



## Confidential Offering Memorandum

May 1, 2020

Offering Series A<sup>1</sup>, Series F<sup>2</sup> and Series O<sup>3</sup> units of

**Phillips, Hager & North Absolute Return Fund**

This Offering Memorandum constitutes an offering of securities described herein, on a private placement basis only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. This Offering Memorandum is provided to specific prospective investors for the purpose of assisting them and their professional advisers in evaluating the securities offered hereby and is not, and under no circumstances is to be construed as, a prospectus or advertisement or public offering of such securities relating to a distribution of the securities described herein. No securities commission or similar regulatory authority has in any way passed upon the merits of the securities offered hereunder nor has reviewed this Offering Memorandum and any representation to the contrary is an offence. No person is authorized to give any information or make any representation not contained in this Offering Memorandum in connection with the offering of these securities and if given or made, any such information or representation may not be relied upon. The securities described herein are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act, are not insured under the provisions of that Act or any other legislation, and are not guaranteed. Under applicable laws, resale of the units will be subject to indefinite restrictions, other than through redemption of the units or another available exemption.

Potential investors should pay particular attention to the information under the heading "General Information about the Phillips, Hager & North Absolute Return Fund – Specific risks in respect of the Phillips, Hager & North Absolute Return Fund" in this Offering Memorandum. An investment in the Fund requires the financial ability and willingness to accept certain risks. No assurance can be given that the investment objective of the Fund will be achieved or that investors will receive a return of their capital.

\*Phillips, Hager & North Investment Management® is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada.

<sup>1</sup> Series A units of the Fund are currently capped to new purchases.

<sup>2</sup> Given liquidity constraints, Series F units of the Fund will only be available for purchase on a limited basis in our sole discretion.

<sup>3</sup> Series O units of the Fund are currently capped to new purchases.

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## SUMMARY

*Prospective investors are encouraged to consult their own professional advisors as to the tax and legal consequences of investing in the Phillips, Hager & North Absolute Return Fund. The following is a summary only and is qualified by the more detailed information contained in this Offering Memorandum. Capitalized terms used in this summary have the same meaning assigned to them in the body of this Offering Memorandum (including under the heading “Definitions”).*

### **Phillips, Hager & North Absolute Return Fund**

The Fund is established as a trust under the laws of the Province of British Columbia by the Trust Agreement.

### **Manager and Principal Portfolio Adviser**

Phillips, Hager & North Investment Management, a division of RBC GAM, is the manager and principal portfolio adviser of the Fund. Phillips, Hager & North Investment Management has its main operating office in Vancouver, British Columbia.

Please see *Organization and Management of the Phillips, Hager & North Absolute Return Fund – Manager* later in this document for more information.

### **Investment Objective and Strategies of the Fund**

The fundamental investment objective of the Fund is to provide long-term capital growth and income, with low volatility of returns by investing in a portfolio of equities and fixed income securities, and through the use of a number of “alternative” investment strategies.

The Fund will use a variety of “alternative” investment strategies to meet its investment objective. These strategies may include market-neutral hedge fund strategies, opportunistic strategies (including traditional “long-only” strategies) and market hedge/downside protection strategies.

Please see *Specific Information About the Phillips, Hager & North Absolute Return Fund – Investment objective* and *– Investment strategies* later in this document for more information.

### **Leverage**

The Fund may use leverage on an ongoing basis – that is, it may borrow money to increase the size of an investment or otherwise pursue its investment objective and strategies.

The Fund may also employ leverage through the use of derivative instruments that are consistent with the investment objective and strategies of the Fund.

Please see *Specific Information About the Phillips, Hager & North Absolute Return Fund– Borrowing and leverage* later in this document for more information.

### **Risk Factors**

Investors should consider a number of factors in assessing the risks associated with investing in units of the Fund. An investment in the Fund may be considered to be speculative.

Please see *General Information About the Phillips, Hager & North Absolute Return Fund – Specific risks in respect of the Phillips, Hager & North Absolute Return Fund* later in this document for more information.

### **Distributions**

The Fund intends to distribute its net income on a quarterly basis in

March, June, September and December, and its net realized capital gains annually in December. All distributions made by the Fund will be automatically reinvested in units of the Fund unless unitholders of the Fund tell us in advance that they want to receive their distributions in cash. Immediately following a reinvestment resulting from a net income distribution, units of a series may, at the discretion of the Manager, be consolidated such that the number of units held by a unitholder immediately after the consolidation will be the same as the number held by the unitholder before the distribution.

### **Canadian Federal Income Tax Considerations**

Unitholders will be required to include in computing their income for Canadian tax purposes each year amounts paid or payable to them out of the income and taxable capital gains of the Fund (including amounts distributed on the redemption of units), notwithstanding that those amounts may be distributed in cash or reinvested in additional units. Such amounts may include income that is imputed to, or deemed to be earned by, the Fund under the Tax Act. A prospective unitholder should carefully consider all of the potential tax consequences of an investment in units of the Fund and should consult with their tax advisor before subscribing for units.

Please see *General Information About the Phillips, Hager & North Absolute Return Fund – Specific risks in respect of the Phillips, Hager & North Absolute Return Fund – Legal, tax and regulatory risk and Income Tax Considerations for Investors* later in this document for more information.

### **Eligibility for Investment**

As at the date of this Offering Memorandum, units of the Fund are qualified investments and are permitted to be held in trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax-free savings accounts.

### **The Offering**

The Fund currently offers Series A<sup>1</sup>, Series F<sup>2</sup> and Series O<sup>3</sup> units to Canadian investors who are Canadian residents under the Tax Act pursuant to certain exemptions from prospectus requirements under applicable Canadian securities legislation.<sup>4</sup> The Fund is generally available only to those individuals, institutional clients or dealers who have entered into an investment management agreement or a subscription agreement with the Manager or one of its affiliates, and investors may be required to execute such certificates and other documents as the Manager may reasonably require evidencing their eligibility and entitlement to rely on such exemptions.

Subject to certain restrictions, units of the Fund may be purchased on the last Business Day of each month upon written notice being delivered to us by a cut-off time of 1:00 p.m. Vancouver time on a day that is at least five Business Days prior to such date.

As at the date of this Offering Memorandum, the minimum initial purchase requirement for units of the Fund is \$25,000 and the minimum subsequent investment is \$5,000. The foregoing minimums may be

<sup>1</sup> Series A units of the Fund are currently capped to new purchases.

<sup>2</sup> Given liquidity constraints, Series F units of the Fund will only be available for purchase on a limited basis in our sole discretion.

<sup>3</sup> Series O units of the Fund are currently capped to new purchases.

<sup>4</sup> Other series of the Fund exist, but are generally not available for purchase by external investors.

waived at any time by us in our sole discretion.

Unless otherwise permitted by the Manager in its sole discretion and in accordance with applicable laws of a jurisdiction, units of the Fund are not available for purchase by non-residents of Canada. The Fund reserves the right to discontinue the offering of units at any time and from time to time. Pursuant to applicable securities legislation, a report of exempt trade must be filed with securities regulatory authorities that identifies investors.

Please see *Purchases, Switches and Redemptions – Purchasing units and Minimum Investment* and *Additional Information – Reliance on prospectus exemptions and certain required disclosure* later in this document for more information.

Series F units are a performance fee-based series of units. To enable us to equitably charge performance fees that are based on the performance attained from the date on which units are purchased, a new sub-series of units of Series F units will be issued. At the end of each year, the outstanding sub-series of the Series F units may be consolidated into a single series, at the discretion of RBC GAM, provided that the net asset value per unit of such sub-series is not less than its High Water Mark per unit (as defined and described below under *Fees and Expenses – Fees and expenses payable by the Fund – Performance fees*). RBC GAM may commence or cease this practice at any time. For details about the performance fees paid to us by the Fund, please see *Fees and Expenses – Fees and expenses payable by the Fund – Performance fees* later in this document.

## Redemptions

Subject to certain restrictions, units of the Fund may be redeemed on the last Business Day of each month (also being a redemption day) upon written notice being delivered to us by a cut-off time of 1:00 p.m. Vancouver time on a day that is at least two months prior to the redemption day, and there are no charges for redeeming units of the Fund.

Please see *Purchases, Switches and Redemptions – Redemptions* later in this document for more information.

## Certain Conflicts of Interest

The Manager may be subject to various conflicts of interest due to the fact that the Manager may be engaged in a wide variety of management, advisory and other business activities unrelated to the business of the Fund (some of which may compete with the investment activities of the Fund).

Furthermore, the directors, officers and employees of the Manager or any other affiliate of the Manager or a subsidiary of Royal Bank of Canada may also hold significant investments in the Fund and/or investments held by the Fund from time to time.

For more information on these and other matters, please see *General Information About the Phillips, Hager & North Absolute Return Fund – Specific risks in respect of the Phillips, Hager & North Absolute Return Fund – Conflicts of interest risk and Additional Information – Certain conflicts of interest* later in this document.

**Fees and Expenses**

**Management fees** – The Fund will pay a management fee to the Manager of 1.25% per annum of the series net asset value of the Series A and Series F units.

The Fund does not pay us a management fee with respect to Series O units. Unitholders of Series O units pay a negotiated fee directly to us for investment counselling services.

No trailing commission is or will be paid for Series A, Series F or Series O units.

There are no sales commissions payable to the Manager when an investor buys or redeems units of the Fund. Investors may negotiate a sales commission directly with the dealer.

**Operating expenses and administration fee** – We pay certain operating expenses of the Fund. These expenses include regulatory filing fees and other day-to-day operating expenses, including, but not limited to, annual fees, meeting fees and reimbursement for expenses to members of the Independent Review Committee to the extent it provides oversight in the context of the application of exemptive relief in relation to the Fund, recordkeeping, accounting and fund valuation costs, custody fees, audit and legal fees and the costs of preparing and distributing annual and interim financial statements, statements and investor communications. In return, in connection with each series of units of the Fund offered under this Offering Memorandum, as of the date of this document, the Fund pays us an administration fee of 0.04% per annum for Series A, Series F and Series O units.

The Fund also pays certain operating expenses directly, including any Independent Review Committee costs and expenses that are not related to annual fees, meeting fees and reimbursement for expenses to members of the Independent Review Committee to the extent it provides oversight in the context of the application of exemptive relief in relation to the Fund, the cost of any new government or regulatory requirements and any borrowing costs and taxes (including, but not limited to, GST or HST, as applicable).

Please see *Fees and Expenses* later in this document for more information.

**Performance Fee**

Series F units are a performance fee-based series of units. Please see *Fees and Expenses – Fees and expenses payable by the Fund– Performance fees* later in this document for more information.

**Currency**

Units of the Fund are offered, and distributions and redemption proceeds are paid, only in Canadian dollars. The net asset value of the Fund is calculated in Canadian dollars.

**Unit Certificates**

No certificates for units of the Fund will be issued.

