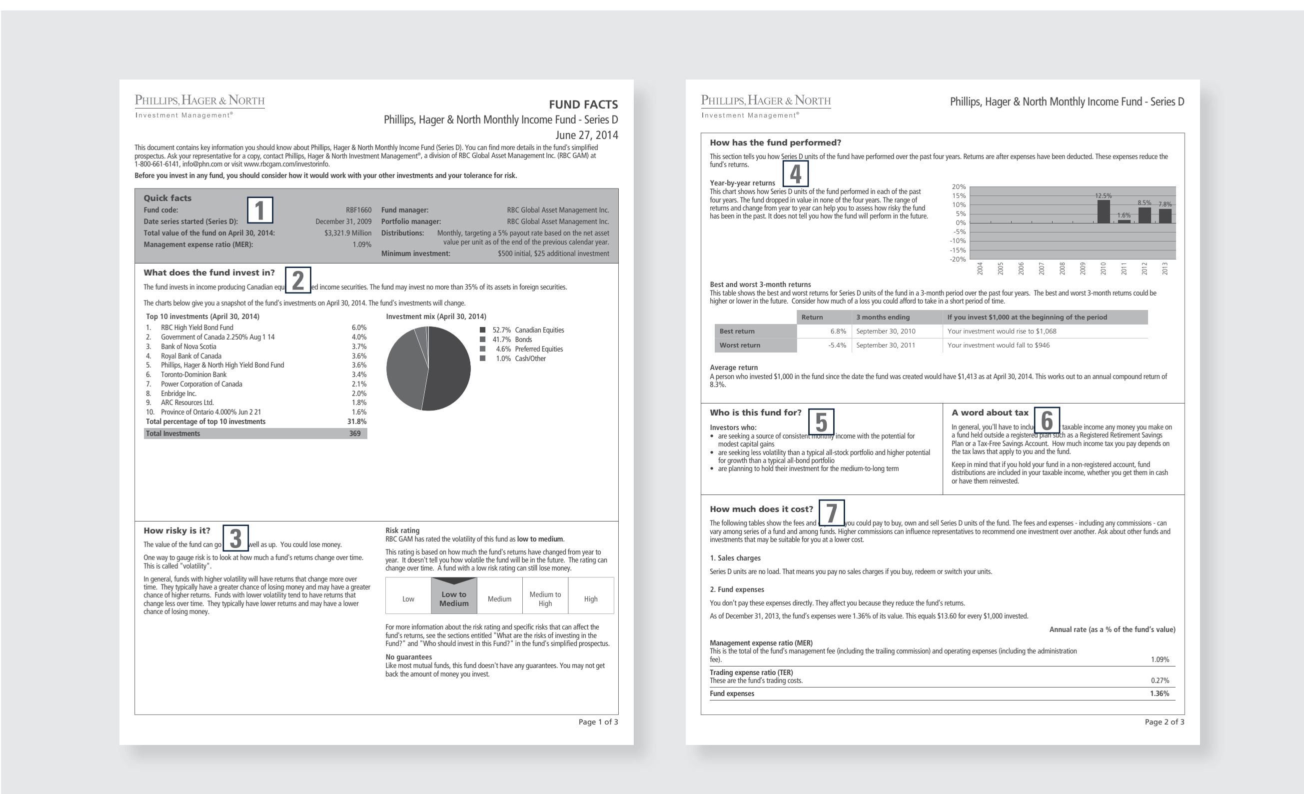
  Management Expense Ratio (MER): The MER represents the combined total of the management fee, operating expenses and taxes charged to the fund during a given year expressed as a percentage of its average assets for that year. It includes the trailing commission paid to PH&N Investment Services for the ongoing service and advice we provide to you.

  Trading Expense Ratio (TER): The TER, typically expressed as a percentage, is an additional cost outside of the MER that represents the amount of trading commissions (expenses) incurred when investments are bought and sold within a given fund. Generally, the higher a fund's TER, the more active its portfolio manager has been in a given period. Since the TER varies by fund, it is important to evaluate this cost in conjunction with a portfolio manager's investment style, track record, skill and strategy over time.

Conclusion

Our goal is for you to have a robust understanding about your investments. By highlighting important information that an investor should know when buying a mutual fund in a clear and simple way, we hope that Fund Facts is an additional tool that empowers you to read information about your funds and make an informed comparison of different solutions. If you have any questions about a fund, please don't hesitate to call our Investment Funds Advisors at 1-800-661-6141.

By Mark Neill, CFA
President, PH&N Investment Services



PHILLIPS, HAGER & NORTH
Investment Management®

FUND FACTS
Phillips, Hager & North Monthly Income Fund - Series D
June 27, 2014

This document contains key information you should know about Phillips, Hager & North Monthly Income Fund (Series D). You can find more details in the fund's simplified prospectus. Ask your representative for a copy, contact Phillips, Hager & North Investment Management®, a division of RBC Global Asset Management Inc. (RBC GAM) at 1-800-661-6141, info@phn.com or visit www.rbcgam.com/investorinfo.

Before you invest in any fund, you should consider how it would work with your other investments and your tolerance for risk.

Quick facts 1

Fund code:	RBF1660	**Fund manager:**	RBC Global Asset Management Inc.
Date series started (Series D):	December 31, 2009	**Portfolio manager:**	RBC Global Asset Management Inc.
Total value of the fund on April 30, 2014:	$3,321.9 Million	**Distributions:**	Monthly, targeting a 5% payout rate based on the net asset value per unit as of the end of the previous calendar year.
Management expense ratio (MER):	1.09%	**Minimum investment:**	$500 initial, $25 additional investment

What does the fund invest in? 2

The fund invests in income producing Canadian equ ed income securities. The fund may invest no more than 35% of its assets in foreign securities.

The charts below give you a snapshot of the fund's investments on April 30, 2014. The fund's investments will change.

Top 10 investments (April 30, 2014)

1.	RBC High Yield Bond Fund	6.0%
2.	Government of Canada 2.250% Aug 1 14	4.0%
3.	Bank of Nova Scotia	3.7%
4.	Royal Bank of Canada	3.6%
5.	Phillips, Hager & North High Yield Bond Fund	3.6%
6.	Toronto-Dominion Bank	3.4%
7.	Power Corporation of Canada	2.1%
8.	Enbridge Inc.	2.0%
9.	ARC Resources Ltd.	1.8%
10.	Province of Ontario 4.000% Jun 2 21	1.6%
Total percentage of top 10 investments		**31.8%**
Total Investments		**369**

Investment mix (April 30, 2014)

52.7% Canadian Equities
41.7% Bonds
4.6% Preferred Equities
1.0% Cash/Other

How risky is it? 3

The value of the fund can go well as up. You could lose money.

One way to gauge risk is to look at how much a fund's returns change over time. This is called "volatility".

In general, funds with higher volatility will have returns that change more over time. They typically have a greater chance of losing money and may have a greater chance of higher returns. Funds with lower volatility tend to have returns that change less over time. They typically have lower returns and may have a lower chance of losing money.

Risk rating
RBC GAM has rated the volatility of this fund as **low to medium**.

This rating is based on how much the fund's returns have changed from year to year. It doesn't tell you how volatile the fund will be in the future. The rating can change over time. A fund with a low risk rating can still lose money.

Low	**Low to Medium**	Medium	Medium to High	High

For more information about the risk rating and specific risks that can affect the fund's returns, see the sections entitled "What are the risks of investing in the Fund?" and "Who should invest in this Fund?" in the fund's simplified prospectus.

No guarantees
Like most mutual funds, this fund doesn't have any guarantees. You may not get back the amount of money you invest.

Page 1 of 3

PHILLIPS, HAGER & NORTH
Investment Management®

Phillips, Hager & North Monthly Income Fund - Series D

How has the fund performed?

This section tells you how Series D units of the fund have performed over the past four years. Returns are after expenses have been deducted. These expenses reduce the fund's returns.

Year-by-year returns 4
This chart shows how Series D units of the fund performed in each of the past four years. The fund dropped in value in none of the four years. The range of returns and change from year to year can help you to assess how risky the fund has been in the past. It does not tell you how the fund will perform in the future.

Best and worst 3-month returns
This table shows the best and worst returns for Series D units of the fund in a 3-month period over the past four years. The best and worst 3-month returns could be higher or lower in the future. Consider how much of a loss you could afford to take in a short period of time.

	Return	3 months ending	If you invest $1,000 at the beginning of the period
Best return	6.8%	September 30, 2010	Your investment would rise to $1,068
Worst return	-5.4%	September 30, 2011	Your investment would fall to $946

Average return
A person who invested $1,000 in the fund since the date the fund was created would have $1,413 as at April 30, 2014. This works out to an annual compound return of 8.3%.

Who is this fund for? 5

Investors who:
- are seeking a source of consistent monthly income with the potential for modest capital gains
- are seeking less volatility than a typical all-stock portfolio and higher potential for growth than a typical all-bond portfolio
- are planning to hold their investment for the medium-to-long term

A word about tax 6

In general, you'll have to inclu taxable income any money you make on a fund held outside a registered plan such as a Registered Retirement Savings Plan or a Tax-Free Savings Account. How much income tax you pay depends on the tax laws that apply to you and the fund.

Keep in mind that if you hold your fund in a non-registered account, fund distributions are included in your taxable income, whether you get them in cash or have them reinvested.

How much does it cost? 7

The following tables show the fees and you could pay to buy, own and sell Series D units of the fund. The fees and expenses - including any commissions - can vary among series of a fund and among funds. Higher commissions can influence representatives to recommend one investment over another. Ask about other funds and investments that may be suitable for you at a lower cost.

1. Sales charges

Series D units are no load. That means you pay no sales charges if you buy, redeem or switch your units.

2. Fund expenses

You don't pay these expenses directly. They affect you because they reduce the fund's returns.

As of December 31, 2013, the fund's expenses were 1.36% of its value. This equals $13.60 for every $1,000 invested.

	Annual rate (as a % of the fund's value)
Management expense ratio (MER) This is the total of the fund's management fee (including the trailing commission) and operating expenses (including the administration fee).	1.09%
Trading expense ratio (TER) These are the fund's trading costs.	0.27%
Fund expenses	**1.36%**

Page 2 of 3

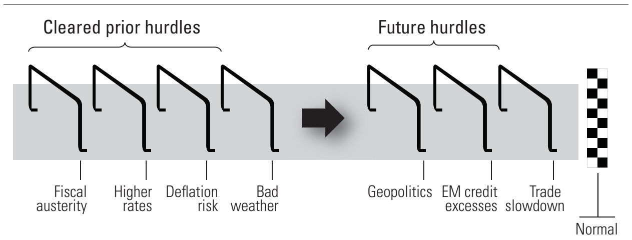
Green shoots versus grey clouds

The U.S. economy stumbled at the outset of 2014, suffering an unwelcome drop in first-quarter economic output. Bond yields reversed course and moved lower, vexed by this economic weakness in combination with geopolitical concerns and pension fund rebalancing. Stock indexes mostly managed to continue trending higher, but with far less enthusiasm than in 2013, and with significant internal recalibration across sectors, geographies and styles.

The market is grappling with two root questions. The first is whether the recent economic weakness will persist. We believe the answer is "no," and can already see green shoots emerging from the spring economic data. Indeed, our key economic theme remains that of accelerating growth in 2014 for much of the developed world.

The second question is whether the market has underestimated the scale of dark grey clouds hanging over the global economy (Exhibit 1). Alas, this may be the case. While some risks have helpfully faded, such as the threat of deflation and the effects of bad weather, others have intensified or are newly arrived. Geopolitical risks have mounted, most obviously as the struggle for eastern Ukraine drags on and given a swirling political landscape in Iraq. Emerging-market credit excesses remain largely unaddressed, with tentative evidence of a reckoning underway in Chinese housing. The mystery of subdued global trade constitutes a new risk, hinting that all is not harmonious in the global economy.

Exhibit 1: Hurdles on way to economic normalization



Source: RBC Global Asset Management

In the end, our sense is that the coming economic good news for the developed world is more likely than not to trump the downside risks. But this is not something that can be avowed with pinpoint certainty given the slippery nature of risks, and our conviction in this cheery view is somewhat diminished relative to prior quarters. Emerging-market growth may continue to decelerate, though these countries will continue to outpace more advanced nations on an absolute basis. As equities reach fair value, returns may be constrained to the pace of earnings growth. Bond yields remain too low, but the pace at which they rise may be limited by a U.S. housing market that appears unusually sensitive to borrowing costs.

Rotten start

Starting the year with the thud of the worst single quarter of U.S. economic activity since 2011 demands an answer as to whether the weakness is temporary, or due to a more persistent (and thus problematic) antagonist. Fortunately, the bulk of the weakness appears to be temporary, with almost half due to unusually bad winter weather, and another significant chunk due to one-off factors such as a temporary swoon in inventories and exports. Global purchasing manager indexes acknowledge the recent economic lull, but to a lesser degree: 62% of the 37 surveyed countries experienced some degradation in their activity over the past three months, but the large majority remain in expansion territory.

Green shoots

Fortunately, an economic rebound is now underway. Our proxy for monthly U.S. GDP growth has already revived to normal levels. The U.S. surprise index has suddenly rebounded from a deeply negative figure to a slightly positive one. More generally, as we evaluate the recent economic trajectory and contemplate the major forces set to bear on the coming quarters, it seems clear that there was an unusually large number of headwinds at work over the past several quarters. Going forward, there appear to be fewer drags and more tailwinds.

Recession risk is low, but resilience poor

Nevertheless, there is a natural inclination when confronted with even a single rogue quarter of economic contraction to fret about the possibility of a brewing recession. Fortunately, this risk appears fairly low. Our U.S. recession model identifies just an 11% risk of recession over the coming year. Qualitatively, the risk of a recession also feels low (Exhibit 2). A business-cycle correction is unlikely since variables such as unemployment, spending and capacity utilization haven't yet reclaimed normal levels, let alone heady readings. The risk of a balance-sheet recession also seems low since private-sector excesses were largely resolved by the global financial crisis.