**Statutory Rights**

Investors resident in certain provinces and territories of Canada are entitled to the benefit of certain statutory rights of action.

Please see *What Are Your Legal Rights?* and *Schedule “A” – Purchasers’ Rights of Action for Damages or Rescission* later in this document for more information.

## DEFINITIONS

In this Offering Memorandum, “you”, “your” and “unitholder” mean the investor; and “Manager”, “we”, “us”, “our”, “PH&N®” and “Phillips, Hager & North®” mean Phillips, Hager & North Investment Management®, a division of RBC Global Asset Management Inc. (“RBC GAM”) responsible for management of the Fund. In this Offering Memorandum, the “Fund” refers to the Phillips, Hager & North Absolute Return Fund offered under this Offering Memorandum.

In addition, unless otherwise specified, the following words shall have the following meanings in this Offering Memorandum:

“**Business Day**” means any day on which the Toronto Stock Exchange and Canadian banks are open for business.

“**CRA**” means the Canada Revenue Agency.

“**DPSP**” means a deferred profit sharing plan, as defined in the Tax Act.

“**GST**” means goods and services tax.

“**HST**” means harmonized sales tax.

“**Manager**” means Phillips, Hager & North Investment Management, a division of RBC Global Asset Management Inc., in its capacity as manager of the Fund.

“**NI 45-106**” means National Instrument 45-106 – *Prospectus Exemptions*.

“**NI 81-102**” means National Instrument 81-102 – *Investment Funds*.

“**RBC GAM**” means RBC Global Asset Management Inc.

“**RBC Investor Services**” means RBC Investor Services Trust.

“**RDSP**” means a registered disability savings plan, as defined in the Tax Act.

“**Related Party Trading Activities**” has the meaning provided under *Additional Information – Recordkeeping, disclosure and Independent Review Committee involvement*.

“**RESP**” means a registered education savings plan, as defined in the Tax Act.

“**Royal Bank**” means Royal Bank of Canada.

“**RRIF**” means a registered retirement income fund, as defined in the Tax Act.

“**RRSP**” means a registered retirement savings plan, as defined in the Tax Act.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time.

“**Tax Proposals**” has the meaning provided under *Income Tax Considerations for Investors*.

“**TFSA**” means a tax-free savings account, as defined in the Tax Act.

“**Trust Agreement**” means the amended and restated master trust agreement made as of April 6, 2020, between the Manager and the Trustee (as amended from time to time).

“**Trustee**” means RBC Investor Services, in its capacity as trustee of the Fund.

## INTRODUCTION

This Offering Memorandum contains important information to help you make an informed investment decision and understand your rights as an investor in the Fund.

Phillips, Hager & North Investment Management, a division of RBC Global Asset Management Inc. (defined above as “**RBC GAM**”), which is an indirect wholly owned subsidiary of Royal Bank of Canada (defined above as “**Royal Bank**”), is responsible for the management of the Fund.

The Fund currently qualifies as a mutual fund trust under the Tax Act.

Additional information about the Fund will be available in the annual financial statements of the Fund and any interim financial statements of the Fund prepared thereafter. These financial statements are available from us upon request.

## GENERAL INFORMATION ABOUT THE PHILLIPS, HAGER & NORTH ABSOLUTE RETURN FUND

### What is an investment fund?

An investment fund is a pool of investments made on behalf of people with similar investment objectives. When you invest in an investment fund, you are combining your money with that of other investors. We use this pool of money to invest in a wide variety of investments on behalf of the entire group of investors. We follow a set of guidelines outlined in the investment objective and investment strategies of the Fund that are described below in the section *What does the Fund invest in?* You and all the other investors share in any profits or losses the investment fund makes.

The Fund is an open-ended trust that is sold in units, which are issued in series and which may be divided into sub-series. Each unit of a series (and sub-series) represents an undivided share of the Fund's net assets, equal to the share of every other unit of the series (or sub-series). There is no limit to the number of units the Fund can issue. However, the Fund may be closed to new investments from time to time.

### What are the risks of investing in an investment fund?

There is no such thing as risk-free investing. For investors, risk is the possibility of losing money or not making any money. The same is true with investment funds. The value of the investment fund may change every day, reflecting changes in interest rates, economic conditions, financial markets and company news. Therefore, when you redeem your units in an investment fund, you may receive less than the full amount you originally invested. The full amount of your investment in an investment fund is not guaranteed. Unlike bank accounts or guaranteed investment certificates, investment fund units are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

One risk of an investment fund is that, in exceptional circumstances, requests to redeem units of the investment fund may not be accepted or delivery of redemption proceeds may be delayed. These circumstances in the context of the Fund are explained under *Purchases, Switches and Redemptions – Redemptions*. Please also see *General Information about the Phillips, Hager & North Absolute Return Fund – Specific risks in respect of the Phillips, Hager & North Absolute Return Fund – Liquidity risk* below.

The value of an investment fund is directly related to the value of the investments held by the investment fund. The value of the investments in an investment fund can change from day to day due to, among other things, general market conditions, changes in interest rates and political and economic developments. The value of an investment fund may change substantially over time.

The total effect of the different types of risk is measured by volatility. Volatility measures how variable the value of an investment fund is relative to an expected return.

It is very important that you be aware of the risks associated with the Fund, its relative return over time and its volatility. The principal risks that may be associated with investing in the Fund are described below.

**Specific risks in respect of the Phillips, Hager & North Absolute Return Fund**

An investment in the Fund is not intended as a complete investment program for an investor. We strongly recommend that you consult with an experienced adviser prior to investing.

The Fund is designed only for persons who are sophisticated persons in connection with financial and business matters, understand the nature of the investment, and do not require daily liquidity in their investment in the Fund.

The Fund is not subject to the disclosure requirements or investment restrictions applicable to publicly offered investment funds, which include limits on such investment funds' ability to use derivatives and leverage, concentrate investments, and engage in securities lending, repurchase or reverse repurchase transactions, among other restrictions.

Investment funds own different types of investments, depending on their investment objectives. The principal risks associated with an investment fund are the same risks that affect the value of the investments held by that investment fund.

There is no assurance that the investment objective of the Fund will actually be achieved. The Fund's ability to achieve its investment objective may be affected by, among other things, (i) the highly speculative nature of investing in securities in general, (ii) certain risks specific to the investment policies and practices of the investment portfolio in which the Fund invests, and (iii) certain risks specific to the investment techniques used by the portfolio in which the Fund invests.

The following risks are outlined in alphabetical order. This list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Fund.

***Concentration risk***

The Fund is not subject to securities laws applicable to certain conventional mutual funds that require them to diversify portfolio holdings such that no more than a fixed percentage of its assets are invested in any specific issuer. There are risks associated with any investment fund that concentrates its investments in or exposure to any

particular security, including concentrating in any of the following: (i) a particular issuer or issuers; (ii) the credit of a particular counterparty or counterparties; and/or (iii) interest rates or fixed-income securities having a particular duration. This concentration allows the Fund to focus on a particular issuer's potential or execute a particular strategy or achieve a desired balance of risk and return. It also means that the value of the Fund tends to be more volatile than the value of a more diversified investment fund because the concentrated fund's value is affected more by the performance of that particular issuer, counterparty or exposure.

***Conflicts of interest risk***

The Manager may be subject to various conflicts of interest due to the fact that the Manager may be engaged in a wide variety of management, advisory and other business activities unrelated to the business of the Fund (some of which may compete with the investment activities of the Fund).

Furthermore, the directors, officers and employees of the Manager, or any affiliate of the Manager or a subsidiary of Royal Bank may also invest in the Fund and/or be invested in the same investments as the Fund from time to time.

Specific conflicts of interest are disclosed elsewhere in this Offering Memorandum. Please also see *Additional Information – Certain conflicts of interest* later in this document.

***Counterparty risk***

To the extent that the Fund uses derivatives, the Fund may be exposed to counterparty risk. In the event that one or more counterparties become bankrupt or insolvent or fail to meet their obligations to the Fund, the Fund will be exposed to potential losses, including those resulting from non-collateralized mark-to-market in its favour, and potential market risk quantified as the movement in market value of the security during the period of time where the Fund will be required to replace the economic (market) exposure provided by the derivatives contracts held with the defaulting counterparty.

Where there is direct counterparty exposure, over-and-above credit exposure through non-collateralized market-to-market amounts, there is the risk of having to replace the economic exposure of outstanding derivatives positions since they will

no longer be in effect with the defaulted counterparty.

The Fund will enter into derivatives contracts only with approved counterparties with whom we have a negotiated agreement and counterparty exposures will be managed in accordance with the policies of Phillips, Hager & North. Counterparty exposures in the Fund will be monitored according to our compliance processes and procedures and notification of any failure to comply with our policies will be reported to and acted on by us.

#### *Credit risk*

Credit risk is the possibility that a borrower or issuer, or the counterparty to a derivative contract, repurchase agreement or reverse repurchase agreement, is unable or unwilling to repay the loan, obligation or interest payment, either on time or at all. The Fund can lose money if the borrower or the issuer of a bond or other fixed-income security can't pay interest or repay principal when it is due.

The debt securities issued by companies, governments and special purpose vehicles (such as vehicles that issue asset-backed securities or mortgage-backed securities) that act as a counterparty or borrow money are often rated by specialized rating agencies. Credit risk is generally considered to be lower among issuers that have a high credit rating from a credit rating agency, and higher among issuers that have a low credit rating or no credit rating. A downgrade in an issuer's credit rating or other adverse news regarding an issuer can influence a debt security's market value. There is no guarantee that third party credit ratings represent an accurate assessment of the risk of owning a particular issuer's securities. If a rating agency has given a higher rating to an issuer's securities than those securities inherently deserve, the value of the securities may decrease substantially as the market becomes aware of the issuer's true risk. Other factors can also influence a debt security's market value or the ability of an issuer to pay interest or repay principal when due, such as a change in the market perception of the creditworthiness of the security, the parties involved in structuring the security, and the underlying assets or collateral, if any. Lower rated and unrated debt instruments generally offer a better return than higher-grade debt instruments but have the potential for substantial loss.

A credit spread is the difference between interest rates payable on an issuer's fixed-income security and a federal government-issued fixed-income security that are as identical as possible except for the credit rating. If the market determines that a higher return is necessary to compensate for the higher risk of a lower rated fixed-income security, the credit spread will increase. If a credit spread increases after the purchase of a fixed-income security, the value of that security will decrease.

#### *Currency risk*

The Fund is valued in Canadian dollars; however, if the Fund purchases foreign securities, they may be required to pay for such securities using a foreign currency and receive a foreign currency when they sell them. As a result, changes in the value of the Canadian dollar compared to foreign currencies will affect the value, in Canadian dollars, of any foreign securities or foreign currencies in the Fund. For example, if the Canadian dollar rises relative to the U.S. dollar, the Fund's U.S. holdings will be worth fewer Canadian dollars. This decline in value may reduce, or even eliminate, any return the Fund has earned. Currency exposure may increase the volatility of foreign investments relative to Canadian investments.

The Fund may enter into currency exchange transactions in an attempt to protect against changes in a country's currency exchange rates. The Fund may enter into forward contracts to hedge against a change in such currency exchange rates that would cause a decline in the value of existing investments denominated or principally traded in a currency other than the reference currency of the Fund. To do this, the Fund would enter into a forward contract to sell the currency in which the investment is denominated or principally traded in exchange for the reference currency of the Fund.

Although these transactions are intended to minimise the risk of loss due to a decline in the value of the hedged currency, at the same time they limit any potential gain that might be realised should the value of the hedged currency increase. The precise matching of the forward contract amounts and the value of the securities involved will not generally be possible because the future value of such securities will change as a consequence of market movements in the value of such securities between the date when the forward contract is entered into and the date when it matures. Therefore, the successful execution of a hedging

strategy which matches exactly the profile of the investments of the Fund cannot be assured.

#### *Cyber security risk*

As the use of technology has become more prevalent in the course of business, mutual funds, like the Fund, have become potentially more susceptible to operational risks through breaches in cyber security. A breach in cyber security refers to both intentional and unintentional events that may cause the Fund to lose proprietary information or other information subject to privacy laws, suffer data corruption, or lose operational capacity. This in turn could cause the Fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. Cyber security breaches may involve unauthorized access to the Fund's digital information systems (e.g., through "hacking" or malicious software coding), but may also result from outside attacks such as denial-of-service attacks (i.e., efforts to make network services unavailable to intended users). In addition, cyber security breaches of the Fund's third-party service providers (e.g., administrators, transfer agents, custodians and sub-advisors) or of issuers that the Fund invests in can also subject the Fund to many of the same risks associated with direct cyber security breaches. Like with operational risk in general, the Fund has established risk management systems designed to reduce the risks associated with cyber security. However, there is no guarantee that such efforts will succeed, especially since the Fund does not directly control the cyber security systems of issuers or third-party service providers.

#### *Derivatives risk*

A derivative is a type of investment whose value is derived from the performance of other investments or from the movement of interest rates, exchange rates or market indices.

Derivatives have their own special risks. Here are some of the common ones associated with derivatives that may be used by the Fund:

- Since over-the-counter derivatives may be used by the Fund, counterparty risk is an important consideration. See *Counterparty risk* above.
- Although the Fund intends to secure obligations owed to the Fund by counterparties in connection with derivative transactions by requiring counterparties to post collateral to support such obligations, not all amounts owed to the Fund are required to be fully supported by collateral and, in some cases, there may be a delay in collateral being posted (as a result of a dispute with a counterparty or due to settlement processes). The Fund may also be required to post collateral in certain circumstances and grant a security interest in favour of its counterparties in some of its assets, and there may be a risk that such counterparties may enforce their security against the Fund's assets.
- There is no guarantee that the Fund can close out a derivative contract when it wants to or when an existing derivative contract is scheduled to terminate. There is no guarantee that the Fund can enter into another derivatives contract that will maintain the desired market exposure (at all, or at an acceptable price). The inability to close out derivative positions or implement new derivative positions (at all, or on a timely basis) could prevent the Fund from implementing its investment objectives and strategies and could result in losses for the Fund.
- There is no guarantee that the Fund will be able to find suitable counterparties at all, or on a timely basis.
- The Fund's ability to terminate derivative transactions is subject, in all cases, to the terms of the contractual arrangements established between the Fund and each counterparty, the adherence of counterparties to the terms of such contracts, the prompt exercise of contractual rights, the availability of dispute resolution mechanisms and the ability to require market intermediaries and services providers to promptly act on instructions, among other factors. As a result, in cases where the Fund attempts to terminate a derivative transaction, there may be a delay. During that delay, the value of the Fund, collateral posted by or to the Fund and/or the Fund's exposure under a derivatives contract may fluctuate dramatically and, as a result, the Fund may suffer significant losses or be unable to meet its investment objectives.

- Using derivatives for hedging may not always work and it could limit the Fund's potential to make a gain.
- Costs relating to entering, maintaining and unwinding derivative contracts may reduce the returns of the Fund, particularly in illiquid markets.
- The price of a derivative may not accurately reflect the value of the underlying currency or security.
- The other party to a derivative contract may not be willing to or not be able to live up to its agreement to complete the transaction. In general, credit ratings are relied on as indications of the ability of the other party to live up to its agreement. See *Credit risk* above.
- Changes to the legal or regulatory environment for derivative instruments may affect the way derivatives are used by the Fund. See *Legal, tax and regulatory risk* below.

#### *Economic risk*

The value of the Fund may decline due to factors affecting market conditions generally or particular industries represented in the markets. The value of a security held by the Fund may decline due to an actual or perceived change in general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, or adverse investor sentiment generally. The value of the Fund or of a security may also decline due to factors which affect a particular industry or industries, such as labour shortages or increased production costs and competitive conditions within an industry. During a general downturn in the economy, multiple asset classes may decline in value simultaneously. Economic downturns can be difficult to predict due to speculation in inflationary, fiscal and monetary factors.

#### *Foreign investment risk*

Foreign investments are affected by global economic factors. There is often less information available about foreign companies and many countries have less stringent accounting, auditing and reporting standards than we do in Canada, or

lower standards of government supervision and regulation. Some foreign stock markets have less trading volume, which may make it more difficult to sell an investment or may make prices more volatile. Certain countries may also have foreign investment or exchange laws that make it difficult to sell an investment or may impose withholding or other taxes that could reduce the return on the investment. Different financial, political and social factors could hurt the value of foreign investments. Investments in foreign markets may be subject to change in currency exchange rates, the imposition of taxes or the expropriation of assets. Mutual funds that specialize in foreign investments may experience larger or more frequent price changes in the short term.

Pursuant to U.S. tax rules, unitholders of the Fund may be required to provide identity and residency information to the Fund, which may be provided by the Fund to U.S. tax authorities in order to avoid a U.S. withholding tax being imposed on U.S. and certain non-U.S. source income and proceeds of disposition received by the Fund or on certain amounts (including distributions) paid by the Fund to certain unitholders.

#### *Fund size risk*

Over time the Fund may be constrained in its ability to deploy capital depending on market conditions at the time depending on the size of the Fund. While the Fund's objective is to allocate capital to attractive opportunities, there is no guarantee that the Fund will have sufficient opportunities to effectively deploy all of its capital in all market conditions.

#### *Funding liquidity risk*

If unitholders of the Fund redeem their units in an aggregate amount which exceeds the amount of cash or other liquid assets the Fund has readily available to fund such redemptions, the Fund may need to liquidate illiquid assets to meet the redemption obligations imposed on it under such circumstances. This is known as a "liquidity event" and may limit or otherwise affect the ability of the Fund to operate or manage investment positions and strategies within its investment portfolio. To mitigate this risk, we have put into place procedures that allow the Fund additional time to raise cash to fund redemptions when necessary. However, a significant number of redemption requests in a

short time and certain other market related events may nonetheless result in such a liquidity event. In addition, as a result of the redemption procedures established by us, the value of your investment in the Fund may fluctuate considerably between the time of your redemption request and the date upon which we value your holdings for the purposes of redeeming your units. A redemption request once made generally cannot be rescinded. See *Purchases, Switches and Redemptions – Redemptions*.

#### *Income trust risk*

A fund that invests in trusts faces the risk that, as a holder of units of a trust, the fund may be held liable and subject to levy or execution for satisfaction of all obligations and claims of the trust. This risk may arise with income trusts, which include real estate investment trusts and other forms of business trusts. The risk is considered remote. Alberta, Ontario, Saskatchewan, British Columbia and Manitoba have legislation to eliminate the risk in respect of holders of units of trusts that are reporting issuers organized under the laws of such provinces. To the extent that the Fund is subject to such claims and such claims are not satisfied by the Fund, there is a risk that unitholders of the Fund could be held personally liable for the obligations of the trust. The possibility of a unitholder incurring personal liability of this nature is considered extremely remote.

#### *Interest rate risk*

If the Fund invests primarily in bonds and other fixed-income securities, a significant influence on the Fund's value will be changes in the general level of interest rates. If interest rates fall, the value of the Fund's units will tend to rise. If interest rates rise, the value of the Fund's units will tend to fall. Depending on the Fund's holdings, short-term interest rates can have a different influence on the Fund's value than long-term interest rates. If the Fund invests primarily in bonds and other fixed-income securities with longer-term maturities, the biggest influence on the Fund's value will be changes in the general level of long-term interest rates. If the Fund invests primarily in bonds and other fixed-income securities with shorter-term maturities, the biggest influence on the Fund's value will be changes in the general level of shorter-term interest rates.

#### *Large investor risk*

The securities of the Fund may be held in significant percentages by an investor, including another investment fund. In order to meet purchase and redemption requests by the investor, the Fund may have to alter its holdings significantly and purchase or sell investments at unfavourable prices and incur capital gains and transaction costs. This can reduce the returns of the Fund.

A fund that experiences a "loss restriction event" (i) will be deemed to have a year-end for tax purposes (which would result in an allocation of the Fund's taxable income at such time to Unitholders so that the Fund is not liable for income tax on such amounts), and (ii) the Fund will become subject to the loss restriction rules generally applicable to corporations that experience an acquisition of control, including a deemed realization of any unrealized capital losses and restrictions on its ability to carry forward losses. Generally, the Fund will be subject to a loss restriction event when a person becomes a "majority-interest beneficiary" of the Fund, or a group of persons becomes a "majority-interest group of beneficiaries" of the Fund, as those terms are defined in the affiliated persons rules contained in the Tax Act, with appropriate modifications. Generally, a majority-interest beneficiary of the Fund will be a beneficiary who, together with the beneficial interests of persons and partnerships with whom the beneficiary is affiliated, has a fair market value that is greater than 50% of the fair market value of all interests in the income or capital, respectively, in the Fund. Generally, a person is deemed not to become a majority-interest beneficiary, and a group of persons is deemed not to become a majority-interest group of beneficiaries, of the Fund if the Fund meets certain investment requirements and qualifies as an "investment fund" under the rules.

#### *Legal, tax and regulatory risk*

Legal, tax and regulatory changes to laws or administrative practice could occur which may adversely affect the Fund. For example, the regulatory or tax environment for derivative instruments is evolving, and changes in the regulation or taxation of derivative instruments may adversely affect the value of derivative instruments held by the Fund and the ability of the Fund to pursue its investment strategies. Interpretation of the law or administrative practice may affect the characterization of the Fund's earnings as capital

gains or income which may increase the level of tax borne by investors as a result of increased taxable distributions from the Fund. There can be no assurance that Canadian federal income tax laws and administrative policies and assessing practices of the Canada Revenue Agency (“CRA”) will not be changed, or applied, in a manner that adversely affects the unitholders of the Fund.