Exhibit 2: Recession likelihood gauge

Recession likelihood: LOW	
Recession type	Risk
Business cycle	Low
Balance sheet	Low
Headwind	Medium
Shock	Unknown

Source: RBC Global Asset Management

Normalization unbowed

At the broadest level, we continue to subscribe to an economic-normalization thesis, with the revival of risk appetite in 2013 and the abatement of fiscal austerity in 2014 enabling materially faster growth for the rest of this year and beyond. A pattern of structural reforms in the likes of southern Europe, China, Japan, Mexico and tantalizingly – India, with newly elected reformer Narendra Modi – should eventually unlock additional economic growth.

The mystery of weak global trade

Global trade normally expands twice as quickly as the global economy. However, that pattern has lately broken down, with trade merely rising in line with global growth (Exhibit 3). Leading indicators suggest that trade should have accelerated many months ago.

What has gone wrong? We have not yet arrived at a clear conclusion, but there are several vying possibilities:

- Slower emerging-market growth may have dampened trade activity.
- Alternately, emerging markets may simply have saturated the global market due to prior rapid export growth.
- Geopolitical tensions may be snarling trade between China and Japan, Russia and the EU, and across other geopolitical hotspots.
- Greater competitiveness parity may be reducing the need for trade (as Chinese wages have risen and developed-world wages stagnated).
- Non-price trade barriers may be rising.
- Diminished current-account imbalances may be reducing the world's reliance on external production and financing.

Our working assumption is that trade will shortly begin to revive, but not all the way back to its prior habit of economic growth rate.

Exhibit 3: Trade should be growing faster

Source: OECD, Haver Analytics, RBC Global Asset Management

Sluggish emerging-market growth

Emergent markets have suffered decelerating growth over the past few years, with accompanying sovereign-debt downgrades. A central question is whose fault this weakness is. It has been a popular theme among emerging-market politicians to blame the developed world for the emerging-market slowdown, with U.S. Federal Reserve ("Fed") tapering of bond purchases among the main scapegoats. But this attribution isn't entirely fair. Higher interest rates and capital outflows are only laying bare domestic weaknesses that would have surfaced even earlier had the Fed never delivered the stimulus in the first place. It is unclear whether emerging-market countries are suffering from weaker global trade or have induced it via their own slow growth. The answer is probably a bit of both.

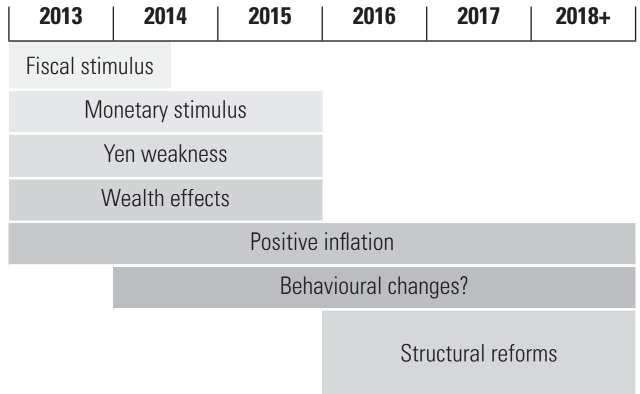
U.S. housing delayed

The general trend in the U.S. housing market has been quite poor for many months. Much of the weakness can be traced back to last year's rise in interest rates and the poor weather of early 2014. But these two effects should have faded by now, given the recent retreat of borrowing costs and nascent economic recovery. Alas, there continue to be two additional impediments to traditional home purchases by buyers who take out plain-vanilla mortgages and live in their homes, rather than the foreigners, investors and cash buyers who currently account for an exceptionally large number of purchases. The first obstruction is the availability of credit. This is starting to improve, but is still unusually tight, whether measured via lending surveys or FICO scores. The second barrier is insufficient household formation, which recently reversed course after trending nicely higher for several years. It isn't clear whether this is simply a reaction to the limited availability of homes, or the product of some other unidentified impediment. We suspect the former, and as such it should resolve itself over time.

Timing Japanese reforms

In marked contrast to the U.S., the Japanese economy surged in early 2014. Alas, much of it was for artificial reasons. While large doses of fiscal and monetary stimulus have proven economically helpful for Japan since late 2012, the latest uptick is largely the result of consumers front-running a large sales-tax hike that took place in April. The counterpoint is that Japanese second-quarter GDP is almost certain to decline as this behaviour is unwound, though initial estimates indicate the recoil has been less severe than after the last round of sales-tax hikes in the late 1990s. The important question is whether Japan can sustain its return to solid growth over the next few years. There are some tentatively positive signs, including improved growth in bank credit and rising wages. But it is clear the economy is no longer accelerating, and some of the stimulus that previously bolstered output is now beginning to fade (such as fiscal stimulus). Other supports, such as monetary stimulus, yen weakness and the effect of rising stock markets on consumer spending are still active, but nevertheless temporary. For Japan's economic renaissance to persist, new supports need to snap into place (Exhibit 4).

Exhibit 4: Japan growth drivers



Source: RBC Global Asset Management

Canadian resilience to be tested

The Canadian economy remains stubbornly resilient, and in contrast to the U.S., Canadian first-quarter growth remained modestly positive. Despite this backdrop, we remain cautious on the Canadian economic outlook. This is in part because we detect a certain flimsiness in recent numbers. One need only look at the labour market to see a trend that lags well behind the U.S., for instance. The caution also relates to a vulnerable housing market, with affordability that will deteriorate when mortgage rates move higher, and too many condominiums presently under construction. Indeed, given that roughly half of Canadian condo buyers are said to be investors, a recent CMHC move to limit the leverage of speculators could be quite consequential. Additionally, the outlook for capital investment is constrained by a chill on capital expenditures among global resource companies. In contrast, the prospects for exports should be significantly better as the U.S. economy strengthens and the Canadian dollar softens. In this mixed environment, the Bank of Canada appears to be comfortably on hold, and unlikely to raise the overnight rate over the coming year.

By Eric Lascelles
Chief Economist, RBC Global Asset Management

Here come the drones

One of the most interesting aspects of this age of rapid technological development is not necessarily the technology itself, but the new and unexpected ways in which it is used. This is especially true for the developing technology of unmanned aerial vehicles, more commonly referred to as drones. We hear a lot about the use of drones – be it a targeted strike by a military drone in a distant country, a drone flying in path of landing planes at Vancouver's airport, or Amazon's plans to deliver the latest bestseller direct to your door using a fleet of delivery drones.

Regulations are starting to catch up with the industry's technological developments, setting the stage for explosive growth in a wide range of areas. This growth represents huge opportunities and benefits, but it also brings a range of risks. In this article, we will explore what some of those risks are and how they can be addressed within a responsible investment portfolio such as PH&N Community Values Funds and RBC Jantzi Funds.

What are drones?

Drones are remote-controlled or autonomous unmanned aerial vehicles (UAVs). In effect, "drone" is a catch-all term that refers to any vehicle operated in the air without a person on board to control it – and it can vary in size, shape, form, speed and a whole host of other attributes. While we most commonly associate the use of drones with military applications, they are increasingly being used for a variety of civilian uses. Drones are used in law enforcement and search and rescue; in the agriculture, real estate, forestry, mining, oil & gas and security industries; and, increasingly, by individuals.

There are generally four types of drones:

1. **Fixed-wing aircraft:** Include most of the military drones, such as the U.S. military Predator and Reaper type drones.
2. **Micro-UAVs:** Often referred to as the "backpack" type craft and include the mini helicopters that are common. They are cheap and portable, and designed to be operated by a single person.
3. **Biomimetic UAVs:** Imitate animals or insects in their structure and operation.
4. **Blimps and balloons:** You might see these at a sporting event. Google is currently looking at the feasibility of using a network of balloons to provide internet services to remote areas.

Just as important as the type of drone is the type of payload it carries. Cameras are the most common, which can include high-powered ones that range from visible light to thermal and infrared (i.e. night vision) to ultraviolet and multispectral. Other payloads might include various radar capabilities and weapon systems.

Drone regulation

In Canada and the U.S., there are two different regulatory approaches. In the U.S., unmanned aircraft can only be used in a non-commercial capacity; for example, by law enforcement, search and rescue, and border patrol. The Federal Aviation Administration (FAA), which regulates the use of non-military airspace in the U.S., is currently working on a regulatory framework for commercial drones.

This is in contrast with the Canadian regulations, which have been in place for a number of years. In Canada, drone use is regulated by Transport Canada and anyone wanting to operate one for commercial purposes needs to apply for a Special Flight Operations Certificate, which entails detailing the flight's time, date and area.

The greatest restriction in Canada and in the proposed U.S. regulations is that the drone must be within the operator's sight, which is required to avoid collisions. Sense-and-avoid technology is being developed that will facilitate beyond line-of-sight operations by commercial drones.

Risks for investors

Military drones

The risks associated with military drones are not particularly relevant to responsible portfolios such as PH&N Community Values Funds and RBC Jantzi Funds, as the funds do not invest in military and non-military weapons makers. However, it is worth noting two significant concerns with how military drones are used. First is the issue of targeted killings in non-conflict zones. Over recent years, the U.S. has targeted drone strikes in non-conflict zones such as Pakistan, Somalia and Yemen, and by some estimates has inflicted almost 5,000[1] casualties from these strikes. The rules of engagement and international law treat the lethal use of force in war zones versus non-conflict areas very differently. Generally, these targeted strikes are viewed as a violation of human rights. The United Nations (UN) along with non-governmental organizations and other governments have expressed opposition to the lethal use of drones in non-conflict zones.

The second issue is lethal autonomous weapons systems or sometimes referred to as killer robots.[2] While this may sound like something from a *Star Trek* episode, it is close to becoming a reality. The U.S. is developing an autonomous drone fleet that may be operational by as early as 2019. Once deployed, these fully autonomous drones would identify and fire on targets without human control or intervention. The UN produced a report in 2013 about the legal and ethical implications of the use of such weapons and is continuing to work on the issue through its various agencies and conventions.

Security

Drones are currently being used by law enforcement in a variety of capacities, including surveillance, traffic control, and search and rescue. These drones are also being used by industries such as mining and oil & gas. There are obvious advantages in these industries, as companies tend to have remote properties where security can be difficult and costly. However, there are a number of companies that may have difficult relations with local communities or its labour force where security has become a significant issue. It was recently[3] announced by a South African drone maker that it had developed a riot control helicopter that was capable of firing pepper spray bullets and blinding lasers, and could record and identify individuals in a crowd.

How and where companies use drones for security purposes can create real risks that can lead to an impact on a company's reputation and leave it open to potential litigation and criminal prosecution. We would expect any company using such technology to develop robust policies and procedures to ensure that drones are used appropriately and that the rights of workers and communities are respected.

Privacy

Privacy considerations are perhaps the greatest area of concern and uncertainty with respect to drone use. In Canada, drone use is regulated under an aviation framework that is primarily concerned with safety. The Office of the Privacy Commissioner of Canada issued a report[4] in 2013 that looked at the privacy implications of drone use. Essentially, drones equipped with an array of sophisticated technology will magnify the capacity to observe and record. This capacity is not only available to governments, but also to businesses and individuals. While Canadian privacy legislation does apply to drone use, we may need additional policies to ensure that privacy is respected. Currently, the federal government is developing additional regulations on how drones can be used in Canada,[5] but unfortunately privacy does not appear to be a significant consideration.

As investors, what we expect to see from companies using drones is that the privacy rights of individuals are respected and that any data collected is stored, secured and used in a way that is consistent with the requirements of privacy legislation. As with security issues, there is the real potential for reputational and financial consequences for companies that do not manage privacy risks.

Expectations of responsible investors

Drones represent a huge potential for businesses, be it through efficiency, safety or new products and services. Along with these opportunities come risks associated with how drones are used and for what purpose. As with other environmental, social, and governance risks, as responsible investors, we expect that the companies we invest in identify the risks of drone use, implement policies and procedures that address those risks, and ensure that their actions are consistent with those policies and procedures.

---

[1] Sustainalytics, *Drones & Human Rights: Emerging Issues for Investors*, May 2014.

[2] *The Globe & Mail*, "Death by Software, Drones on Autopilot," April 30, 2014.

[3] BBC News, *African Firm is Selling Pepper-Spray Bullet Firing Drones*, June 18, 2014.

[4] OPC Research Reports, *Drones in Canada: will the proliferation of domestic drone use in Canada raise new concerns for privacy?*, March 2013.

[5] *Ottawa Citizen*, "Canada Needs Privacy Rules for Drones," April 6, 2014.

Fixed Income

This quarter, bond markets once again defied expectations, driving home the message that interest rates do not have to do what everybody thinks they should. In this case, most believe that interest rates must go up, as they seemingly have nowhere else to go. That mantra, which was very ingrained in bond markets over 2013, has certainly not applied so far in 2014.

There are a number of reasons for this and whether that mantra is permanently broken or simply on hold. Coming into the year, things were looking up: the labour market was improving, the U.S. Federal Reserve (Fed) had started the long-anticipated tapering of its quantitative easing (QE) program and all was (relatively) quiet on the political front. Interest rates, although up from all-time lows reached last year, were still very low compared to the previous 40 years. The market was primed for continuing economic expansion and rising interest rates. This view, as it turns out, was already fully reflected in bond yields. So when the first quarter experienced weather-related economic hiccups and the second quarter, while by no means horrendous, underwhelmed the market's lofty expectations, bond yields had to reverse somewhat. So, interest rates fell and bonds performed well, as they tend to do in such environments.

What about going forward? Specifically, do interest rates still have nowhere to go but up? First, if there is one lesson we should be reminded of this year (and countless times previously), it is that there are no certainties in financial markets. There are three directions rates could go from here – up, down or sideways. Most pundits are currently only ascribing to the first. But it is important to consider all three and then consider the probability of each.

On the surface, the overall market and economic environment is supportive of rising rates. While economic growth forecasts have been pared back by major central banks, expectations are still positive. The Fed's tapering plans are on track to end QE this fall. Their next step after that, likely sometime in 2015, is to start increasing the federal funds rate. Other central banks, including Canada's, will likely follow. We will assign that as the base case and the most likely scenario. However, it is important to consider the risks to this scenario. Political tensions have flared in Ukraine and Iraq; the European Central Bank, concerned about low inflation, recently reduced rates to below zero (i.e. European banks have to pay money to keep deposits there); and China's growth and Canadian housing markets all carry risks. A deterioration in any one or combination of these events has the ability to send rates sideways or lower for a period of time – and that should not be forgotten. Likewise, even if none of the risky events materialize, there is the possibility that bond yields have already fully priced in the current pace of growth, the end of QE and the eventual central bank rate hikes.

So, interest rates do have somewhere to go other than up. Although we believe upwards is the most likely scenario (eventually), the magnitude and precise timing is inherently difficult to pinpoint. And, most importantly, we should not ignore the two other possibilities of rates moving sideways or down.

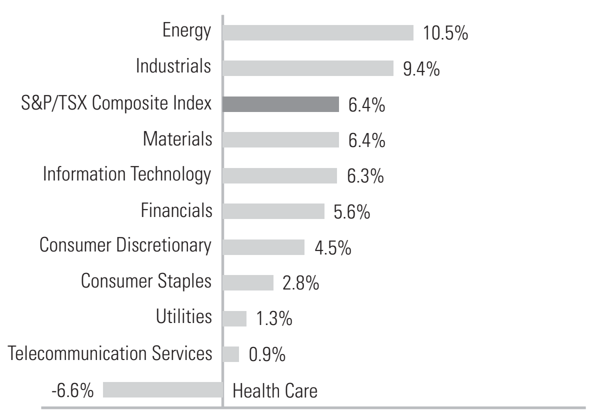
Asset Class Commentary

Canadian Equity

The Canadian stock market, as measured by the S&P/TSX Composite Index, rose 6.4% in the second quarter and 28.7% over the past year, continuing its strong trend from last year. Much of the gain in the S&P/TSX was driven by the banks and the Energy sector. The Energy sector was led by Encana due to persistent strength in natural gas and a successful initial public offering of the company's Prairie Sky Royalty business. Banks reported strong earnings, driven by the positive effect of low credit losses. Bank of Nova Scotia performed particularly well, as investors focused on the potential of better earnings growth in its international division in the second half of the year and in 2015. The Health Care sector was the worst-performing sector in the second quarter, dropping 7% due to weakness in Valeant Pharmaceuticals. Gold stocks have enjoyed a second solid quarter of returns after a terrible 2013.

Sector performance of S&P/TSX Composite Index

Three months ended June 30, 2014



Source: TD Newcrest

We continue to believe that the pace of economic expansion in Canada will be slower than in the U.S. We see U.S. growth of 3.25% in 2015, versus 2.25% in Canada. The Bank of Canada will likely remain relatively accommodative, which could pressure the Canadian dollar. Furthermore, we believe that a weaker domestic economy means that the Bank of Canada will be less inclined than the U.S. Federal Reserve to raise short-term interest rates, also leading to downward pressure on the Canadian dollar – a particularly effective tool for spurring economic growth in Canada.

Earnings estimates for the S&P/TSX in 2014 currently sit at about $950, leaving the index at about 15.5 times earnings. S&P/TSX earnings haven't returned to the levels seen in 2001, let alone through old highs, as they have for the S&P 500. Nevertheless, after little earnings growth at the Canadian index level in the past two years, we look for a meaningful acceleration driven by the steady growth of non-commodity-related companies and new contributions from the Energy sector. At current market valuations, we expect total returns to investors to be lower, although still positive. Volatility has so far remained low and continues to fall. Further sustainable gains will likely be more limited and will have to come from earnings growth.

U.S. Equity

This quarter, the U.S. market performed strongly – the sixth quarter in a row of positive returns – and continues to ascend to new all-time highs. This quarter, the S&P 500 Index returned 5.2% in U.S. dollar terms and 1.5% in Canadian dollar terms. The relative strength in the Canadian dollar detracted from returns over the quarter.

The leading sectors were Energy, Utilities (as was the case last quarter) and Information Technology, while the lagging sectors were Financials and Consumer Discretionary. In fact, outside of the returns from Energy stocks, most of the sector returns were remarkably similar.

The direction of interest rates continues to shape the market's returns. So far in 2014, rates have fallen from their year-end levels, providing persistent support for the Utilities sector and generating headwinds for the Financials sector. The Consumer Discretionary group continues to be weak, led by disappointing returns from retailers.

The U.S. market continues to advance at a strong pace, shrugging off both global and domestic concerns. Military unrest in Ukraine, Syria and Iraq continues and could be accelerating. Within the U.S., the surprisingly weak economic figures for the first quarter (-2.9% GDP) would usually be some cause for concern, but have been explained (or excused) by challenging winter weather.

Through all of this, the Chicago Board Options Exchange Volatility Index (VIX), which is a gauge of fear in the market, is trading near seven-year lows, reflecting a benign view of the events that surround the stock market's gains. In the chart below, we take a different look at the S&P 500, examining the profile of the quarterly returns of the sectors within the market going back nearly 20 years.

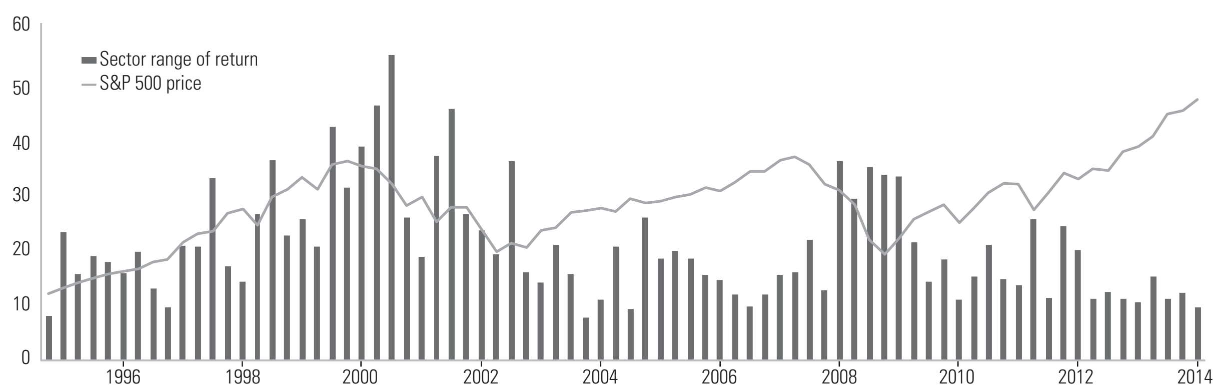
The chart below outlines the difference between the returns from the best and worst sectors in a given quarter. A high level of difference, as seen in the period from 1998 to 2002, reflects elevated variability in sector returns. In that period, the Information Technology sector was either the leader (1998–1999) or the laggard (2000–2002). Similarly, the credit crisis of 2008–2009 displayed substantial return differences among sectors.

Currently, the sector returns are relatively indistinguishable; combined with the low level of "fear," as implied by the VIX, we conclude that investors are largely complacent. We believe that while recent sector returns are undifferentiated, the opportunities among the sectors remain well defined.

Two sectors that stand out to us are the attractively valued Financials and Energy. The Financials sector has lagged the market since the crisis and offers good investment potential as the U.S. economy continues to mend. The Energy sector offers compelling growth opportunities, particularly in North America where the full potential of enhanced oil recovery has not yet been realized.

Examining the impact of volatility on market returns

Differences between returns of best and worst sectors on a quarterly basis



Overseas Equity

This quarter, markets appreciated despite geopolitical risk from Russia and an escalation of violence in Iraq. Energy prices increased, but overall inflation stayed muted. The European Central Bank reduced interest rates to a record low as it did not want to interrupt the early signs of recovery in this region. In general, balance sheets of banks and companies have improved substantially and we have seen an increase in dividends.

As oil prices rose in response to the turmoil in Iraq, the Energy sector became the best-performing sector. Other sectors that performed well were defensive in nature and included Consumer Staples, Health Care and Utilities. The worst-performing sectors were Information Technology, Financials and Industrials.

MSCI EAFE sector performance (Canadian dollars)

Sector	Second quarter return (%)
Energy	6.3
Consumer Staples	1.4
Health Care	1.3
Utilities	1.2
Materials	-1.0
Consumer Discretionary	-1.3
Telecommunication Services	-1.8
Industrials	-2.1
Financials	-2.2
Information Technology	-3.2

Source: Bloomberg As of June 30, 2014

By region, Europe performed in line with Japan, but the returns for Canadian investors were quite different after currency movements. This quarter, the euro declined by 4% relative to the Canadian dollar. Typically, when oil prices are strong, the Canadian currency tends to do well. In addition, lower interest rates in Europe contributed to a weaker euro.

Second quarter currency change against the Canadian dollar

Currency impact	Change (%)
British pound	-0.9
Brazilian real	-0.9
Japanese yen	-1.6
Australian dollar	-1.7
U.S. dollar	-3.4
Swiss franc	-3.7
Euro	-4.0
Norwegian krone	-5.7
Swedish krona	-6.5

Source: Bloomberg As of June 30, 2014

The performance of emerging markets also improved this quarter. In particular, Brazil performed strongly as current President Dilma Rousseff has been polling poorly. Rousseff has not been pro-business, so her declining popularity before the upcoming election has actually been helpful for the Brazilian market.

Second quarter market performance

Market	Local currency (%)	Canadian dollars (%)
Brazil	5.5	4.5
Spain	5.6	1.4
UK	2.2	1.4
Hong Kong	4.7	1.2
Japan	2.3	0.6
Germany	2.9	-1.2
Australia	0.0	-1.7
Switzerland	1.2	-2.5
France	0.7	-3.3
Italy	-1.9	-5.8

Source: Bloomberg As of June 30, 2014

In summary, with interest rates at record lows, investors are struggling to gain sufficient returns from holding bonds. As a result, stocks continue to be an alternative for many investors and markets have continued to move upwards.

PH&N Funds

Annualized rates of return (%) for periods ended June 30, 2014[2]