In some jurisdictions, the interpretation and implementation of laws and regulations and the enforcement of unitholders’ rights under such laws and regulations may involve significant uncertainties. Furthermore, there may be differences between accounting and auditing standards, reporting practices and disclosure requirements and those generally accepted internationally. Tax law and regulations of any country are constantly subject to change, and may be changed with retrospective effect. The interpretation and applicability of tax law and regulations by tax authorities in some jurisdictions are not consistent or transparent and may vary from region to region.

#### *Leverage risk*

The Fund is entitled to use leverage as part of its investment strategies. Leverage has the potential to enhance returns but also involves additional risks. There can be no assurance that the leveraging strategy employed by the Fund will enhance returns or will be available in all circumstances. The use of leverage may reduce returns to unitholders.

The use of leverage in an investment strategy provides for greater potential for capital appreciation, but at the same time increases the Fund’s exposure to capital risk and could result in higher current expenses. Additionally, a relatively small movement in the price of an instrument may result in immediate and substantial losses. Moreover, if the Fund’s revenues are not sufficient to meet its obligations when due, the Fund could sustain a total loss of its investment.

Borrowing will cause the Fund to incur interest expense and other fees. The cost of borrowing may reduce the Fund’s return.

From time to time, the Fund may use derivatives to expand the range of investment opportunities available and/or achieve an intended term structure objective, and such use of derivatives may result in leverage.

The use of derivatives has the potential to both enhance returns and enhance losses, and involves additional risks and/or may increase volatility. A relatively small movement in interest rates, the price of an instrument or in the performance of the markets more generally may result in immediate and substantial losses. Moreover, certain market environments could negatively impact the absolute performance of the Fund and its portfolio and the collateral posted to and by the Fund resulting in a total loss of the Fund’s assets or an inability of the Fund to pay its obligations when they become due.

#### *Limits on advice risk*

We consulted with independent counsel and other experts regarding the Fund. Unitholders are not necessarily represented by any such independent experts. Each prospective investor should consult its own legal, tax and financial advisors regarding the desirability of purchasing units and the suitability of an investment in the Fund for such investor. In addition, we may only be managing a portion of your portfolio or the portion that has been invested in the Fund. As a result, we are unable to control the impact your investment in the Fund may have on the rest of your portfolio and/or the obligations your portfolio are designed to support (if any).

#### *Liquidity risk*

Liquidity refers to the speed and ease with which an asset can be sold and converted into cash. Some securities may be illiquid because of legal restrictions, the nature of the investment, or certain features like guarantees or a lack of buyers interested in the particular security or market. In highly volatile markets, such as in periods of sudden interest rate changes, certain otherwise liquid securities may become less liquid, which means they cannot be sold as quickly or easily. Difficulty in selling securities may result in higher volatility, a loss or reduced return for the Fund. The Fund will frequently be investing in securities with less liquidity than a listed equity security, including in some cases mortgages and derivatives, which may impair the Fund’s ability to quickly realize on its investments.

Liquidity conditions in derivatives markets may also complicate maintaining any required overlay exposures, which in turn may increase the degree and range to which particular derivative instruments are used.

### *Market risk*

Market risk is the risk of being invested in the equity and fixed-income markets. The market value of the Fund's investments will rise and fall based on specific issuer developments and broader equity or fixed-income market conditions. Market value will also vary with changes in the general economic and financial conditions in countries or sectors in which the investments are based (whether as a result of political, social, environmental or health crises, or otherwise).

### *Options risk*

The Fund may have exposure to options on securities. The Fund may purchase and sell, or "write," options on securities on a variety of securities exchanges and over-the-counter markets. The seller, or "writer," of a put or call option which is uncovered (i.e., the writer has effectively a long or a short position in the underlying security, currency or instrument) assumes a theoretically unlimited risk of a decline or increase in the market price of the underlying security, currency or instrument below or above the sale or purchase price. Trading in options is a highly specialized activity and, although it may increase total return, it may also entail significantly greater than ordinary investment risks.

### *Performance fee risk*

Performance fee arrangements, which are in place for certain series of units of the Fund, may create an incentive for the Manager to cause the Fund to make investments that are more risky or speculative than would be the case in the absence of a fee based on the performance of the Fund.

Please see *Fees and expenses payable by the Fund – Performance fees* later in this document for more information.

### *Portfolio turnover risk*

The operation of the Fund may result in a high portfolio turnover rate. The Fund has not placed a limit on the rate of portfolio turnover permitted in the Fund, and portfolio securities may be sold without regard to the time they have been held when, in our opinion, investment considerations warrant such action. A high rate of portfolio turnover correspondingly involves greater expenses than a lower rate, including greater transaction costs such as brokerage fees. A high turnover rate may also

result in the realization of gains and losses that will be reflected in taxable distributions to unitholders.

These factors may consequently have a negative effect on the value of the Fund.

### *Private issuer risk*

The Fund may invest in securities issued by private issuers. There are risks associated with investing in private issuer securities. There is typically much less publicly available information concerning private issuers than for public issuers. The valuation of private issuer securities is also more subjective and such securities are very illiquid as there are no established markets for such securities. As a result, in order to sell this type of holding, the Fund may need to discount the securities from recent prices or dispose of the securities over a long period of time. Please see *Liquidity risk* above and *Purchases, Switches and Redemptions* later in this document for more information.

### *Restrictions on transfer and redemptions risk*

The units of the Fund are not transferable except by operation of law or with our consent. Consent may be conditioned, withheld or granted in our sole discretion for any reason or for no reason. We do not intend to permit the transfer of the units in circumstances where such transfer might cause regulatory, pecuniary, legal, taxation or material administrative disadvantage to the Fund or its unitholders as a whole. In the normal course, the only way for an investor to liquidate its investment in the Fund will be through a redemption of units. Redemptions are permitted only at certain times and there are circumstances in which the Fund may suspend redemptions. See *Purchases, Switches and Redemptions - Redemptions*. Accordingly, units may not be appropriate for investors seeking a more liquid investment.

### *Securities lending, repurchase and reverse repurchase risk*

There are risks associated with securities lending, repurchase transactions and reverse repurchase transactions. The value of securities loaned under a securities lending transaction or sold under a repurchase transaction may exceed the value of the collateral held by the Fund. If there is a default on an obligation to repay or to resell the securities to the Fund, the collateral may be insufficient to

enable the Fund to purchase replacement securities and the Fund may suffer a loss for the difference. Similarly, the value of securities purchased by the Fund under a reverse repurchase transaction may decline below the amount of cash paid by the Fund. If there is a default on an obligation to repurchase the securities from the Fund, the Fund may need to sell the securities for a lower price and suffer a loss for the difference.

For more information about how the Fund may engage in these transactions, please *Additional Information - How the Fund may engage in securities lending, repurchase transactions and reverse repurchase transactions* later in this document.

#### *Series risk*

The Fund issues more than one series of units. Each series has its own fees and expenses, which are tracked separately. Those expenses will be deducted in calculating the unit value for that series, thereby reducing its unit value. If one series is unable to pay its expenses or liabilities, the assets of the other series will be used to pay those expenses or liabilities. As a result, the unit price of the other series may also be reduced. Please see *Purchases, Switches and Redemptions* and *Fees and Expenses* for more information regarding each series and how its unit value is calculated.

#### *Short sale risk*

The Fund may engage in short sale transactions. A short sale occurs when the Fund borrows securities from a lender and sells them on the open market. The Fund must repurchase the securities at a later date in order to return them to the lender. In the interim, the proceeds from the short sale transaction are deposited with the lender and the Fund pays interest to the lender on the borrowed securities. If the Fund repurchases the securities later at a lower price than the price at which it has sold the borrowed securities on the open market, a profit will result. However, if the price of the borrowed securities rises, a loss will result.

There are risks associated with short selling; namely, that the borrowed securities will rise in value or not decline sufficiently in value to cover the Fund's costs, or that market conditions will cause difficulties in the sale or repurchase of the securities. In addition, the lender from whom the Fund has borrowed securities may become

bankrupt before the transaction is complete, causing the borrowing Fund to forfeit the collateral it deposited when it borrowed the securities.

Mutual funds that engage in short selling must adhere to controls and limits in order to counteract these risks by limiting the amount of exposure for short sales, and only short selling securities for which there is expected to be a consistent liquid market. The Fund will only borrow up to certain limits, and only from lenders that meet criteria to establish their creditworthiness.

#### *Small cap issuer risk*

The Fund may have significant holdings in securities of small-capitalization issuers. Investments in issuers with smaller market capitalizations are generally riskier than investments in larger, well-established issuers. Smaller issuers are often more recently formed than larger issuers and may have limited product lines, distribution channels and financial and managerial resources. There is often less publicly available information about these issuers than there is for larger, more established issuers. In addition, the prices of securities of smaller issuers may be more volatile than those of larger issuers. These factors may consequently have a negative effect on the value of the Fund.

#### *Specialization risk*

Some mutual funds specialize by investing in a particular sector of the economy or part of the world or by using a specific investment style or approach, like growth, value or socially responsible investing. Specialization allows a mutual fund to focus on a specific investment approach, which can boost returns if the particular sector, country or investment style is in favour. However, if the particular sector, country or investment style is out of favour, the value of the mutual fund may underperform relative to less specialized investments. Mutual funds that specialize tend to be less diversified but may add diversification benefits to portfolios that do not otherwise have exposure to this specialization.

#### *Warrants risk*

The Fund may purchase and sell warrants or have exposure to the purchase and sale of warrants. Warrants are generally long-term options or contractual rights to purchase a particular security

to be issued by the issuer of the warrants. The Fund may use warrants in substantially the same manner as purchased call options. If a warrant is not sold or exercised prior to its expiration date, it becomes valueless. The risks associated with the practice of investing in warrants vary depending on the kind of investments, but include a higher probability of losses relative to purchasing the common equity of the issuer, the surrender of potential for capital appreciation, increased transaction costs, and inactive markets.

## ORGANIZATION AND MANAGEMENT OF THE PHILLIPS, HAGER & NORTH ABSOLUTE RETURN FUND

Role	Service provided
<p><b>Manager</b></p> <p>RBC Global Asset Management Inc. Toronto, Ontario</p> <p>Phillips, Hager &amp; North Investment Management*</p> <p>Main Operating Office Vancouver, British Columbia</p>	<p>Phillips, Hager &amp; North Investment Management, a division of RBC GAM, is the manager and principal portfolio adviser of the Fund. Phillips, Hager &amp; North Investment Management has its main operating office in Vancouver, British Columbia.</p> <p>We provide investment counselling services to company pension and multi-employer pension plans, foundations, endowments, corporations, private clients and our own investment funds.</p> <p>We will not vote units of other investment funds managed by RBC GAM or its affiliates or associates held by the Fund. However, we may pass on the right to vote units of other investment funds managed by RBC GAM or its affiliates or associates to unitholders of the Fund that hold such units.</p>
<p><b>Principal Portfolio Adviser</b></p> <p>RBC Global Asset Management Inc.</p> <p>Phillips, Hager &amp; North Investment Management*</p> <p>Main Operating Office Vancouver, British Columbia</p>	<p>As principal portfolio adviser, we have principal responsibility for managing the investment portfolio of the Fund.</p>
<p><b>Trustee</b></p> <p>RBC Investor Services Trust Toronto, Ontario</p>	<p>As trustee, RBC Investor Services holds title to securities owned by the Fund on behalf of the unitholders with responsibility to act in the best interest of unitholders.</p> <p>RBC Investor Services is a wholly-owned subsidiary of Royal Bank and is an affiliate of RBC GAM.</p>
<p><b>Prime Broker and Custodian</b></p>	<p>TD Securities Inc. ("<b>TD</b>"), Scotia Capital Inc. ("<b>Scotia</b>") and RBC Dominion Securities Inc. ("<b>RBC DS</b>") are each designated by the Fund as its prime broker for certain brokerage, settlement, custodial, clearance and other services in connection with such transactions. TD, Scotia and RBC DS will also provide margin lending to the Fund. RBC DS is an affiliate of RBC GAM and the Royal Bank. The Fund may designate additional or replacement prime brokers from time to time. Each of TD, Scotia and RBC DS may hold the securities itself or appoint sub-custodians to do so.</p>

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**Registrars**

RBC Global Asset Management Inc.

Phillips, Hager & North Investment  
Management\*

Main Operating Office  
Vancouver, British Columbia

RBC Investor Services Trust  
Toronto, Ontario

The registrars process all the purchases and redemptions of units of the Fund, keep a register of all investors, and issue investor statements and annual tax slips for investors.

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**Auditors**

PricewaterhouseCoopers LLP  
Chartered Professional Accountants  
Toronto, Ontario

As auditors, PricewaterhouseCoopers LLP provides assurance that the Fund's annual financial statements present fairly, in all material respects, its financial position and results of operations in accordance with International Financial Reporting Standards.

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**Independent Review Committee**

The Independent Review Committee acts as the independent review committee for investment funds managed by RBC GAM which are offered by way of a prospectus. The Independent Review Committee also provides independent oversight as required under certain exemptive relief for certain transactions by certain non-prospectus funds (like the Fund) managed by RBC GAM.

The Independent Review Committee may also provide advice to RBC GAM on other issues relating to the management of the Fund.

The Independent Review Committee is currently composed of five members. Each member is independent from RBC GAM, the Fund and the entities related to RBC GAM. The Independent Review Committee prepares, at least annually, a report of its activities for you, which is available on our website at [www.rbcgam.com](http://www.rbcgam.com) or at your request and at no cost by calling us toll free at 1-877-408-6019 or by emailing us at [institutionalcash@phn.com](mailto:institutionalcash@phn.com).

Please see *Additional Information – Regulatory relief and – Recordkeeping, disclosure and Independent Review Committee involvement* later in this document for more information

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\* Phillips, Hager & North Investment Management is a division of RBC GAM that is principally responsible for carrying out RBC GAM's responsibilities as manager and principal portfolio adviser of the Fund.

## SPECIFIC INFORMATION ABOUT THE PHILLIPS, HAGER & NORTH ABSOLUTE RETURN FUND

### Fund details

<b>Type of fund</b>	Alternative investment fund strategies
<b>Date the Fund was created</b>	September 1, 2002
<b>Type of securities</b>	Series A <sup>1</sup> , Series F <sup>2</sup> and Series O <sup>3</sup> trust units <sup>4</sup>
<b>Eligibility</b>	Units are qualified investments for RRSPs, RRIFs, DPSPs, RESPs, RDSPs or TFSA's
<b>Fees and expenses</b>	See the section called <i>Fees and Expenses</i> later in this document

<sup>1</sup>Series A units of the Fund are currently capped to new purchases.

<sup>2</sup>Given liquidity constraints, Series F units of the Fund will only be available for purchase on a limited basis in our sole discretion.

<sup>3</sup> Series O units of the Fund are currently capped to new purchases.

<sup>4</sup> Other series of the Fund exist, but are not generally available for purchase by external investors.

### What does the Fund invest in?

#### Investment objective

The investment objective of the Fund is to provide long-term capital growth and income, with low volatility of returns by investing in a portfolio of equities and fixed income securities, and through the use of a number of alternative investment strategies (**Alternative Investment Strategies**). The Fund will use leverage in pursuing its investment objective.

The fundamental investment objective may only be changed in accordance with the Trust Agreement for the Fund. We may change the

Fund's investment strategies described below at our discretion.

#### Investment strategies

The Fund will use a variety of investment strategies to meet its investment objective, including the Alternative Investment Strategies.

Currently, the Fund's portfolio uses a layered structure with a foundation of income generating securities, such as corporate bonds, real estate investment trusts and income trusts, that seek to provide stability to the portfolio. Layered above are various Alternative Investment Strategies including those described under the headings "Market-Neutral Hedge Fund Strategies" and "Opportunistic Strategies" below. This second tier targets modest returns with very low "beta". In this Offering Memorandum "beta" is a term used to describe market-based returns, in contrast to "alpha", which refers to skill-based returns generated by the portfolio adviser. The tier on top is a portfolio of equity securities that the portfolio adviser considers attractive long-term investments. Currency risk is typically hedged for this portfolio of equity securities but the Fund may have small net currency exposures from time to time. In addition, the Fund's portfolio will include protection against the whole portfolio by using strategies described under the heading "Market Hedges/Downside Protection".

Examples of Alternative Investment Strategies in which the Fund may invest include the following:

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## MARKET-NEUTRAL HEDGE FUND STRATEGIES

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### *Long/short equity*

In long/short equity strategies, a portfolio adviser takes both long and short positions in a group of related securities within a portfolio. One common example is known as “pairs trading”, which involves initiating a long position in a security that is thought to be undervalued while simultaneously establishing a short position in a security with similar characteristics (e.g., within the same sector or industry) that is determined to be overvalued. This way, the Manager attempts to hedge the overall market and industry risk, while exploiting a specific relative-valuation anomaly.

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### *Convertible arbitrage*

Convertible arbitrage is a strategy whereby a portfolio adviser purchases a convertible bond that is believed to be undervalued, and at the same time, sells short the underlying common stock. As a variation of this strategy, undervalued warrants or options may be used in place of purchasing the convertible bond.

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### *Fixed-income arbitrage*

Broadly defined, fixed income arbitrage involves exploiting price differences in related bonds while hedging exposure to interest rate risk. It also includes the purchase of short-term debt instruments issued by creditworthy companies, often on a leveraged basis in order to generate attractive returns.

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### *Equity/commodity arbitrage*

Equity/commodity arbitrage is a strategy that seeks to exploit differences in valuation between commodity-based equities and the underlying commodity itself, or between related commodities. For example, the portfolio adviser may initiate a long position in the stock of an undervalued energy company, and simultaneously establish a short position in oil futures as a hedge.

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### *Merger (risk) arbitrage*

Merger arbitrage (also referred to as risk arbitrage) involves the purchase of securities that are subject to a corporate acquisition or merger. This strategy aims to capture the difference between the current market price of the securities and their value if the contemplated acquisition or merger occurs.

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### *Capital structure arbitrage*

Similar to convertible arbitrage, this strategy aims to exploit an inefficiency that exists in a company's capital structure. For example, a portfolio adviser could take a long position in a company's high-yield bond issue and a short position in a portion of the same company's stock, thereby hedging the risk of distress or bankruptcy, while generating attractive income from the bond.

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### *Equity “stub” trades*

A “stub” trade is an equity-related strategy typically consisting of a long position in a parent company and a short position in a publicly-traded subsidiary of the parent company. This strategy may allow the portfolio adviser to gain exposure to the parent company's non-public business at an attractive valuation.

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## OPPORTUNISTIC STRATEGIES

*Traditional long investments* A long investment involves purchasing a security with the goal of holding it over a medium- to long-term timeframe in anticipation of price appreciation. In many cases, long investments will be made in companies whose shares are considered significantly undervalued and where there is a catalyst for realizing value in the near term (e.g., recapitalization, privatization, takeover, restructuring, etc.).

*Distressed securities* Distressed securities involve investing in undervalued debt or equity of companies that are in some kind of financial difficulty. This strategy aims to take advantage of the opportunity to realize value when a turnaround or restructuring occurs.

*Event-driven strategies* Event-driven strategies involve exploiting valuation anomalies in securities, which may arise from various corporate activities such as spin-offs, special dividends, rights offerings and bankruptcies.

## MARKET HEDGES/DOWNSIDE PROTECTION

*Index put options* Purchasing put options on the S&P 500 and S&P/TSX indices can provide a downside “floor” to protect against major market moves. This strategy can help limit downside risk while retaining upside potential.

### *Index short positions*

Short selling involves borrowing a security (from a third party such as a brokerage firm) with the intention of immediately selling it, and then repurchasing it at a future date in order to return it to the lender. The security is borrowed and sold in anticipation that its price will fall in value. If this occurs, it can be repurchased at a lower price and returned to the lender for a profit.

Index short positions involve the short sale of an exchange traded fund representing the S&P 500 or S&P/TSX indices or a specific industry sector sub-index, to provide a market hedge against long exposures in the portfolio.

### *Interest rate hedge*

Interest rates may be hedged during periods when the risk of an adverse rate change is perceived to be high. Interest rate exposure in the Fund's bond/income trust/real estate investment trust portfolio may be hedged using futures contracts on liquid Government of Canada or U.S. Treasury bonds.

### *Credit hedge*

A credit hedge strategy may be undertaken when the portfolio is exposed to adverse moves in credit spreads. Some of the Fund's credit exposure may be hedged through the credit default swap market as a form of insurance against widening corporate bond spreads.

The Alternative Investment Strategies described above are not an exhaustive list of the Alternative Investment Strategies that the Fund may employ or invest in, and the portfolio manager, in seeking to fulfil the investment objectives of the Fund, may allocate assets to new or different Alternative Investment Strategies that fall into categories other than those outlined above. The composition and description of these types of Alternative Investment Strategies may also change over time.

### ***Borrowing and leverage***

On an ongoing basis, the Fund may borrow money to increase the size of an investment or otherwise pursue its investment objective and strategies. This will result in leverage. While there is a risk that the use of leverage may increase potential losses, the Fund will attempt to mitigate this risk by limiting its borrowing. Specifically, the Fund will borrow no more than \$1 for every \$1 of assets held by the Fund. This is expressed as a “2:1 leverage ratio”, which means that for every \$2 of the Fund’s assets, no more than \$1 will comprise borrowed money. In practice, we expect that the Fund’s portfolio adviser will use a degree of leverage that is lower than this limit. All interest incurred for borrowings will be charged to the Fund, and accordingly will be paid for indirectly by existing unitholders of the Fund. The Fund may also employ leverage through the use of repurchase agreements and derivative instruments. See *Specific risks in respect of the Phillips, Hager & North Absolute Return Fund – Leverage risk* earlier in this document.