Series D	MER (%)[1]	3 mo[2]	Year to date	1 yr	3 yrs	5 yrs	10 yrs	Since inception	Inception date
PH&N Canadian Money Market Fund	0.57	0.16	0.33	0.67	0.66	0.54	1.74	4.43	Jul 1986
FTSE TMX Canada 30 Day T-Bill Index	—	*0.23*	*0.43*	*0.94*	*0.91*	*0.74*	*1.84*	—	
PH&N $U.S. Money Market Fund[3]	0.11	0.03	0.07	0.14	0.15	0.14	1.60	2.91	Nov 1990
Citigroup 30-Day T-Bill Index	—	*0.01*	*0.01*	*0.03*	*0.04*	*0.06*	*1.46*	—	
PH&N Short Term Bond & Mortgage Fund	0.60	0.6	1.8	3.1	2.5	3.1	3.7	5.0	Dec 1993
FTSE TMX Canada Short Term Overall Bond Index	—	*0.7*	*1.7*	*3.2*	*2.8*	*3.2*	*4.1*	—	
PH&N Bond Fund	0.60	1.9	4.8	5.2	4.4	5.2	5.3	8.8	Dec 1970
PH&N Total Return Bond Fund[4]	0.59	1.9	4.9	5.5	4.6	5.3	5.3	5.9	Jul 2000
PH&N High Yield Bond Fund[4, 5]	0.87	1.6	4.3	8.4	7.2	8.5	7.6	8.3	Jul 2000
PH&N Community Values Bond Fund	0.60	1.9	4.8	5.2	4.3	5.0	5.1	5.1	Sep 2002
FTSE TMX Canada Universe Bond Index	—	*2.0*	*4.8*	*5.3*	*4.8*	*5.2*	*5.5*	—	
PH&N Inflation-Linked Bond Fund	0.55	4.3	10.8	7.8	3.0	6.4	—	6.4	Jun 2009
FTSE TMX Canada Real Return Bond Index	—	*4.3*	*10.7*	*8.1*	*3.9*	*7.0*	—	—	
PH&N Monthly Income Fund	1.08	4.4	8.6	15.9	7.6	—	—	8.6	Dec 2009
PH&N MIF Benchmark[6]	—	*4.3*	*9.0*	*16.9*	*6.7*	—	—	—	
PH&N Balanced Fund	0.88	2.8	7.6	18.4	8.0	8.5	5.5	7.2	Sep 1991
PH&N Community Values Balanced Fund	1.03	2.7	7.4	18.5	8.1	8.3	5.3	6.4	Sep 2002
PH&N Balanced Benchmark[7]	—	*3.2*	*7.7*	*17.8*	*8.5*	*9.1*	*6.6*	—	
BonaVista Global Balanced Fund	1.22	2.8	7.2	20.2	8.3	8.9	—	5.3	Jun 2006
BV GBF Benchmark[8]	—	*3.3*	*7.9*	*17.1*	*8.2*	*9.0*	—	—	
PH&N LifeTime 2015 Fund	0.96	2.4	7.5	13.1	7.5	—	—	7.5	Jun 2011
PH&N LifeTime 2015 Benchmark[9]	—	*2.9*	*8.2*	*14.1*	*8.0*	—	—	—	
PH&N LifeTime 2020 Fund	1.02	2.6	8.7	14.7	8.2	—	—	8.2	Jun 2011
PH&N LifeTime 2020 Benchmark[10]	—	*3.0*	*8.7*	*15.2*	*8.7*	—	—	—	
PH&N LifeTime 2025 Fund	1.08	2.9	9.6	15.6	8.3	—	—	8.3	Jun 2011
PH&N LifeTime 2025 Benchmark[11]	—	*3.2*	*9.3*	*16.0*	*8.8*	—	—	—	
PH&N LifeTime 2030 Fund	1.12	2.8	9.5	16.0	8.3	—	—	8.3	Jun 2011
PH&N LifeTime 2030 Benchmark[12]	—	*3.2*	*9.3*	*16.4*	*8.9*	—	—	—	
PH&N LifeTime 2035 Fund	1.19	2.7	9.1	17.1	8.9	—	—	8.9	Jun 2011
PH&N LifeTime 2035 Benchmark[13]	—	*3.1*	*9.2*	*17.8*	*9.7*	—	—	—	
PH&N LifeTime 2040 Fund	1.26	2.5	8.8	18.4	9.2	—	—	9.2	Jun 2011
PH&N LifeTime 2040 Benchmark[14]	—	*3.0*	*9.1*	*19.4*	*10.1*	—	—	—	
PH&N LifeTime 2045 Fund	1.31	2.3	8.2	19.9	10.1	—	—	10.1	Jun 2011
PH&N LifeTime 2045 Benchmark[15]	—	*2.8*	*8.9*	*21.3*	*11.3*	—	—	—	
PH&N Canadian Income Fund[4]	1.19	6.8	12.5	26.6	10.8	15.7	—	7.8	Jun 2005
PH&N CIF Benchmark[16]	—	*6.1*	*11.6*	*28.2*	*10.6*	*14.0*	—	—	
PH&N Dividend Income Fund	1.16	5.9	10.7	25.2	10.3	12.0	6.9	11.3	Jun 1977
PH&N Canadian Equity Fund	1.15	6.1	12.4	30.0	8.6	10.2	7.2	10.8	Jun 1971
PH&N Canadian Equity Value Fund	1.19	6.3	11.6	26.6	9.9	—	—	10.8	Dec 2009
BonaVista Canadian Equity Value Fund	1.19	5.4	10.5	32.6	10.1	12.1	—	6.0	Jun 2006
PH&N Community Values Canadian Equity Fund	1.20	6.0	11.6	29.6	9.6	10.6	7.8	9.9	Sep 2002
PH&N Canadian Growth Fund	1.19	7.2	13.2	28.2	7.0	10.7	4.5	6.8	Feb 1987
PH&N Vintage Fund	1.45	4.9	13.1	35.2	13.1	13.6	4.6	8.9	Apr 1986
S&P/TSX Capped Composite Total Return Index	—	*6.4*	*12.9*	*28.7*	*7.6*	*11.0*	*8.8*	—	
PH&N U.S. Dividend Income Fund[4]	1.19	0.0	6.3	22.8	18.6	14.1	2.5	2.7	Jul 2002
PH&N U.S. Equity Fund	1.18	0.0	7.5	24.5	18.0	13.9	2.3	9.1	Sep 1964
PH&N U.S. Growth Fund	1.18	0.5	6.7	25.4	17.4	13.4	3.7	4.6	Sep 1992
S&P 500 Total Return Index (C$)	—	*1.5*	*7.6*	*26.4*	*20.6*	*16.8*	*5.4*	—	
PH&N Currency-Hedged U.S. Equity Fund	1.21	3.8	7.3	23.6	14.4	15.5	—	3.9	Jun 2006
S&P 500 Total Return Index (CAD Hedged)	—	*5.4*	*7.3*	*25.2*	*16.8*	*18.5*	—	—	
PH&N U.S. Multi-Style All-Cap Equity Fund	1.17	0.4	6.3	24.1	16.8	—	—	16.9	Jun 2010
Russell 3000 Total Return Index (C$)	—	*1.2*	*7.4*	*27.0*	*20.4*	—	—	—	
PH&N Overseas Equity Fund	1.34	-0.3	3.9	25.6	7.3	7.2	2.6	-0.2	Dec 2000
MSCI EAFE Total Return Net Index (C$)	—	*0.4*	*5.0*	*24.8*	*11.6*	*9.8*	*4.5*	—	
PH&N Currency-Hedged Overseas Equity Fund	1.44	2.8	2.4	19.2	5.6	8.4	—	1.2	Jun 2006
MSCI EAFE Total Return Net Index (CAD Hedged)	—	*3.5*	*3.3*	*18.4*	*10.7*	*10.9*	—	—	
PH&N Global Equity Fund[4]	1.23	0.0	6.0	25.3	12.8	10.9	2.1	-1.0	Dec 2000
PH&N Community Values Global Equity Fund	1.24	0.2	6.7	27.6	12.8	10.9	2.0	3.1	Sep 2002
MSCI World Ex-Canada Total Return Net Index (C$)	—	*1.0*	*6.2*	*25.1*	*16.0*	*13.2*	*4.8*	—	

Footnotes and disclosures can be found in the Reference section at the back of this report.

PH&N Funds *(cont.)*

Rates of return (%) for calendar years[2]

Series D	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
PH&N Canadian Money Market Fund	0.67	0.66	0.63	0.35	0.62	3.22	4.19	3.64	2.26	1.84
FTSE TMX Canada 30 Day T-Bill Index	*0.96*	*0.91*	*0.90*	*0.43*	*0.36*	*2.56*	*4.27*	*3.93*	*2.57*	*2.24*
PH&N $U.S. Money Market Fund[3]	0.17	0.17	0.11	0.10	0.39	2.49	4.77	4.59	2.76	0.80
Citigroup 30-Day T-Bill Index	*0.03*	*0.05*	*0.05*	*0.12*	*0.09*	*1.34*	*4.56*	*4.75*	*2.93*	*1.21*
PH&N Short Term Bond & Mortgage Fund	1.5	2.1	3.6	3.4	7.5	5.0	2.9	4.0	2.1	4.7
FTSE TMX Canada Short Term Overall Bond Index	*1.7*	*2.0*	*4.7*	*3.6*	*4.5*	*8.6*	*4.1*	*4.0*	*2.4*	*5.1*
PH&N Bond Fund	-1.3	3.4	8.3	6.9	9.6	3.2	2.6	3.8	6.4	6.7
PH&N Total Return Bond Fund[4]	-0.9	3.9	8.1	6.5	11.2	0.9	3.0	3.9	6.5	6.9
PH&N High Yield Bond Fund[4, 5]	5.1	10.6	4.9	10.6	17.3	1.3	3.8	8.1	5.4	9.0
PH&N Community Values Bond Fund	-1.3	3.3	8.2	6.6	8.7	3.5	2.4	3.6	6.2	6.4
FTSE TMX Canada Universe Bond Index	*-1.2*	*3.6*	*9.7*	*6.7*	*5.4*	*6.4*	*3.7*	*4.1*	*6.5*	*7.1*
PH&N Inflation-Linked Bond Fund	-14.2	2.5	17.1	10.7	—	—	—	—	—	—
FTSE TMX Canada Real Return Bond Index	*-13.1*	*2.9*	*18.3*	*11.1*	—	—	—	—	—	—
PH&N Monthly Income Fund	7.8	8.5	1.6	12.5	—	—	—	—	—	—
PH&N MIF Benchmark[6]	*6.4*	*6.8*	*-0.5*	*13.9*	—	—	—	—	—	—
PH&N Balanced Fund	13.7	7.9	-3.6	8.6	19.3	-18.2	-0.5	11.5	9.1	9.2
PH&N Community Values Balanced Fund	14.2	7.9	-3.2	7.8	19.2	-17.7	-1.5	11.0	9.4	7.4
PH&N Balanced Benchmark[7]	*12.5*	*7.2*	*-0.4*	*10.2*	*16.3*	*-16.8*	*3.0*	*12.6*	*12.3*	*9.3*
BonaVista Global Balanced Fund	15.7	9.8	-6.7	9.4	22.7	-19.8	1.1	—	—	—
BV GBF Benchmark[8]	*10.6*	*7.0*	*0.6*	*10.6*	*16.4*	*-15.1*	*3.6*	—	—	—
PH&N LifeTime 2015 Fund	5.0	7.7	—	—	—	—	—	—	—	—
PH&N LifeTime 2015 Benchmark[9]	*5.8*	*7.1*	—	—	—	—	—	—	—	—
PH&N LifeTime 2020 Fund	4.7	8.0	—	—	—	—	—	—	—	—
PH&N LifeTime 2020 Benchmark[10]	*6.7*	*7.5*	—	—	—	—	—	—	—	—
PH&N LifeTime 2025 Fund	3.8	8.4	—	—	—	—	—	—	—	—
PH&N LifeTime 2025 Benchmark[11]	*6.5*	*7.6*	—	—	—	—	—	—	—	—
PH&N LifeTime 2030 Fund	4.8	8.8	—	—	—	—	—	—	—	—
PH&N LifeTime 2030 Benchmark[12]	*7.3*	*7.9*	—	—	—	—	—	—	—	—
PH&N LifeTime 2035 Fund	7.7	9.2	—	—	—	—	—	—	—	—
PH&N LifeTime 2035 Benchmark[13]	*10.1*	*8.5*	—	—	—	—	—	—	—	—
PH&N LifeTime 2040 Fund	11.2	10.1	—	—	—	—	—	—	—	—
PH&N LifeTime 2040 Benchmark[14]	*13.4*	*9.4*	—	—	—	—	—	—	—	—
PH&N LifeTime 2045 Fund	15.6	10.8	—	—	—	—	—	—	—	—
PH&N LifeTime 2045 Benchmark[15]	*17.6*	*10.2*	—	—	—	—	—	—	—	—
PH&N Canadian Income Fund[4]	16.4	12.3	-2.9	18.8	43.4	-39.1	8.1	12.7	—	—
PH&N CIF Benchmark[16]	*9.9*	*9.2*	*-2.9*	*19.4*	*34.2*	*-29.5*	*8.3*	*7.0*	—	—
PH&N Dividend Income Fund	16.1	11.2	-2.7	11.9	33.0	-32.5	-3.9	16.5	13.6	14.5
PH&N Canadian Equity Fund	18.7	8.9	-11.2	12.5	34.9	-35.5	5.3	15.6	19.0	17.5
PH&N Canadian Equity Value Fund	14.6	12.4	-5.4	16.7	—	—	—	—	—	—
BonaVista Canadian Equity Value Fund	22.8	14.2	-13.5	15.0	44.2	-38.4	5.1	—	—	—
PH&N Community Values Canadian Equity Fund	20.1	10.5	-9.1	10.8	34.2	-33.2	4.1	15.6	20.5	14.7
PH&N Canadian Growth Fund	13.8	7.4	-11.3	17.8	34.4	-38.3	-5.1	12.8	16.2	13.0
PH&N Vintage Fund	34.0	8.3	-11.5	10.5	48.7	-55.9	12.8	8.2	17.7	10.2
S&P/TSX Capped Composite Total Return Index	*13.0*	*7.2*	*-8.7*	*17.6*	*35.1*	*-33.0*	*9.8*	*17.3*	*24.1*	*14.5*
PH&N U.S. Dividend Income Fund[4]	37.7	10.2	2.4	5.2	3.9	-18.3	-16.0	11.0	-2.2	2.0
PH&N U.S. Equity Fund	38.6	8.9	1.5	6.3	4.7	-20.8	-13.2	10.6	-2.5	-2.3
PH&N U.S. Growth Fund	39.4	8.4	-0.3	7.5	7.2	-17.1	-11.7	11.4	-0.3	3.0
S&P 500 Total Return Index (C$)	*41.6*	*13.1*	*4.3*	*9.5*	*7.4*	*-21.7*	*-10.0*	*15.3*	*2.3*	*2.8*
PH&N Currency-Hedged U.S. Equity Fund	30.5	11.9	-0.8	10.5	18.0	-38.3	0.4	—	—	—
S&P 500 Total Return Index (CAD Hedged)	*33.3*	*16.3*	*1.7*	*13.5*	*24.1*	*-39.0*	*3.8*	—	—	—
PH&N U.S. Multi-Style All-Cap Equity Fund	38.6	10.1	-0.3	—	—	—	—	—	—	—
Russell 3000 Total Return Index (C$)	*42.8*	*13.5*	*3.2*	—	—	—	—	—	—	—
PH&N Overseas Equity Fund	24.5	16.9	-20.4	3.5	25.2	-31.2	-10.6	27.4	4.0	7.0
MSCI EAFE Total Return Net Index (C$)	*31.0*	*14.4*	*-10.3*	*2.5*	*11.9*	*-29.6*	*-5.1*	*25.9*	*10.7*	*11.5*
PH&N Currency-Hedged Overseas Equity Fund	18.9	19.7	-22.0	7.7	37.7	-42.3	-1.7	—	—	—
MSCI EAFE Total Return Net Index (CAD Hedged)	*27.4*	*17.6*	*-12.1*	*4.6*	*23.4*	*-41.8*	*3.7*	—	—	—
PH&N Global Equity Fund[4]	31.7	12.6	-9.6	5.6	13.0	-25.2	-12.8	17.4	-0.6	-0.6
PH&N Community Values Global Equity Fund	32.9	12.1	-10.5	5.9	16.6	-27.8	-13.6	16.7	0.6	-1.1
MSCI World Ex-Canada Total Return Net Index (C$)	*36.3*	*13.3*	*-3.1*	*5.9*	*9.5*	*-26.0*	*-7.6*	*19.7*	*6.2*	*6.2*

RBC Funds

Annualized rates of return (%) for periods ended June 30, 2014[2]