### ***Cash on hand***

Pending the purchase of securities or other investments consistent with the Fund’s investment objective and strategies and subject to maintaining cash cover in connection with the use of derivatives, cash on hand may be: (i) deposited into interest-bearing accounts maintained by the Fund with a financial institution; (ii) invested in securities issued by mutual funds that are listed and posted for trading on a Canadian stock exchange (“**ETFs**”); (iii) invested in government treasury bills, certificates of deposit, term deposits or other evidences of indebtedness of chartered banks whose securities are listed and posted for trading on a stock exchange; (iv) invested in such other interest earning money market accounts, government obligations, commercial paper, and short-term certificates of deposit; (v) used to enter into repurchase or reverse repurchase transactions; and (vi) invested in investment funds other than ETFs that invest primarily in securities listed in subsections (iii) and (iv), to the extent permitted by securities regulatory authorities, including investment funds managed by RBC GAM or an affiliate of RBC GAM. All such investments must comply with applicable securities legislation.

### ***Derivatives***

The Fund may extensively invest in or use derivative instruments subject only to the limitation that such investment be consistent with the investment objective and strategies of the Fund and in compliance with applicable laws.

The Fund may use derivatives, such as swaps, options, futures and forward contracts for (i) hedging purposes, including to protect against losses or reduce volatility resulting from changes in interest rates, market indices or foreign exchange rates including changes in the value of foreign currency relative to the Canadian dollar; and (ii) non-hedging purposes, including as a substitute for direct investment, to generate income or extend or reduce the duration of fixed-income investments. See *Specific risks in respect of the Phillips, Hager & North Absolute Return Fund – Derivatives risk* earlier in this document.

### ***Other investments***

We may from time to time invest a portion of the Fund’s net asset value in other investment funds managed by RBC GAM or its affiliates where we believe that an investment in other investment funds is a more efficient and cost effective way of achieving the Fund’s investment objective. We do not anticipate that the Fund will invest more than 20% of its net assets in other investment funds managed by RBC GAM or its affiliates. We will only invest in units of other investment funds where the investment is compatible with the Fund’s investment objective and strategies, and otherwise complies with applicable securities laws and the terms and conditions of any applicable exemptive relief obtained by RBC GAM on behalf of the Fund. **Investors who receive a copy of this Offering Memorandum will be deemed to have consented to such fund of fund investments.**

Although the Fund does not currently intend to engage in securities lending, it may, upon six months’ prior written notice to unitholders, engage in securities lending in the future. The Fund may also, directly or through investments in other investment funds, enter into repurchase and reverse repurchase transactions upon six months’ prior written notice to unitholders, and as permitted by applicable laws for efficient portfolio management purposes or for any other purpose that is compatible with the Fund’s investment

objective and strategies. See *Additional Information – How the Fund may engage in securities lending, repurchase transactions and reverse repurchase transactions* later in this document.

### **What are the risks of investing in the Fund?**

For details on the principal risks associated with an investment in the Fund, as well as the general risks of investing in investment funds, please see *General Information About the Phillips, Hager & North Absolute Return Fund – Specific risks in respect of the Phillips, Hager & North Absolute Return Fund* and – *What are the risks of investing in an investment fund?* earlier in this document.

### **Distribution policy**

The Fund intends to distribute its net income on a quarterly basis in March, June, September and December and its net realized capital gains annually in December.

**Distributions from the Fund are automatically reinvested in additional units of the Fund unless unitholders of the Fund tell us in advance that they want to receive their distributions in cash.**

Immediately following a reinvestment resulting from a net income distribution, units of a series may, at the discretion of the Manager, be consolidated such that the number of units held by a unitholder immediately after the consolidation will be the same as the number held by the unitholder before the distribution.

## PURCHASES, SWITCHES AND REDEMPTIONS

The Fund is permitted to have an unlimited number of series of units and may issue an unlimited number of units of each series and which may be divided into sub-series. The Fund currently offers only Series A<sup>1</sup>, Series F<sup>2</sup> and Series O<sup>3</sup> units.<sup>4</sup> **The Fund may issue additional series in the future, with each series having its own fees and expenses, or discontinue the offering of any series of units at any time and from time to time.**

Series A units are available to investors who purchase units from authorized dealers.

Series F units are available to investors who have accounts with their dealer.

Series F units are a performance fee-based series of units. To enable us to equitably charge performance fees that are based on the performance attained from the date on which units are purchased, a new sub-series of units of Series F units will be issued. At the end of each year, the outstanding sub-series of the Series F units may be consolidated into a single series, at the discretion of RBC GAM, provided that the net asset value per unit of such sub-series is not less than its High Water Mark per unit (as defined and described below under *Fees and Expenses – Fees and expenses payable by the Fund – Performance fees*). RBC GAM may commence or cease this practice at any time. For details about the performance fees paid to us by the Fund, please see *Fees and Expenses – Fees and expenses payable by the Fund – Performance fees* later in this document.

Series O units are available to investors as we may determine from time to time at our sole discretion. Unitholders of Series O units pay a negotiated fee directly to us for investment counselling services. For fees paid to us by the Fund, please refer to *Fees and expenses payable by the Fund*.

We do not pay trailing commissions on Series A, Series F and Series O units.

### Net asset value

The Fund maintains a separate net asset value for each series of units, as if the series were a separate fund. However, the assets of the Fund will constitute a single pool for investment purposes. The net asset value for a series is based on series specific amounts, such as amounts paid on the purchase and redemption of units of the series and expenses attributable solely to the series, and on the series' share of the Fund's investment earnings, market appreciation or depreciation of assets, common expenses and other amounts not attributable to a specific series. Expenses are recognized on an accrual (i.e., "as incurred") basis, not on a cash (i.e., "when paid") basis.

The unit price for each series is the basis for calculating the purchase price or redemption price for buying, switching or redeeming units of that series. We or our agent calculate the unit price for each series by dividing the net asset value for the series by the number of outstanding units of the series. The Fund is valued and can be purchased only in Canadian dollars.

**Valuation days** – A valuation day is the last Business Day of each month and/or any other day or days as determined from time to time by the Manager, subject to compliance with applicable laws.

**The Fund's assets** – The value of any security or property held by the Fund will be determined in the following way:

- *Equities* – Common shares and preferred shares are valued at the closing price recorded by the security exchange on which the security is principally traded. In circumstances where the closing price is not within the bid-ask spread, RBC GAM will determine the points within the bid-ask spread that are most representative of the fair value.
- *Fixed-Income and Debt Securities* – Bonds, mortgage-backed securities, loans, debentures and other debt securities are valued at the mid price quoted by major dealers or independent

<sup>1</sup> Series A units of the Fund are currently capped to new purchases.

<sup>2</sup> Given liquidity constraints, Series F units of the Fund will only be available for purchase on a limited basis in our sole discretion.

<sup>3</sup> Series O units of the Fund are currently capped to new purchases.

<sup>4</sup> Other series of the Fund exist, but are generally not available for purchase by external investors.

pricing vendors in such securities. *National Housing Act* (Canada)-approved mortgages are valued at an amount, which produces a yield equivalent to the prevailing rate of return on mortgages of similar type and term.

- *Short-Term Investments* – Short-term investments are valued at cost plus accrued interest, which approximates fair value.
- *Options* – Options give the purchaser the right, but not the obligation, to buy (call) or sell (put) an underlying security or financial instrument at an agreed exercise or strike price during the specified period or on a specified date. Listed options are valued at the closing price on the recognized exchange on which the option is traded. In circumstances where the closing price is not within the bid-ask spread, RBC GAM will determine the points within the bid-ask spread that are most representative of the fair value. When an option is written, the premium received by the Fund shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the option that would have the effect of closing the position. Any differences resulting from the revaluation will be treated as an unrealized gain or loss on investment. The deferred credit will be deducted in arriving at the net asset value of the Fund. The securities, if any, which are the subject of a written option will be valued at their current market value.
- *Warrants* – Warrants are valued using a recognized option pricing model, which includes factors such as the terms of the warrant, time value of money and volatility inputs that are significant to such valuation.
- *Forward Contracts* – Forward contracts are valued at the gain or loss that would arise as a result of closing the position at the valuation day.
- *Total Return Swaps* – A total return swap is an agreement by which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. Total return swap contracts are marked to market daily based upon quotations from the market makers.
- *Futures Contracts* – Futures contracts entered into by the Fund are financial agreements to purchase or sell a financial instrument at a contracted price on a specified future date.

However, the Fund does not intend to purchase or sell the financial instrument on the settlement date; rather, it intends to close out each futures contract before settlement by entering into equal, but offsetting, futures contracts. Futures contracts are valued at the gain or loss that would arise as a result of closing the position at the valuation day.

- *Interest Rate Swap Contracts* – Interest rate swaps are agreements between two parties to exchange periodic interest payments based on a notional principal amount. Interest rate swap contracts are valued based upon quotations from independent sources.
- *Credit Default Swap Contracts* – Credit default swaps are agreements between a protection buyer and protection seller. The protection buyer pays a periodic fee in exchange for a payment by the protection seller contingent on the occurrence of a credit event, such as a default, bankruptcy or restructuring, with respect to a referenced entity. Credit default swap contracts are valued based on quotations from independent sources.
- *Cross-Currency Swaps* – A cross-currency swap is an agreement between two parties to exchange interest payments and principals denominated in two different currencies. Cross-currency swap contracts are marked to market daily based upon quotations from the market makers.
- *Underlying Funds* – Underlying funds that are not exchange-traded funds are valued at their respective net asset value per unit from fund companies on the relevant valuation days and Underlying funds that are exchange-traded funds are valued at market close on the relevant valuation days.
- *Fair Valuation of Investments* – The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available or which may not be reliably priced. Procedures are in place to determine the fair value of foreign securities traded in countries outside of North America daily to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market. RBC GAM also has procedures where the Fund primarily employs a market-based approach, which may use related or comparable assets or liabilities, net asset value per unit (for exchange-traded funds), recent

transactions, market multiples, book values and other relevant information for the investment to determine its fair value. The Fund may also use an income-based valuation approach in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments, but only if they arise as a feature of the instrument itself. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

- **Cash** – Cash is comprised of cash and deposits with banks and is recorded at amortized cost. The carrying amount of cash approximates its fair value because it is short term in nature.
- **Foreign Exchange** – The value of investments and other assets and liabilities in foreign currencies is translated into Canadian dollars at the rate of exchange on each valuation day. Purchases and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions.
- If a valuation day of the Fund is not a business day for a specific market, the prices or quotations of the prior business day will be used to value any asset or liability for such market.

If the valuation principles described above are not appropriate under the circumstances, RBC GAM will determine a value which it considers to be fair and reasonable in the circumstances. RBC GAM has not exercised this discretion within the past three years.

**The Fund's liabilities** - The Fund's liabilities will be determined in the same manner as the Fund's assets, as described above, and may include:

- All debts, obligations, liabilities or claims of any kind.
- All accrued operating expenses and other charges.

### Purchasing units

Subject to certain exceptions noted below, units offered by the Fund may generally be purchased on the valuation day in accordance with the cut-off times and advance notice requirements indicated below. Phillips, Hager & North determines the unit

price at the close of trading on each valuation day. If we receive and accept your completed purchase order at our Vancouver office by 1 p.m. (Vancouver time) on a day that is **at least 5 Business Days prior to a valuation day**, your order will be processed using the unit price at the close of business on that valuation day. Otherwise, we will process your purchase order using the unit price at the close of business on the next valuation day. We reserve the right, in our sole discretion, to require investors to provide additional notice of a purchase order where we determine that the markets are illiquid, or where we believe that the purchase order will have a negative impact on the Fund.

Series A and Series O units of the Fund are currently capped to new purchases.

Given liquidity constraints, Series F units of the Fund will only be available for purchase on a limited basis in our sole discretion.

We may, at our sole discretion, accept less notice than that set out above and allow purchases on days other than the valuation day set out above.

Phillips, Hager & North will manage any large investments into and redemptions out of the Fund in the best interests of all of the unitholders of the Fund. Where it is in the best interests of the Fund, Phillips, Hager & North may require that any purchase(s) of more than 20% of the units of the Fund that are outstanding be purchased through a cross trade.

The Fund is generally available only to those individuals, institutional clients or dealers who have entered into an investment management agreement or a subscription agreement with Phillips, Hager & North. For more information on the exemptions from prospectus requirements upon which you may rely to purchase units of the Fund and documents that may be required, see *Additional Information – Reliance on prospectus exemptions and certain required disclosure* below.

There are no charges for opening an account or buying units of the Fund.

Investments into the Fund may be accepted, in the Manager's discretion, by cash deposits, inter-fund trades, transfers of securities in kind, cross trades or through such other means as may be specified by the Manager in its sole discretion, as permitted by applicable securities legislation or exemptive relief.

**Phillips, Hager & North may limit or “cap” the size of the Fund or a series of units of the Fund by restricting new purchases, including under circumstances where there is insufficient liquidity. We will continue to allow redemptions and the calculation of the Fund’s unit value for each series as described under *Redemptions* later in this document. We may subsequently decide to start accepting new purchases or switches to the Fund or series at any time.**

You have to provide full payment for your units when you buy them. If Phillips, Hager & North does not receive payment in full, we will cancel your order and the units that you bought will generally be redeemed on the next valuation day. If they are redeemed for more than you paid, the Fund will keep the difference. If they are redeemed for less than you paid, you will be charged for the difference plus any costs.

Phillips, Hager & North may refuse or delay any request to buy units from an investor at our sole discretion, including where an order is received prior to the applicable cut-off time. If your request is refused, your money will be returned to you in full, without interest. If your purchase request is delayed, we will prioritize your request, along with other purchase requests, on a first-come first-serve basis.

### Minimum investment

The minimum initial purchase requirement for units of the Fund is \$25,000 and the minimum subsequent investment is \$5,000. The foregoing minimums may be waived at any time by us in our sole discretion.

### Switching

You will not be permitted to switch your units of the Fund for units of another investment fund managed by RBC GAM or its affiliates.

### Redesignations

Where the Fund offers more than one series of units, it will allow, with our prior approval and if you are eligible, a switch between series of units of the Fund, otherwise known as a “redesignation”.

If you are no longer eligible to hold a series of units, we may switch you out of that series to another series of units of the Fund, as appropriate.

We do not charge any fees to switch between series of the Fund. Switching units of one series to units of another series of the Fund is not considered a disposition for tax purposes.

### Redemptions

Subject to certain restrictions noted below, units of the Fund may generally be redeemed on the valuation day (also being a redemption day) in accordance with the cut-off times and advance notice requirements indicated below. There are no charges for redeeming units of the Fund. Phillips, Hager & North determines the unit price at the close of trading on each valuation day. If we receive and accept your completed redemption request at our Vancouver office by 1 p.m. (Vancouver time) on a day that is **at least two months prior to a valuation day** (and by 10 a.m. (Vancouver time) if such day falls on December 24), your request will be processed using the unit price at the close of business on that valuation day. Otherwise, we will process your redemption request using the unit price at the close of business on the next valuation day. We reserve the right, in our sole discretion, to require investors to provide additional notice of a redemption request where we determine that the markets are illiquid, or where we believe that the redemption request will have a negative impact on the Fund.

### Restrictions on redemptions

We will only send you the redemption proceeds if:

- instructions necessary to complete the transaction have been received; and
- any payment for buying the same units that you are redeeming has cleared.

We may, in our sole discretion, and including without limitation when the Fund receives redemption requests for a valuation day that in aggregate exceed 10% or more of the value of the units outstanding for the Fund, and in compliance with applicable securities laws, make payment of some or all of the redemption proceeds by making good delivery to the unitholder of portfolio securities of the Fund, the value of which is equal to the redemption price of the units being redeemed. In the event that redemption proceeds are paid by making delivery of portfolio securities, we must be satisfied that such delivery is in the best interests of the Fund. Securities delivered in payment of redemption proceeds will be valued as of the

redemption day and on the same basis that the Fund would use in determining the value of such securities on that day. The unitholder will be required to pay any reasonable costs associated with delivering such securities to the unitholder and/or registering such securities in the name of the unitholder or a nominee of the unitholder, and any brokerage costs associated with the disposition by the unitholder of the relevant securities.

- In addition, in extraordinary circumstances, we may suspend the right of investors to redeem units of the Fund. These circumstances include when:
- normal trading is suspended on any stock exchange on which securities or derivatives that make up more than half of the Fund's total assets by value are traded; or
- we determine that conditions exist which render impractical the sale of the assets of the Fund or impair the ability of Phillips, Hager & North to determine the value of assets held by the Fund.

A redemption request received during a suspension of redemptions or prior to the suspension but for which payment has not been made, will generally be completed, subject to any advance notice requirements for redemptions being observed, at the series net asset value per unit on the first valuation day following the termination of the suspension unless the redemption request is earlier withdrawn by the unitholder. However, the Manager

also reserves the right to (i) complete redemption requests received during the period of suspension or prior to the suspension but for which payment has not been made, on a staggered basis in order of priority based on the date on which the redemption request was received, and/or (ii) satisfy redemption requests received prior to the suspension but for which payment has not been made, on a pro rata basis such that all unitholders who submitted and did not withdraw such redemption requests have the same proportionate amount of their redemption requests fulfilled.

We reserve the right to require any unitholder of the Fund to redeem such unitholder's entire holding of units of the Fund, or any portion thereof, if Phillips, Hager & North, in its sole discretion, so determines. Such circumstances may include where the relationship between the Manager and the unitholder is terminated.

Investors who are U.S. citizens or who are residents of the United States or any other foreign country are not permitted to purchase units of the Fund, unless we decide otherwise in our sole discretion. Where a unitholder is or becomes a citizen or resident of the United States or a resident of any other foreign country, we may at our sole discretion require such unitholder to redeem their units if their participation has the potential to cause adverse regulatory or tax consequences for the Fund or unitholders of the Fund.

## DESCRIPTION OF UNITS OF THE PHILLIPS, HAGER & NORTH ABSOLUTE RETURN FUND

Each unit of a series of the Fund entitles the holder to:

- one vote at any meeting of unitholders of the Fund or a meeting of unitholders of that specific series;
- participate equally with all other units of the series in the regular distribution of net income and net realized capital gains of the Fund allocable to the series;
- participate equally with all other units of the series, if the Fund is being terminated and wound-up, in the distribution of the series' share of net assets of the Fund that remain after the Fund's liabilities have been paid; and
- the right to redeem their units of the Fund, subject to any limitations set out under *Purchases, Switches and Redemptions – Redemptions*.

Units of a series of the Fund do not entitle their holder to any conversion rights or pre-emptive rights, and units are not transferable (except in certain circumstances). There is no liability to holders of units of the Fund for future calls or assessments.

Fractions of units may be issued. A fractional unit carries the rights and privileges of, and is subject to the restrictions and conditions applicable to, whole units in the proportion it bears to one whole unit. Units are fully paid and non-assessable when

issued. Phillips, Hager & North may at any time determine to consolidate or subdivide the units provided notice is given to unitholders in accordance with the Trust Agreement. Forthwith following any distribution that is immediately reinvested by all unitholders, and without notice to unitholders, the number of units outstanding may be consolidated such that the number of units outstanding after such distribution will be equal to the number of units outstanding immediately prior to the distribution.

No unitholder owns any assets of the Fund. Unitholders have only those rights mentioned in this Offering Memorandum and the Trust Agreement for the Fund.

The Trust Agreement for the Fund does not require unitholder approval with respect to amendments to the Trust Agreement unless such approval is required under applicable securities laws. However, if an amendment to the Trust Agreement is one that we believe a reasonable unitholder would consider important in determining whether to continue to hold

units of the Fund and is prejudicial to the interests of unitholders as a group, we must provide unitholders with 30 days' prior notice of that change.

Although the Fund does not hold regular meetings, Phillips, Hager & North will hold meetings to obtain your approval on certain matters.

We may terminate the Fund, for any reason at our sole discretion, by providing unitholders with 60 days' prior written notice.

The Fund may be terminated on the occurrence of certain events stipulated in the Trust Agreement. On termination of the Fund, the Trustee will distribute the assets of the Fund in cash or in kind in accordance with the Trust Agreement. See also *Organization and Management of the Phillips, Hager & North Absolute Return Fund – Trustee*.

## FEES AND EXPENSES

A brief description of the fees and expenses that you may have to pay if you invest in the Fund are set out below. Payment of fees and expenses by the Fund will reduce the value of your investment in the Fund.

### Fees and expenses payable by the Fund

#### Management fees

The Manager is entitled to a management fee payable by the Fund, which varies for each series of units of the Fund.

The management fees for Series A and Series F units will be calculated at the annual rate of 1.25% per annum of the series net asset value of the Series A and Series F units of the Fund, plus applicable taxes, including GST/HST.

The Fund does not pay us a management fee with respect to Series O units. Unitholders of Series O units pay a negotiated fee directly to us for investment counselling services.

No trailing commissions are payable for Series A, Series F or Series O units.

The Fund may invest a portion of the net asset value of the Fund in units of other investment funds managed by RBC GAM or its affiliates. These other investment funds have their own fees and expenses to pay in addition to those paid by any investment funds that invest in them. However, the Fund will not invest in units of another investment fund if the Fund would be required to pay any management or incentive fees in respect of that investment that a reasonable person would believe duplicates a fee payable by the other investment fund for the same service. In addition, the Fund will not invest in another investment fund managed by RBC GAM if any sales or

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redemption fees are payable in respect of the investment.