Series D (except as noted*)	MER (%)[1]	3 mo[2]	Year to date	1 yr	3 yrs	5 yrs	10 yrs	Since inception	Inception date
RBC Canadian T-Bill Fund	0.55	0.12	0.25	0.51	0.55	0.49	—	1.02	Jul 2007
RBC Canadian Money Market Fund	0.61	0.15	0.31	0.62	0.63	0.53	—	1.22	Jul 2007
FTSE TMX Canada 91 Day T-Bill Index	—	*0.22*	*0.44*	*0.97*	*0.98*	*0.83*	—	—	
RBC $U.S. Money Market Fund[3]	0.17	0.02	0.05	0.08	0.11	0.12	—	0.95	Jul 2007
Citigroup 3-Month T-Bill Index	—	*0.01*	*0.02*	*0.04*	*0.05*	*0.08*	—	—	
RBC Canadian Short-Term Income Fund	0.76	0.6	1.5	2.8	2.4	2.7	—	3.6	Jul 2007
FTSE TMX Canada Short Term Overall Bond Index	—	*0.7*	*1.7*	*3.2*	*2.8*	*3.2*	—	—	
RBC Monthly Income Bond Fund	0.81	1.3	3.6	5.0	4.2	—	—	3.7	Oct 2010
MIBF Benchmark[20]	—	*1.5*	*3.6*	*4.5*	*4.0*	—	—	—	
RBC Bond Fund	0.77	1.7	4.6	5.4	4.9	5.6	—	5.5	Jul 2007
RBC High Yield Bond Fund	1.02	1.9	4.5	9.0	7.8	—	—	7.6	Oct 2010
RBC Monthly Income High Yield Bond Fund[21]	1.12	—	—	—	—	—	—	—	Aug 2013
FTSE TMX Canada Universe Bond Index	—	—	—	—	—	—	—	—	
RBC Canadian Government Bond Index Fund*[22]	0.67	1.4	3.4	3.2	3.0	3.1	4.2	4.8	Jun 2000
FTSE TMX Canada Federal Bond Index	–	*1.5*	*3.6*	*3.7*	*3.5*	*3.7*	*4.8*	—	
RBC Global Bond Fund	1.06	1.5	4.1	5.8	5.3	4.6	—	5.0	Jul 2007
Citigroup World Government Bond Index (CAD Hedged)	—	*2.0*	*4.4*	*5.7*	*5.3*	*4.6*	—	—	
RBC $U.S. Investment Grade Corporate Bond Fund[3, 21]	1.06	—	—	—	—	—	—	—	Aug 2013
BarCap U.S. Corporate Bond Index (US$)	—	—	—	—	—	—	—	—	
RBC Global Corporate Bond Fund	1.05	2.3	5.3	7.7	6.4	6.9	—	6.8	Jul 2007
GCBF Benchmark[23]	—	*2.7*	*5.8*	*8.6*	*7.1*	*8.5*	—	—	
RBC $U.S. High Yield Bond Fund[3, 21]	1.03	—	—	—	—	—	—	—	Oct 2013
BOA Merrill Lynch U.S. High Yield BB-B Index (US$)	—	—	—	—	—	—	—	—	
RBC Global High Yield Bond Fund[24]	1.05	3.1	6.5	10.4	8.5	10.2	—	8.5	Jul 2007
GHYBF Benchmark[25]	—	*3.8*	*7.5*	*12.4*	*8.6*	*11.7*	—	—	
RBC Emerging Markets Bond Fund	1.11	0.5	7.6	11.1	9.9	—	—	5.9	Aug 2010
JP Morgan EMBI Global Diversified (CAD Hedged)	—	*4.9*	*9.0*	*12.4*	*7.8*	—	—	—	
BlueBay Global Monthly Income Bond Fund	1.33	1.9	5.3	9.3	—	—	—	6.0	Jul 2011
BB GMIBF Benchmark[26]	—	*3.5*	*6.8*	*11.4*	—	—	—	—	
BlueBay Emerging Markets Corporate Bond Fund[3]	1.38	3.9	6.6	8.6	—	—	—	5.6	Jan 2012
JP Morgan Corporate EMBI Global Diversified (US$)	—	*4.0*	*7.2*	*10.5*	—	—	—	—	
BlueBay Global Convertible Bond Fund (Canada)	1.41	2.1	4.6	11.9	—	—	—	11.5	Nov 2012
UBS Global Convertible Focus Index (CAD Hedged)	—	*1.8*	*5.7*	*14.5*	—	—	—	—	
RBC U.S. Monthly Income Fund[3, 44]	1.06	2.5	4.6	12.2	7.7	9.5	—	6.0	Jul 2007
USIF Benchmark[28]	—	*3.3*	*5.3*	*12.2*	*8.9*	*10.5*	—	—	
RBC Balanced Fund	1.50	3.3	7.2	15.9	6.8	7.7	—	3.2	Jul 2007
RBC Balanced Fund Benchmark[28]	—	*3.3*	*7.9*	*17.1*	*8.2*	*9.0*	—	—	
RBC Global Balanced Fund[29]	1.49	2.0	5.2	14.8	8.0	7.5	—	2.6	Jul 2007
RBC Jantzi Balanced Fund	1.50	2.2	5.6	16.8	9.1	8.7	—	3.3	Jul 2007
GBJB Benchmark[30]	—	*2.6*	*7.0*	*16.8*	*9.6*	*9.5*	—	—	
RBC Balanced Growth & Income Fund[21]	1.25	—	—	—	—	—	—	—	Aug 2013
BGIF Benchmark[31]	—	—	—	—	—	—	—	—	
RBC Target 2020 Education Fund	1.07	1.8	4.7	10.9	—	—	—	7.9	Nov 2011
TEF20 Benchmark[32]	—	*2.4*	*6.2*	*12.5*	—	—	—	—	
RBC Target 2025 Education Fund	1.16	2.3	6.1	16.6	—	—	—	11.0	Nov 2011
TEF25 Benchmark[33]	—	*2.6*	*7.2*	*18.1*	—	—	—	—	
RBC Target 2030 Education Fund	1.27	2.5	6.3	19.1	—	—	—	15.0	Jul 2012
TEF30 Benchmark[34]	—	*2.7*	*7.7*	*20.7*	—	—	—	—	
RBC Canadian Dividend Fund	1.21	5.9	10.9	26.6	11.2	12.4	—	5.7	Jul 2007
RBC Canadian Equity Fund	1.21	6.8	13.1	28.3	7.1	10.2	—	3.4	Jul 2007
RBC QUBE Low Volatility Canadian Equity Fund	1.18	5.3	11.2	23.6	—	—	—	17.5	Nov 2012
RBC Jantzi Canadian Equity Fund	1.20	7.5	13.6	30.4	9.4	11.9	—	5.1	Jul 2007
RBC Canadian Index Fund*[35]	0.72	6.2	12.5	27.7	6.9	10.3	8.1	8.5	Oct 1998
RBC O'Shaughnessy Canadian Equity Fund	1.21	4.1	6.8	28.2	12.6	15.0	—	3.6	Jul 2007
RBC O'Shaughnessy All-Canadian Equity Fund	1.21	2.4	5.7	30.1	13.3	17.7	—	6.8	Jul 2007
RBC Canadian Equity Income Fund[36]	1.21	6.4	12.8	27.2	13.5	21.0	—	14.9	Jul 2007
S&P/TSX Capped Composite Total Return Index	—	*6.4*	*12.9*	*28.7*	*7.6*	*11.0*	*8.8*	—	
RBC North American Value Fund	1.20	4.5	8.9	23.8	12.7	14.6	—	7.9	Jul 2007
RBC North American Growth Fund	1.21	4.2	8.5	24.3	10.5	11.2	—	3.1	Jul 2007
NA Value Class Benchmark[18]	—	*4.0*	*10.2*	*27.6*	*14.0*	*14.0*	—	—	

Footnotes and disclosures can be found in the Reference section at the back of this report.
* Returns are reported for series A units

RBC Funds *(cont.)*

Rates of return (%) for calendar years[2]

Series D (except as noted*)	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
RBC Canadian T-Bill Fund	0.53	0.56	0.65	0.36	0.37	2.52	—	—	—	—
RBC Canadian Money Market Fund	0.62	0.65	0.67	0.33	0.69	3.17	—	—	—	—
FTSE TMX Canada 91 Day T-Bill Index	*1.01*	*1.01*	*1.00*	*0.54*	*0.63*	*3.33*	—	—	—	—
RBC $U.S. Money Market Fund [3]	0.08	0.16	0.12	0.13	0.75	2.97	—	—	—	—
Citigroup 3-Month T-Bill Index	*0.05*	*0.07*	*0.08*	*0.13*	*0.16*	*1.80*	—	—	—	—
RBC Canadian Short-Term Income Fund	1.4	1.9	4.1	2.9	3.5	7.0	—	—	—	—
FTSE TMX Canada Short Term Overall Bond Index	*1.7*	*2.0*	*4.7*	*3.6*	*4.5*	*8.6*	—	—	—	—
RBC Monthly Income Bond Fund	0.4	4.2	6.3	—	—	—	—	—	—	—
MIBF Benchmark [20]	*0.0*	*3.0*	*7.7*	—	—	—	—	—	—	—
RBC Bond Fund	-1.0	4.3	8.9	6.8	11.5	0.4	—	—	—	—
RBC High Yield Bond Fund	4.3	10.8	7.4	—	—	—	—	—	—	—
RBC Monthly Income High Yield Bond Fund [21]	—	—	—	—	—	—	—	—	—	—
FTSE TMX Canada Universe Bond Index	*-1.2*	*3.6*	*9.7*	*6.7*	*5.4*	*6.4*	—	—	—	—
RBC Canadian Government Bond Index Fund* [22]	-2.1	1.5	7.8	4.8	-0.9	11.1	4.1	3.0	5.1	5.8
FTSE TMX Canada Federal Bond Index	*-1.5*	*2.1*	*8.4*	*5.4*	*-0.2*	*11.5*	*4.6*	*3.6*	*5.7*	*6.7*
RBC Global Bond Fund	1.1	6.3	5.3	3.7	4.1	5.8	—	—	—	—
Citigroup World Government Bond Index (CAD Hedged)	*1.0*	*5.3*	*6.5*	*3.8*	*1.1*	*9.6*	—	—	—	—
RBC $U.S. Investment Grade Corporate Bond Fund [3, 21]	—	—	—	—	—	—	—	—	—	—
BarCap U.S. Corporate Bond Index (US$)	—	—	—	—	—	—	—	—	—	—
RBC Global Corporate Bond Fund	0.1	9.5	6.9	7.5	13.4	1.3	—	—	—	—
GCBF Benchmark [23]	*0.4*	*11.9*	*6.7*	*9.0*	*20.1*	*-8.1*	—	—	—	—
RBC $U.S. High Yield Bond Fund [3, 21]	—	—	—	—	—	—	—	—	—	—
BOA Merrill Lynch U.S. High Yield BB-B Index (US$)	—	—	—	—	—	—	—	—	—	—
RBC Global High Yield Bond Fund [24]	0.4	15.4	7.1	11.7	28.5	-10.3	—	—	—	—
GHYBF Benchmark [25]	*1.0*	*16.6*	*6.4*	*13.3*	*36.5*	*-19.8*	—	—	—	—
RBC Emerging Markets Bond Fund	1.4	12.4	8.5	—	—	—	—	—	—	—
JP Morgan EMBI Global Diversified (CAD Hedged)	*-4.8*	*17.8*	*7.7*	—	—	—	—	—	—	—
BlueBay Global Monthly Income Bond Fund	2.3	13.9	—	—	—	—	—	—	—	—
BB GMIBF Benchmark [26]	*2.7*	*17.0*	—	—	—	—	—	—	—	—
BlueBay Emerging Markets Corporate Bond Fund [3]	-4.8	—	—	—	—	—	—	—	—	—
JP Morgan Corporate EMBI Global Diversified (US$)	*-1.7*	—	—	—	—	—	—	—	—	—
BlueBay Global Convertible Bond Fund (Canada)	10.8	—	—	—	—	—	—	—	—	—
UBS Global Convertible Focus Index (CAD Hedged)	*13.9*	—	—	—	—	—	—	—	—	—
RBC U.S. Monthly Income Fund [3, 44]	10.3	8.7	2.7	10.6	13.9	-9.7	—	—	—	—
USIF Benchmark [28]	*10.7*	*8.9*	*5.8*	*10.4*	*14.3*	*-13.7*	—	—	—	—
RBC Balanced Fund	10.0	6.8	-2.7	9.7	14.3	-19.6	—	—	—	—
RBC Balanced Fund Benchmark [28]	*10.6*	*7.0*	*0.6*	*10.5*	*16.6*	*-15.1*	—	—	—	—
RBC Global Balanced Fund [29]	13.8	8.7	-2.7	6.3	10.8	-19.1	—	—	—	—
RBC Jantzi Balanced Fund	16.5	7.9	-0.9	7.7	8.9	-18.3	—	—	—	—
GBJB Benchmark [30]	*14.0*	*8.0*	*1.9*	*8.9*	*13.1*	*-13.8*	—	—	—	—
RBC Balanced Growth & Income Fund [21]	—	—	—	—	—	—	—	—	—	—
BGIF Benchmark [31]	—	—	—	—	—	—	—	—	—	—
RBC Target 2020 Education Fund	8.7	6.7	—	—	—	—	—	—	—	—
TEF20 Benchmark [32]	*8.2*	*7.1*	—	—	—	—	—	—	—	—
RBC Target 2025 Education Fund	15.0	7.6	—	—	—	—	—	—	—	—
TEF25 Benchmark [33]	*15.8*	*8.2*	—	—	—	—	—	—	—	—
RBC Target 2030 Education Fund	18.2	—	—	—	—	—	—	—	—	—
TEF30 Benchmark [34]	*19.4*	—	—	—	—	—	—	—	—	—
RBC Canadian Dividend Fund	18.1	11.3	-1.9	12.5	28.0	-26.6	—	—	—	—
RBC Canadian Equity Fund	13.5	6.9	-10.5	17.1	31.1	-33.3	—	—	—	—
RBC QUBE Low Volatility Canadian Equity Fund	12.7	—	—	—	—	—	—	—	—	—
RBC Jantzi Canadian Equity Fund	14.9	10.0	-7.7	15.7	34.8	-31.3	—	—	—	—
RBC Canadian Index Fund* [35]	12.2	6.4	-9.2	16.8	34.1	-33.1	9.3	16.9	23.0	13.6
RBC O'Shaughnessy Canadian Equity Fund	32.1	14.4	-8.4	13.7	27.7	-37.1	—	—	—	—
RBC O'Shaughnessy All-Canadian Equity Fund	32.8	10.0	-5.2	24.7	28.6	-31.3	—	—	—	—
RBC Canadian Equity Income Fund [36]	17.5	9.5	11.3	25.0	60.8	-18.1	—	—	—	—
S&P/TSX Capped Composite Total Return Index	*13.0*	*7.2*	*-8.7*	*17.6*	*35.1*	*-33.0*	*9.8*	*17.3*	*24.1*	*14.5*
RBC North American Value Fund	24.1	18.8	-15.0	9.7	—	—	—	—	—	—
RBC North American Growth Fund	22.9	8.6	-7.3	12.3	25.6	-34.2	—	—	—	—
NA Value Class Benchmark [18]	*26.6*	*10.2*	*-2.3*	*13.4*	*22.0*	*-27.7*	—	—	—	—

RBC Funds

Annualized rates of return (%) for periods ended June 30, 2014[2]

Series D (except as noted*)	MER (%)[1]	3 mo[2]	Year to date	1 yr	3 yrs	5 yrs	10 yrs	Since inception	Inception date
RBC U.S. Dividend Fund [37]	1.19	-0.6	4.8	22.5	15.6	13.0	—	4.0	Jul 2007
RBC U.S. Equity Fund	1.23	0.8	5.3	23.2	15.2	11.3	—	3.2	Jul 2007
RBC QUBE Low Volatility U.S. Equity Fund	1.18	-0.3	6.9	17.4	—	—	—	24.8	Nov 2012
RBC U.S. Equity Value Fund [21]	1.24	—	—	—	—	—	—	—	Mar 2014
RBC U.S. Index Fund* [35]	0.72	1.3	7.0	25.0	19.3	15.5	4.3	2.8	Oct 1998
S&P 500 Total Return Index (C$)	—	*1.5*	*7.6*	*26.4*	*20.6*	*16.8*	*5.4*	—	
RBC U.S. Equity Fund (US$) [3]	1.23	4.4	4.9	21.5	11.4	13.2	—	3.1	Jul 2007
RBC U.S. Equity Currency Neutral Fund	1.20	4.2	4.8	22.1	12.0	13.2	—	1.9	Jul 2007
RBC U.S. Equity Value Fund (US$) [3, 21]	1.24	—	—	—	—	—	—	—	Mar 2014
RBC U.S. Index Currency Neutral Fund* [38]	0.72	5.1	6.7	23.7	15.2	17.1	5.5	4.4	Oct 1998
RBC O'Shaughnessy U.S. Value Fund	1.22	3.1	6.3	30.7	20.1	22.7	—	4.5	Jul 2007
S&P 500 Total Return Index (US$)	—	*5.2*	*7.1*	*24.6*	*16.6*	*18.8*	*7.8*	—	
RBC U.S. Mid-Cap Equity Fund	1.20	-2.5	2.0	19.1	11.6	13.0	—	2.7	Jul 2007
Russell Midcap Growth Index (C$)	—	*0.7*	*7.0*	*27.8*	*18.4*	*19.1*	—	—	
RBC U.S. Mid-Cap Equity Fund (US$) [3]	1.20	1.1	1.5	17.4	7.9	15.0	—	2.6	Jul 2007
RBC U.S. Mid-Cap Equity Currency Neutral Fund	1.20	1.2	1.7	18.5	8.2	14.7	—	1.7	Jul 2007
Russell Midcap Growth Index (US$)	—	*4.4*	*6.5*	*26.0*	*14.5*	*21.2*	—	—	
RBC U.S. Mid-Cap Value Equity Fund	1.33	2.1	11.9	31.0	—	—	—	22.8	Jan 2012
Russell Midcap Value Index (C$)	—	*1.9*	*11.6*	*29.6*	—	—	—	—	
RBC U.S. Small-Cap Core Equity Fund	1.33	-2.4	2.6	20.5	—	—	—	21.2	Jan 2012
Russell 2000 Index (C$)	—	*-1.5*	*3.6*	*25.4*	—	—	—	—	
RBC O'Shaughnessy U.S. Growth Fund	1.22	1.9	-0.2	23.7	12.8	15.5	—	-3.6	Jul 2007
Russell 2000 Growth Index (US$)	—	*1.7*	*2.2*	*24.7*	*14.5*	*20.5*	—	—	
RBC O'Shaughnessy U.S. Growth Fund II	1.32	1.9	1.1	24.2	11.3	16.3	—	-0.4	Jan 2008
Russell 2500 Growth Index (US$)	—	*2.8*	*3.9*	*26.2*	*14.8*	*21.6*	—	—	
RBC Life Science and Technology Fund	1.20	-0.9	8.6	40.0	18.0	17.3	—	8.5	Jul 2007
LSTF Benchmark [39]	—	*1.8*	*10.2*	*32.7*	*24.0*	*17.8*	—	—	
RBC International Equity Fund	1.27	-1.2	0.6	17.8	10.5	9.2	—	-0.8	Jul 2007
RBC O'Shaughnessy International Equity Fund	1.37	-0.8	9.1	35.5	11.6	10.8	—	-1.0	Jul 2007
MSCI EAFE Total Return Net Index (C$)	—	*0.4*	*5.0*	*24.8*	*11.6*	*9.8*	—	—	
RBC International Equity Currency Neutral Fund [21]	1.32	—	—	—	—	—	—	—	Apr 2014
RBC International Index Currency Neutral Fund* [40]	0.71	3.5	2.8	17.5	9.4	10.0	4.7	3.4	Oct 1998
MSCI EAFE Total Return Net Index (Local $)	—	*3.4*	*3.1*	*17.9*	*10.4*	*10.9*	*5.6*	—	
RBC European Equity Fund	1.27	-1.8	1.5	23.7	13.5	11.3	—	0.3	Jul 2007
MSCI Europe Total Return Net Index (C$)	—	*-0.3*	*5.7*	*30.5*	*12.3*	*11.1*	—	—	
RBC Asian Equity Fund [45]	1.27	1.5	-0.1	12.2	4.5	4.5	—	-2.6	Jul 2007
MSCI AC Pacific Free Total Return Net Index (C$)	—	*2.3*	*4.1*	*15.0*	*9.1*	*8.1*	—	—	
RBC Asia Pacific ex-Japan Equity Fund [21]	1.42	—	—	—	—	—	—	—	Mar 2014
MSCI AC Asia Pacific ex-Japan TR Net Index (C$)	—	—	—	—	—	—	—	—	
RBC Japanese Equity Fund [21]	1.39	—	—	—	—	—	—	—	Mar 2014
MSCI Japan Total Return Net Index (C$)	—	—	—	—	—	—	—	—	
RBC Emerging Markets Dividend Fund [21]	1.62	—	—	—	—	—	—	—	Aug 2013
RBC Emerging Markets Equity Fund [41]	1.48	3.4	7.8	17.2	5.9	—	—	5.8	Dec 2009
RBC Emerging Markets Small-Cap Equity Fund [21]	1.59	—	—	—	—	—	—	—	Aug 2013
MSCI Emerging Markets Total Return Net Index (C$)	—	*2.9*	*6.4*	*15.4*	*2.9*	—	—	—	
RBC Global Dividend Growth Fund [42]	1.26	1.7	6.8	28.0	15.1	12.5	—	2.6	Jul 2007
RBC Global Equity Focus Fund [21]	1.41	—	—	—	—	—	—	—	Apr 2014
RBC QUBE Low Volatility Global Equity Fund	1.34	0.7	7.1	16.8	—	—	—	14.7	Apr 2013
RBC Jantzi Global Equity Fund	1.28	-0.3	3.0	22.8	14.2	12.4	—	2.3	Jul 2007
RBC O'Shaughnessy Global Equity Fund	1.37	-0.4	6.7	29.2	14.0	14.3	—	0.3	Jul 2007
MSCI World Total Return Net Index (C$)	—	*1.2*	*6.4*	*25.2*	*15.5*	*13.0*	—	—	
RBC Global Equity Fund [21]	1.43	—	—	—	—	—	—	—	Mar 2014
MSCI AC World Total Return Net Index (C$)	—	—	—	—	—	—	—	—	
RBC Global Energy Fund	1.25	10.8	22.3	42.2	5.6	13.5	—	1.5	Jul 2007
MSCI World Index - Energy (C$)	—	*8.0*	*14.2*	*31.9*	*11.8*	*10.8*	—	—	
RBC Global Precious Metals Fund	1.26	12.5	31.3	29.2	-17.6	2.5	—	1.9	Jul 2007
S&P/TSX Global Gold Index	—	*8.9*	*26.4*	*16.9*	*-17.5*	*-8.0*	—	—	
RBC Global Resources Fund	1.26	7.1	15.3	31.0	0.4	12.7	—	1.8	Jul 2007
GR Class Benchmark [19]	—	*5.5*	*11.6*	*29.9*	*8.5*	*9.9*	—	—	
RBC Global Technology Fund	1.25	1.0	8.3	37.9	13.5	16.3	—	6.2	Jul 2007
MSCI World Index - Information Technology (C$)	—	*1.7*	*7.6*	*31.5*	*18.6*	*14.2*	—	—	

Footnotes and disclosures can be found in the Reference section at the back of this report.
* Returns are reported for series A units

RBC Funds *(cont.)*

Rates of return (%) for calendar years[2]

Series D (except as noted*)	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
RBC U.S. Dividend Fund [37]	34.2	9.3	0.6	8.8	12.1	-26.4	—	—	—	—
RBC U.S. Equity Fund	36.4	9.1	-3.6	5.7	8.0	-26.2	—	—	—	—
RBC QUBE Low Volatility U.S. Equity Fund	31.5	—	—	—	—	—	—	—	—	—
RBC U.S. Equity Value Fund [21]	—	—	—	—	—	—	—	—	—	—
RBC U.S. Index Fund* [35]	39.9	11.8	3.3	8.0	8.1	-23.4	-11.1	14.8	0.4	1.6
S&P 500 Total Return Index (C$)	*41.6*	*13.1*	*4.3*	*9.5*	*7.4*	*-21.7*	*-10.0*	*15.3*	*2.3*	*2.8*
RBC U.S. Equity Fund (US$) [3]	27.6	11.9	-5.6	11.4	25.0	-39.7	—	—	—	—
RBC U.S. Equity Currency Neutral Fund	29.3	12.0	-5.4	11.0	19.7	-41.6	—	—	—	—
RBC U.S. Equity Value Fund (US$) [3, 21]	—	—	—	—	—	—	—	—	—	—
RBC U.S. Index Currency Neutral Fund* [38]	31.4	15.0	0.3	12.6	22.7	-40.5	2.7	13.6	3.1	10.6
RBC O'Shaughnessy U.S. Value Fund	47.9	12.7	7.1	14.8	25.2	-43.8	—	—	—	—
S&P 500 Total Return Index (US$)	*32.4*	*16.0*	*2.1*	*15.1*	*26.5*	*-37.0*	*5.5*	*15.8*	*4.9*	*10.9*
RBC U.S. Mid-Cap Equity Fund	38.6	3.0	-1.2	14.8	13.1	-30.6	—	—	—	—
Russell Midcap Growth Index (C$)	*45.2*	*14.9*	*0.4*	*20.2*	*18.7*	*-21.9*	—	—	—	—
RBC U.S. Mid-Cap Equity Fund (US$) [3]	29.6	5.7	-3.3	21.0	30.8	-43.3	—	—	—	—
RBC U.S. Mid-Cap Equity Currency Neutral Fund	31.0	5.3	-3.4	20.5	25.0	-45.6	—	—	—	—
Russell Midcap Growth Index (US$)	*35.7*	*17.9*	*-1.7*	*26.6*	*37.4*	*-36.2*	—	—	—	—
RBC U.S. Mid-Cap Value Equity Fund	41.2	—	—	—	—	—	—	—	—	—
Russell Midcap Value Index (C$)	*42.7*	—	—	—	—	—	—	—	—	—
RBC U.S. Small-Cap Core Equity Fund	46.0	—	—	—	—	—	—	—	—	—
Russell 2000 Index (C$)	*48.5*	—	—	—	—	—	—	—	—	—
RBC O'Shaughnessy U.S. Growth Fund	43.6	17.8	-7.1	16.4	-0.9	-49.9	—	—	—	—
Russell 2000 Growth Index (US$)	*43.3*	*14.6*	*-2.9*	*29.1*	*34.5*	*-38.5*	—	—	—	—
RBC O'Shaughnessy U.S. Growth Fund II	42.3	18.5	-15.0	24.9	8.1	—	—	—	—	—
Russell 2500 Growth Index (US$)	*40.7*	*16.1*	*-1.6*	*28.9*	*41.7*	—	—	—	—	—
RBC Life Science and Technology Fund	50.6	8.3	-2.2	12.6	27.4	-28.6	—	—	—	—
LSTF Benchmark [39]	*44.3*	*13.6*	*10.0*	*1.4*	*20.7*	*-18.5*	—	—	—	—
RBC International Equity Fund	31.1	16.9	-10.7	2.2	9.4	-33.5	—	—	—	—
RBC O'Shaughnessy International Equity Fund	39.0	11.3	-13.5	6.9	5.6	-35.8	—	—	—	—
MSCI EAFE Total Return Net Index (C$)	*31.0*	*14.4*	*-10.3*	*2.5*	*11.9*	*-29.6*	—	—	—	—
RBC International Equity Currency Neutral Fund [21]	—	—	—	—	—	—	—	—	—	—
RBC International Index Currency Neutral Fund* [40]	25.7	16.4	-12.4	3.3	22.3	-39.9	3.0	15.9	26.7	11.0
MSCI EAFE Total Return Net Index (Local $)	*26.9*	*17.3*	*-12.2*	*4.8*	*24.7*	*-40.3*	*3.5*	*16.5*	*29.0*	*12.7*
RBC European Equity Fund	37.8	19.9	-10.5	1.4	10.3	-34.3	—	—	—	—
MSCI Europe Total Return Net Index (C$)	*33.6*	*16.5*	*-8.9*	*-1.5*	*15.3*	*-33.0*	—	—	—	—
RBC Asian Equity Fund [45]	20.5	11.7	-18.2	3.7	13.1	-32.2	—	—	—	—
MSCI AC Pacific Free Total Return Net Index (C$)	*20.2*	*13.8*	*-11.8*	*10.7*	*15.0*	*-25.7*	—	—	—	—
RBC Asia Pacific ex-Japan Equity Fund [21]	—	—	—	—	—	—	—	—	—	—
MSCI AC Asia Pacific ex-Japan TR Net Index (C$)	—	—	—	—	—	—	—	—	—	—
RBC Japanese Equity Fund [21]	—	—	—	—	—	—	—	—	—	—
MSCI Japan Total Return Net Index (C$)	—	—	—	—	—	—	—	—	—	—
RBC Emerging Markets Dividend Fund [21]	—	—	—	—	—	—	—	—	—	—
RBC Emerging Markets Equity Fund [41]	5.8	18.8	-15.0	9.7	—	—	—	—	—	—
RBC Emerging Markets Small-Cap Equity Fund [21]	—	—	—	—	—	—	—	—	—	—
MSCI Emerging Markets Total Return Net Index (C$)	*3.9*	*15.6*	*-16.4*	*12.7*	—	—	—	—	—	—
RBC Global Dividend Growth Fund [42]	37.3	13.0	-4.4	2.9	12.6	-32.1	—	—	—	—
RBC Global Equity Focus Fund [21]	—	—	—	—	—	—	—	—	—	—
RBC QUBE Low Volatility Global Equity Fund	—	—	—	—	—	—	—	—	—	—
RBC Jantzi Global Equity Fund	37.0	12.2	-4.4	7.3	6.6	-28.4	—	—	—	—
RBC O'Shaughnessy Global Equity Fund	41.4	16.0	-11.4	12.8	4.9	-37.5	—	—	—	—
MSCI World Total Return Net Index (C$)	*35.2*	*13.3*	*-3.2*	*5.9*	*10.4*	*-25.8*	—	—	—	—
RBC Global Equity Fund [21]	—	—	—	—	—	—	—	—	—	—
MSCI AC World Total Return Net Index (C$)	—	—	—	—	—	—	—	—	—	—
RBC Global Energy Fund	21.8	-12.7	-4.4	20.5	42.1	-48.5	—	—	—	—
MSCI World Index - Energy (C$)	*26.0*	*-0.4*	*2.6*	*6.0*	*7.2*	*-22.5*	—	—	—	—
RBC Global Precious Metals Fund	-43.5	-11.7	-27.4	76.6	67.0	-25.6	—	—	—	—
S&P/TSX Global Gold Index	*-47.4*	*-14.7*	*-13.6*	*26.7*	*7.6*	*1.5*	—	—	—	—
RBC Global Resources Fund	8.8	-9.7	-16.3	49.0	50.2	-49.1	—	—	—	—
GR Class Benchmark [19]	*20.4*	*2.9*	*-4.9*	*9.2*	*17.2*	*-27.7*	—	—	—	—
RBC Global Technology Fund	41.6	6.3	-7.2	19.3	38.5	-34.9	—	—	—	—
MSCI World Index - Information Technology (C$)	*37.4*	*10.8*	*-0.1*	*4.7*	*29.4*	*-29.8*	—	—	—	—

RBC Corporate Class Funds

Annualized rates of return (%) for periods ended June 30, 2014[2]

Series D	MER (%)[1]	3 mo[2]	Year to date	1 yr	3 yrs	5 yrs	10 yrs	Since inception	Inception date
RBC Short Term Income Class	0.62	0.2	0.3	0.6	—	—	—	0.6	Dec 2011
FTSE TMX Canada 91 Day T-Bill Index	—	*0.2*	*0.4*	*1.0*	—	—	—	—	
RBC Bond Capital Class[17]	0.82	1.6	4.3	4.7	—	—	—	1.9	Oct 2012
PH&N Total Return Bond Capital Class[17]	0.60	1.7	4.5	4.8	—	—	—	2.4	Dec 2011
RBC High Yield Bond Capital Class[17]	1.03	1.7	4.3	8.3	—	—	—	6.3	Dec 2011
FTSE TMX Canada Universe Bond Index	—	*2.0*	*4.8*	*5.3*	—	—	—	—	
BlueBay Global Convertible Bond Class (Canada)[21]	1.50	—	—	—	—	—	—	—	Jan 2014
UBS Global Convertible Focus Index (CAD Hedged)	—	—	—	—	—	—	—	—	
PH&N Monthly Income Class	1.10	4.3	8.5	15.8	—	—	—	11.1	Oct 2012
PH&N MIF Benchmark[6]	—	*4.3*	*9.0*	*16.9*	—	—	—	—	
RBC Canadian Dividend Class	1.20	5.5	10.5	25.3	—	—	—	13.8	Dec 2011
CD Class Benchmark[43]	—	*5.8*	*11.3*	*27.6*	—	—	—	—	
RBC Canadian Equity Class	1.20	5.9	12.3	27.1	—	—	—	13.4	Dec 2011
RBC Canadian Equity Income Class	1.20	6.4	12.8	27.2	—	—	—	14.8	Dec 2011
S&P/TSX Capped Composite Total Return Index	—	*6.4*	*12.9*	*28.7*	—	—	—	—	
RBC Canadian Mid Cap Equity Class	1.31	8.2	16.8	28.8	—	—	—	12.8	Dec 2011
S&P/TSX MidCap Index	—	*7.0*	*14.9*	*25.3*	—	—	—	—	
RBC North American Value Class	1.20	4.4	8.9	23.7	—	—	—	16.9	Dec 2011
NA Value Class Benchmark[18]	—	*4.0*	*10.2*	*27.6*	—	—	—	—	
RBC U.S. Dividend Class	1.17	-0.5	4.8	22.5	—	—	—	22.5	Oct 2012
RBC U.S. Equity Class	1.18	0.5	4.9	22.3	—	—	—	18.5	Dec 2011
S&P 500 Total Return Index (C$)	—	*1.5*	*7.6*	*26.4*	—	—	—	—	
PH&N U.S. Multi-Style All-Cap Equity Class	1.19	0.3	6.2	24.0	—	—	—	19.8	Dec 2011
Russell 3000 Total Return Index (C$)	—	*1.2*	*7.4*	*27.0*	—	—	—	—	
PH&N Overseas Equity Class	1.34	-0.3	3.9	25.6	—	—	—	16.7	Dec 2011
MSCI EAFE Total Return Net Index (C$)	—	*0.4*	*5.0*	*24.8*	—	—	—	—	
RBC Emerging Markets Equity Class	1.50	3.5	7.8	17.2	—	—	—	12.2	Dec 2011
MSCI Emerging Markets Total Return Net Index (C$)	—	*2.9*	*6.4*	*15.4*	—	—	—	—	
RBC Global Resources Class	1.26	7.2	15.3	30.6	—	—	—	3.8	Dec 2011
GR Class Benchmark[19]	—	*5.5*	*11.6*	*29.9*	—	—	—	—	

Footnotes and disclosures can be found in the Reference section at the back of this report.

RBC Corporate Class Funds *(cont.)*

Rates of return (%) for calendar years[2]

Series D	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
RBC Short Term Income Class	0.6	0.5	—	—	—	—	—	—	—	—
FTSE TMX Canada 91 Day T-Bill Index	*1.0*	*1.0*	—	—	—	—	—	—	—	—
RBC Bond Capital Class [17]	-1.6	—	—	—	—	—	—	—	—	—
PH&N Total Return Bond Capital Class [17]	-1.6	3.2	—	—	—	—	—	—	—	—
RBC High Yield Bond Capital Class [17]	3.6	7.9	—	—	—	—	—	—	—	—
FTSE TMX Canada Universe Bond Index	*-1.2*	*3.6*	—	—	—	—	—	—	—	—
BlueBay Global Convertible Bond Class (Canada) [21]	—	—	—	—	—	—	—	—	—	—
UBS Global Convertible Focus Index (CAD Hedged)	—	—	—	—	—	—	—	—	—	—
PH&N Monthly Income Class	7.8	—	—	—	—	—	—	—	—	—
PH&N MIF Benchmark [6]	*6.4*	—	—	—	—	—	—	—	—	—
RBC Canadian Dividend Class	16.0	7.8	—	—	—	—	—	—	—	—
CD Class Benchmark [43]	*15.2*	*10.0*	—	—	—	—	—	—	—	—
RBC Canadian Equity Class	14.7	6.2	—	—	—	—	—	—	—	—
RBC Canadian Equity Income Class	17.5	6.6	—	—	—	—	—	—	—	—
S&P/TSX Capped Composite Total Return Index	*13.0*	*7.2*	—	—	—	—	—	—	—	—
RBC Canadian Mid Cap Equity Class	12.2	3.2	—	—	—	—	—	—	—	—
S&P/TSX MidCap Index	*10.2*	*5.1*	—	—	—	—	—	—	—	—
RBC North American Value Class	24.1	9.4	—	—	—	—	—	—	—	—
NA Value Class Benchmark [18]	*26.6*	*10.2*	—	—	—	—	—	—	—	—
RBC U.S. Dividend Class	34.2	—	—	—	—	—	—	—	—	—
RBC U.S. Equity Class	36.8	6.6	—	—	—	—	—	—	—	—
S&P 500 Total Return Index (C$)	*41.6*	*13.1*	—	—	—	—	—	—	—	—
PH&N U.S. Multi-Style All-Cap Equity Class	38.5	6.7	—	—	—	—	—	—	—	—
Russell 3000 Total Return Index (C$)	*42.8*	*13.5*	—	—	—	—	—	—	—	—
PH&N Overseas Equity Class	24.6	13.6	—	—	—	—	—	—	—	—
MSCI EAFE Total Return Net Index (C$)	*31.0*	*14.4*	—	—	—	—	—	—	—	—
RBC Emerging Markets Equity Class	5.8	17.0	—	—	—	—	—	—	—	—
MSCI Emerging Markets Total Return Net Index (C$)	*3.9*	*15.6*	—	—	—	—	—	—	—	—
RBC Global Resources Class	9.0	-12.6	—	—	—	—	—	—	—	—
GR Class Benchmark [19]	*20.4*	*2.9*	—	—	—	—	—	—	—	—

Footnotes for Summary of Investment Fund Returns

[1] MER (%) is based on actual expenses from January 1 to June 30, 2014, expressed on an annualized basis. MER for Corporate Class Funds is based on actual expenses from April 1, 2013 to March 31, 2014.

[2] Rates of return assume reinvestment of all distributions, after deduction of fees. Simple returns (not annualized) are provided for periods less than one year.

[3] In U.S. dollar terms, all other returns reported in Canadian dollars.

[4] Prior to the prospectus date of the Fund, units were offered for sale in reliance on exemptions from the prospectus requirements of applicable securities laws. Under National Instrument 81-102 of the Canadian Securities Administrators, performance data may not be provided for a period that is before the time when a mutual fund offered its units under a simplified prospectus.

[5] Effective November 28, 2011, units of this Fund are not available for purchase by new investors. Existing investors who hold units of the Fund can continue to make additional investments to the Fund.

[6] PH&N MIF Benchmark: inception to present (35% FTSE TMX Canada Universe Bond Index, 10% Merrill Lynch Canada High Yield Index, 5% S&P/TSX Preferred Share Total Return Index and 50% S&P/TSX Capped Composite Total Return Index).

[7] PH&N Balanced Benchmark: January 1, 2003 to present (35% S&P/TSX Capped Composite Total Return Index, 25% MSCI World ex Canada Total Return Index C$, 35% FTSE TMX Canada Universe Bond Index, 5% FTSE TMX Canada 30 Day T-Bill Index); March 1, 2001 to December 31, 2002 (35% S&P/TSX Composite Index, 25% MSCI World ex Canada Index C$, 35% FTSE TMX Canada Universe Bond Index, 5% FTSE TMX Canada 30 Day T-Bill Index); January 1, 2001 to February 28, 2001 (35% S&P/TSX Composite Index, 12.5% S&P 500 Index C$, 12.5% MSCI EAFE Index C$, 35% FTSE TMX Canada Universe Bond Index, 5% FTSE TMX Canada 30 Day T-Bill Index).

[8] BV GBF Benchmark: Inception to present (35% S&P/TSX Capped Composite Total Return Index, 10% S&P 500 Index C$, 10% MSCI EAFE Total Return Net Index C$, 45% FTSE TMX Canada Universe Bond Index).

[9] PH&N LifeTime 2015 Benchmark: Current (1.0% FTSE TMX Canada 30 Day T-Bill Index, 29.0% FTSE TMX Canada Real Return Bond Index, 29.0% FTSE TMX Canada Universe Bond Index, 11.10% S&P/TSX Capped Composite Total Return Index, 12.95% Russell 3000 C$, 12.95% MSCI EAFE C$, 4.0% MSCI U.S. REIT C$).

[10] PH&N LifeTime 2020 Benchmark: Current (1.0% FTSE TMX Canada 30 Day T-Bill Index, 33.8% FTSE TMX Canada Real Return Bond Index, 18.2% FTSE TMX Canada Universe Bond Index, 12.6% S&P/TSX Capped Composite Total Return Index, 14.7% Russell 3000 C$, 14.7% MSCI EAFE C$, 5.0% MSCI U.S. REIT C$).

[11] PH&N LifeTime 2025 Benchmark: Current (1.0% FTSE TMX Canada 30 Day T-Bill Index, 40.0% FTSE TMX Canada Real Return Bond Index, 10.0% FTSE TMX Canada Universe Bond Index, 13.2% S&P/TSX Capped Composite Total Return Index, 15.4% Russell 3000 C$, 15.4% MSCI EAFE C$, 5.0% MSCI U.S. REIT C$).

[12] PH&N LifeTime 2030 Benchmark: Current (1.0% FTSE TMX Canada 30 Day T-Bill Index, 38.4% FTSE TMX Canada Real Return Bond Index, 9.6% FTSE TMX Canada Universe Bond Index, 13.8% S&P/TSX Capped Composite Total Return Index, 16.1% Russell 3000 C$, 16.1% MSCI EAFE C$, 5.0% MSCI U.S. REIT C$).

[13] PH&N LifeTime 2035 Benchmark: Current (1.0% FTSE TMX Canada 30 Day T-Bill Index, 32.8% FTSE TMX Canada Real Return Bond Index, 8.2% FTSE TMX Canada Universe Bond Index, 15.9% S&P/TSX Capped Composite Total Return Index, 18.55% Russell 3000 C$, 18.55% MSCI EAFE C$, 5.0% MSCI U.S. REIT C$).

[14] PH&N LifeTime 2040 Benchmark: Current (1.0% FTSE TMX Canada 30 Day T-Bill Index, 26.4% FTSE TMX Canada Real Return Bond Index, 6.6% FTSE TMX Canada Universe Bond Index, 18.3% S&P/TSX Capped Composite Total Return Index, 21.35% Russell 3000 C$, 21.35% MSCI EAFE C$, 5.0% MSCI U.S. REIT C$).

[15] PH&N LifeTime 2045 Benchmark: Current (1.0% FTSE TMX Canada 30 Day T-Bill Index, 18.4% FTSE TMX Canada Real Return Bond Index, 4.6% FTSE TMX Canada Universe Bond Index, 21.3% S&P/TSX Capped Composite Index, 24.85% Russell 3000 C$, 24.85% MSCI EAFE C$, 5.0% MSCI U.S. REIT C$).

[16] PH&N CIF Benchmark: August 1, 2009 to present (80% S&P/TSX Capped Composite Total Return Index, 20% S&P/TSX Capped Income Trust Index); inception to July 31, 2009 (50% S&P/TSX Capped Composite Total Return Index, 50% S&P/TSX Capped Income Trust Total Return Index)

[17] Units of this fund(s) are no longer available for purchase effective April 2, 2013.

[18] NA Value Class Benchmark: 50% S&P 500 Total Return Index (C$); 50% S&P/TSX Capped Composite Total Return Index.

[19] GR Class Benchmark: 65% MSCI World Index – Energy (C$); 35% MSCI World Index – Materials (C$).

[20] MIBF Benchmark: 40% FTSE TMX Canada Short Term Bond Index; 60% FTSE TMX Canada Universe Bond Index.

[21] Securities regulations do not allow us to report performance for an investment that has been available for less than one year. Refer to the Summary of Investment Fund Returns tables for fund inception date.

[22] Fund name changed effective June 29, 2011. Fund was previously known as RBC Canadian Bond Index Fund.

[23] GCBF Benchmark: 40% Barclays Capital U.S. Corporate Investment Grade Bond Index (hedged back to C$); 20% Barclays Capital Pan European Corporate Bond Index (hedged back to C$); 15% FTSE TMX Canada All Corportate Bond Index; 10% JP Morgan Emerging Markets Bond Index Global Diversified (hedged back to C$); 10% Bank of

America Merrill Lynch U.S. High Yield BB-B Index (hedged back to C$); 5% Barclays Capital Asia-Pacific Corporate Bond Index (hedged back to C$).

[24] Fund name changed effective June 29, 2011. Fund was previously known as RBC Global High Yield Fund.

[25] GHYBF Benchmark: 50% Bank of America Merrill Lynch U.S. High Yield BB-B Index (hedged back to C$); 50% JP Morgan Emerging Markets Bond Index Global Diversified (hedged back to C$).

[26] BB GMIBF Benchmark: 21.25% JP Morgan EMBI Global Diversified Index (hedged back to C$); 21.25% JP Morgan GBI-EM Broad Diversified (hedged back to C$); 42.5% Merrill Lynch Global High Yield Constrained Index (hedged back to C$); 15% UBS Global Convertible Focus Index (hedged back to C$).

[27] USIF Benchmark: 60% Barclays Capital U.S. Aggregate Bond Index; 40% S&P 500 Total Return Index (US$).

[28] RBC Balanced Fund Benchmark: 45% FTSE TMX Canada Universe Bond Index; 35% S&P/TSX Capped Composite Total Return Index; 10% S&P 500 Total Return Index (C$); 10% MSCI EAFE Total Return Index (C$).

[29] Fund name changed effective June 29, 2011. Fund was previously known as RBC Balanced Growth Fund.

[30] GBJB Benchmark: 45% FTSE TMX Canada Universe Bond Index; 20% S&P/TSX Capped Composite Total Return Index; 20% S&P 500 Total Return Index (C$); 15% MSCI EAFE Total Return Index (C$).

[31] BGIF Benchmark: 2% FTSE TMX Canada 30 Day T-Bill Index; 38% FTSE TMX Canada Universe Bond Index; 30% S&P/TSX Capped Composite Total Return Index; 20% S&P 500 Total Return Index (C$); 10% MSCI Emerging Markets Total Return (Net) Index (C$).

[32] TEF20 Benchmark: 65% FTSE TMX Canada Universe Bond Index; 13% S&P/TSX Capped Composite Total Return Index; 13% S&P 500 Total Return Index (C$); 9% MSCI EAFE Total Return Net Index (C$).

[33] TEF25 Benchmark: 39% FTSE TMX Canada Universe Bond Index; 22% S&P/TSX Capped Composite Total Return Index; 22% S&P 500 Total Return Index (C$); 17% MSCI EAFE Total Return Net Index (C$).

[34] TEF30 Benchmark: 27% FTSE TMX Canada Universe Bond Index; 26% S&P/TSX Capped Composite Total Return Index; 26% S&P 500 Total Return Index (C$); 21% MSCI EAFE Total Return Net Index (C$).

[35] This is a continuing Fund resulting from a merger effective June 28, 2002.

[36] Fund's investment objective and name changed July 1, 2009. Fund was previously known as RBC Canadian Diversified Income Trust Fund.

[37] Fund's investment objective and name changed July 4, 2006 and November 28, 2011. Fund was previously known as RBC North American Dividend Fund.

[38] Fund name changed effective July 4, 2006. Fund was previously known as RBC U.S. RSP Index Fund.

[39] LSTF Benchmark: 50% S&P 500 Health Care Index (C$); 50% S&P 500 Information Technology Index (C$).

[40] Fund name changed effective July 4, 2006. Fund was previously known as RBC International RSP Index Fund

[41] Fund name changed effective June 29, 2011. Fund was previously known as RBC Emerging Markets Fund.

[42] Fund name changed effective July 1, 2007. Fund was previously known as RBC Global Titans Fund.

[43] CD Class Benchmark: 66% S&P/TSX Capped Composite Total Return; 26% S&P/TSX Index - Financials; 5% S&P/TSX Index - Telecommunication Services; 3% S&P/TSX Index - Utilities.

[44] Fund name changed effective June 27, 2014. Fund was previously known as RBC $U.S. Income Fund.

[45] Fund's investment objective changed effective June 23, 2014.

Recent publications

Our publications are available on our website at www.phn.com (*Investment Insights* > *Articles*) or by calling our Investment Funds Centre.

Required disclosures and warnings

This information has been provided by Phillips, Hager & North Investment Funds Ltd. (PH&NIF) and is for informational purposes only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. PH&NIF takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when provided. Due to the possibility of human and mechanical error as well as other factors, including but not limited to technical or other inaccuracies or typographical errors or omissions, PH&NIF is not responsible for any errors or omissions contained herein. PH&NIF reserves the right at any time and without notice to change, amend or cease publication of the information.

Rates of return and distributions are for Series D of PH&N Funds, for Series D of RBC Corporate Class Funds and for Series D or Series A of RBC Funds, as indicated. The rates of return published and graphs are only used to illustrate the effects of the compound growth rate and do not reflect future values of any fund or returns on investment of any fund.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus or Fund Facts document before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The performance data provided assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you.

Phillips, Hager & North Investment Management (PH&N IM) is a division of RBC Global Asset Management Inc. (RBC GAM), the manager of RBC Funds, PH&N Funds and BonaVista Funds, and the principal portfolio adviser for PH&N Funds and BonaVista Funds. The principal distributor of PH&N Funds and BonaVista Funds is PH&NIF, which uses a trade name PH&N Investment Services. Sky Investment Counsel Inc., in which RBC GAM holds a substantial non-controlling interest, is the sub-adviser with respect to the non-North American equity assets held in all PH&N Funds and BonaVista Funds. The management fees and operating expenses associated with RBC Funds and PH&N Funds are paid by the respective fund. The fees for Sky's sub-advisory services with respect to non-North American equity asset management in PH&N Funds are paid by RBC GAM and not by the funds. BlueBay Asset Management LLP is the investment sub-advisor of BlueBay Funds and is a direct wholly-owned subsidiary of Royal Bank of Canada.

This document may contain forward-looking statements relating to anticipated future events, results, performance, decisions, circumstances, opportunities, risks or other matters. These statements require us to make assumptions and are subject to inherent risks and uncertainties. Our predictions and other forward-looking statements may not prove to be accurate, or a number of factors could cause actual events, results, performance, etc. to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. These factors could include, among others, market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the fund may invest, and the risks detailed from time to time in the fund's simplified prospectus. For these reasons, it is important that readers do not place undue reliance on our forward-looking statements. Due to the potential impact of these factors, the manager and the portfolio advisor do not undertake, and specifically disclaim, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

The fund profile is provided for informational purposes only. The Top Ten/25 holdings may change due to ongoing portfolio transactions within the fund. The prospectus, Fund Facts document and other information about the underlying investment funds are available at www.sedar.com.

Quartile rankings are determined by Morningstar Research Inc., an independent research firm, based on categories maintained by the Canadian Investment Funds Standards Committee (CIFSC). Quartile rankings are comparisons of the performance of a fund to other funds in a particular category and are subject to change monthly. The quartiles divide the data into four equal segments expressed in terms of rank (1, 2, 3 or 4). This is the Morningstar quartile ranking of Series D units of the Fund as of June 30, 2014. Morningstar ratings are overall ratings reflecting risk adjusted performance as of June 30, 2014. The ratings are subject to change every month. The ratings are calculated for funds with a minimum of 3 years of performance, calculated from the funds' 1 and 3 year average annual returns measured against a 91-day Treasury Bill return with appropriate fee adjustments. The top 10% of the funds in a category receive 5 stars (high); if the funds fall in the next 22.5%, they receive 4 stars (above average); a place in the middle 35% earns a fund 3 stars (neutral or average); those in the next 22.5% receive 2 stars (below average); and the lowest 10% get 1 star (low). Ratings are just one factor to consider when investing. For more information, please see www.morningstar.ca.

Publication date: July 16, 2014

Dealing With PH&N Investment Services

At PH&N Investment Services, we provide investment solutions to Canadian investors, combining the best elements of independence and advice. You maintain control and decision-making over your investments while benefitting from direct access to a knowledgeable Investment Funds Advisor whenever you need it. Plus, you get exceptional service and low fees. This perfect balance – and much more – is what makes the PH&N Investment Services experience different.

A guided or self-managed approach: You decide

Our Investment Funds Service allows you to make your own investment decisions, but with the comfort of knowing that you can contact one of our experienced Investment Funds Advisors to ask questions and receive advice about your portfolio or investment strategy. Every call you make to us will be answered by an investment professional – there are no automatic call prompts to follow or menus to navigate.

Investment Funds Advisory Service is suited to those investors who want a more guided approach and are looking for ongoing personal consultation in creating and maintaining a customized investment strategy. With this service, clients work with a dedicated Investment Funds Advisor who provides portfolio recommendations and annual reviews. A minimum account size is required; please contact us for further information.

Contacting us and conducting transactions

Our telephone and fax numbers, email and web address are listed on the back cover.

Contact hours

Our Investment Funds Advisors can be reached by telephone or email, Monday through Friday, from 8 a.m. to 8 p.m. Eastern Time, or 5 a.m. to 5 p.m. Pacific Time.

Transaction cut-off times

The cut-off time for same-day transactions is 4 p.m. Eastern Time or 1 p.m. Pacific Time. Orders received after this time will be processed the next business day. For security reasons, PH&N Investment Services can only accept transaction requests that are submitted by fax, mail or telephone (if you are enrolled in our Telephone Transaction service), and not by email or by voicemail.

Investment minimums

The investment minimums for PH&N Funds, RBC Funds and RBC Corporate Class Funds can be different depending on who you invest with. At PH&N Investment Services, the minimum initial investment is $25,000, which may be spread across multiple accounts within the same household and invested in any number of funds. If you invest with us through an automatic purchase plan, you must meet the minimum initial investment, and each automatic purchase must be at least $100.

Fund code information

Please note that fund codes listed on the Fund Facts documents and Morningstar pages for PH&N Funds, RBC Funds and RBC Corporate Class Funds may be different than those used at PH&N Investment Services. Please refer to www.phn.com for the codes used at PH&N Investment Services.

Clients travelling or residing abroad

Because of securities regulations, PH&N Investment Services generally cannot accept transaction requests (other than redemptions) from Canadian clients who are travelling or residing outside of Canada. However, we can accept requests for purchase, switch and redemption transactions within registered accounts (e.g., RRSPs and RRIFs) from clients travelling or residing in certain U.S. states. For details, please see the Disclosures section of our website.

epi®
www.epi-global.com
100% DEGRADABLE

The packaging used to ship this report will BIODEGRADE when discarded in soil in the presence of microorganisms, moisture and oxygen. After use and upon exposure to sunlight (UV) or heat (such as found in landfills), it will begin to break down into small fragments through oxidation, leaving behind only carbon dioxide, water, biomass and a small amount of minerals.

When discarded in a landfill, the packaging is DEGRADABLE within 12 to 24 months.

PH&N Investment Services®

Investment Funds Advice and Information

Telephone: 1-800-661-6141
Facsimile: 1-800-666-9899
Email: info@phn.com
Website: www.phn.com

VANCOUVER • CALGARY • TORONTO • MONTREAL

Contains post-consumer waste material and raw product from well-managed forests, controlled sources and recycled wood or fibre. Please recycle responsibly.

FSC www.fsc.org MIX Paper from responsible sources FSC® C012237