Investors should note that the Fund may offer additional series of units in the future with each series having its own fees and expenses.

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#### **Operating expenses and administration fee**

Phillips, Hager & North pays certain operating expenses of the Fund. These expenses include regulatory filing fees and other day-to-day operating expenses, including, but not limited to, annual fees, meeting fees and reimbursement for expenses to members of the Independent Review Committee to the extent it provides oversight in the context of the application of exemptive relief in relation to the Fund, recordkeeping, accounting and fund valuation costs, custody fees, audit and legal fees and the costs of preparing and distributing annual and interim financial statements, statements and investor communications. In return, in connection with each series of units of the Fund offered under this Offering Memorandum, as of the date of this document, the Fund pays us an administration fee of 0.04% per annum for Series A, Series F and Series O units.

The administration fee may vary by series of units, and is subject to applicable taxes, including GST/HST. The amount of operating expenses paid by us in exchange for the payment of the administration fee may exceed or be less than the administration fee in any particular period. The Fund also pays certain operating expenses directly, including any Independent Review Committee costs and expenses that are not related to annual fees, meeting fees and reimbursement for expenses to members of the Independent Review Committee to the extent it provides oversight in the context of the application of exemptive relief in relation to the Fund, the cost of any new government or regulatory requirements and any borrowing costs (collectively, “**other fund costs**”) and taxes (including, but not limited to, GST or HST, as applicable). Other fund costs will be allocated to the Fund and among each series of units of the Fund in a fair and equitable manner in accordance with the services used.

Phillips, Hager & North may, in some years and in certain cases, pay a portion of a series’ administration fee or other fund costs. The decision to absorb the administration fee or other fund costs is reviewed annually and determined at the discretion of Phillips, Hager & North without notice to unitholders.

#### *Effect of GST/HST on Management Expense Ratio*

The Fund is required to pay GST/HST on management fees and administration fees charged to the Fund. In general, the HST rate depends on the residence of the Fund’s unitholders at a certain point in time. Changes in existing GST/HST rates, changes to which provinces impose HST and changes in the breakdown of the residence of the Fund’s unitholders will have an impact on the management expense ratio of the Fund.

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#### **Performance fees**

A performance fee (“**Performance Fee**”) is payable to us by the Fund in respect of Series F units<sup>1</sup> of the Fund. The Performance Fee is calculated and accrued on the last business day of each month and is payable to us on the last business day of each year (each such last business day of the year being a “**Performance Valuation Date**”) in respect of Series F units outstanding prior to giving effect to redemptions on such date. The Performance Fee will be in an amount equal to 15% of the positive amount by which the aggregate Adjusted Net Asset Value per unit (as defined below) of Series F units on the Performance Valuation Date exceeds the

aggregate High Water Mark per unit (as defined below) of such Series F units, plus applicable taxes, including GST/HST. If any Series F units are redeemed during a year, a Performance Fee will be payable on the relevant redemption date (each such date being an “**Early Redemption Performance Valuation Date**”) in respect of such units as if such date were a Performance Valuation Date, in the same manner described above.

“**Adjusted Net Asset Value per unit**” of a series of units on any date is equal to the gross asset value per unit of the series less management fees and operating expenses or administration fees per unit of the series but before the deduction of the Performance Fee per unit plus the amount of any distributions paid or payable in respect of a unit of such series since the date at which the High Water Mark per unit of such unit was established.

“**High Water Mark per unit**” (or “**HWM per unit**”) for a series of units on any date means initially, its subscription price per unit. Thereafter, if the Performance Fee that is calculated on the Performance Valuation Date is positive, the HWM per unit for the coming year will be reset to the net asset value per unit as of the Performance Valuation Date. If the Performance Fee is zero, the HWM per unit will not change. The HWM per unit will be appropriately adjusted in the event of a consolidation or redesignation of units of the series. We will not be required to return any Performance Fee received by us, even if the net asset value of a unit goes down after the Performance Valuation Date or the Early Redemption Performance Valuation Date, as the case may be.

<sup>1</sup> Given liquidity constraints, Series F units of the Fund will only be available for purchase on a limited basis in our sole discretion.

### Fees and expenses payable directly by you

<b>Sales charges</b>	None
<b>Short-term trading fees</b>	None
<b>Switch fees</b>	None
<b>Redemption fees</b>	None
<b>Short-term trading fees</b>	None
<b>Registered tax plan fees</b>	None
<b>Other fees and expenses<sup>1</sup></b>	None

<sup>1</sup> Unitholders of Series O units pay a negotiated fee directly to us for investment counselling services.

## IMPACT OF SALES CHARGES

The Fund is a 'no load' fund, which means you pay no sales charges or commissions when you buy and redeem units of the Fund through us. You also pay no account set-up or administration fees,

and you may transfer your units to another investment fund managed by Phillips, Hager & North at no administrative cost.

## INCOME TAX CONSIDERATIONS FOR INVESTORS

The following is a summary of the principal Canadian federal income tax considerations generally relevant to investors who, for purposes of the Tax Act, are resident in Canada, hold their units as capital property and deal with the Fund at arm's length.

This summary is based on the current provisions of the Tax Act and the regulations under it, all specific proposals to amend the Tax Act and its regulations that have been publicly announced by the Minister of Finance ("**Tax Proposals**"), and the published administrative practices of the CRA. It is assumed that all amendments will be passed as proposed. The Fund qualifies as a mutual fund trust under the Tax Act and is expected to continue to so qualify at all material times in the future.

This summary is of a general nature and is not intended to be exhaustive. It does not take into account provincial, territorial or foreign tax laws. **Investors should consult their own tax advisers with respect to the tax consequences in their particular circumstances.**

Units of the Fund are qualified investments under the Tax Act for RRSPs, RRIFs, DPSPs, RESPs, RDSPs or TFSA's.

### Taxation of the Fund

The Fund is subject to tax on its net income and net realized capital gains in each taxation year, except to the extent such amounts are distributed to unitholders. The Fund intends to distribute sufficient amounts of its net income and net realized capital gains each year, so that the Fund will not pay any tax under Part I of the Tax Act. Gains from derivative transactions entered into for non-hedging purposes will be taxed as ordinary income, rather than as capital gains. Gains from derivatives transactions entered into for hedging purposes may be taxed as ordinary income or capital gains, depending on the specific circumstances.

All of the Fund's deductible expenses, including expenses common to all series of the Fund and expenses specific to a particular series (such as management and administration fees), will be taken into account in determining the income or loss of the Fund as a whole.

Loss suspension rules may prevent the Fund from recognizing capital losses on the disposition of investments in certain circumstances.

If the Fund invests in securities which are not denominated in Canadian dollars, the cost and proceeds of disposition of securities, dividends, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars at the exchange rate prevailing at the time of the transaction. Accordingly, the Fund may realize income, gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars.

### Taxation of unitholders

Each unitholder of the Fund will be required to include in computing its income for a particular year the portion of the net income, and the net realized taxable capital gains of the Fund for the year distributed to the unitholder (including such amounts distributed on the redemption of units), whether those amounts are distributed in cash or reinvested in additional units.

To the extent that distributions made by the Fund to a unitholder in a year exceed the unitholder's share of the Fund's net income and net realized capital gains for the year, the excess distributions will be a return of capital that is not taxable to the unitholder but that reduces the adjusted cost base of the unitholder's units. If a unitholder's adjusted cost base is reduced to less than zero the unitholder will be deemed to have realized a capital gain equal to the negative amount and the adjusted cost base will be reset at nil.

The purchase price for units of the Fund may reflect net income and net realized capital gains which have not been distributed. The investor is subject to tax on his or her share of those amounts when distributed, even though the amounts were reflected in the purchase price paid for the units. Similarly, the investor's share of capital gains realized after the units were acquired will include the portion of the gains that accrued before the investor acquired the units. This may be particularly relevant with respect to units purchased late in the year.

The Fund intends to make designations under the Tax Act so that taxable dividends received from

taxable Canadian corporations, income from foreign sources and net taxable capital gains distributed to unitholders will retain their character in the hands of unitholders. Distributed amounts that retain their character as taxable dividends on shares of taxable Canadian corporations will be subject to the gross-up and tax credit rules in the Tax Act. To the extent that such distributed amounts are distributions of eligible dividends received by the Fund, the enhanced gross-up and tax credit will apply. Each taxable unitholder will generally be entitled to a tax credit for foreign taxes paid by the Fund in respect of his or her share of income from foreign sources, except to the extent the Fund has deducted the foreign taxes in computing its income.

On a redemption or other disposition of units of the Fund, the unitholder will realize a capital gain to the extent that the proceeds of disposition exceed the adjusted cost base of the units plus any cost of disposition, or a capital loss to the extent that the total of the adjusted cost base of the units plus any costs of disposition exceeds the proceeds of disposition. One half of a capital gain must be included in income as a taxable capital gain. One-half of a capital loss is an allowable capital loss, which may be applied against taxable capital gains realized in the year. Allowable capital losses in excess of taxable capital gains may be carried back three years or forward indefinitely and applied against taxable capital gains realized in those earlier or later years, subject to the rules in the Tax Act. A unitholder that is throughout the relevant taxation year a Canadian-controlled private corporation (as defined in the Tax Act), may be liable to pay, in addition to the tax otherwise payable under the Tax Act, a refundable tax determined by reference to its aggregate investment income for the year, which is defined to include an amount in respect of taxable capital gains.

Generally, a trust must pay tax on its net income and net realized capital gains for a year, except to the extent such amounts are distributed to unitholders. The Fund, as a mutual fund trust, is entitled to a refund of the tax payable in respect of net realized capital gains that are not distributed, up to a limit set out in the Tax Act.

The adjusted cost base of a unit of the Fund is equal to the average adjusted cost base of all units of the Fund held by a unitholder. Generally, the adjusted cost base of all units at any time is equal to the total cost of Fund units purchased by

the unitholder to that time (including units purchased by reinvesting distributions) minus the return of capital component of distributions and the adjusted cost base of units previously sold. The proceeds of disposition on the redemption of units of the Fund do not include net income or net realized gains, if any, that are distributed as part of the redemption amount.

Individuals and certain trusts are required to pay tax equal to the greater of tax determined under the ordinary rules and alternative minimum tax. Amounts distributed by the Fund that are net taxable capital gains and Canadian dividends, and capital gains realized on the redemption of units, may increase a unitholder's liability for alternative minimum tax.

In general, fees for investment counselling services paid by you in respect of units of the Fund held outside a registered plan should be deductible for income tax purposes to the extent that such fees are reasonable and represent fees for advice to you regarding the purchase or sale of units of the Fund or for services provided to you in respect of the administration or management of your units of the Fund. Any portion of the fees that represent services provided by the Manager to the Fund, rather than directly to you, are not deductible for income tax purposes. You should consult your own tax advisor with respect to the deductibility of fees in your own particular circumstances.

### **Tax reporting to unitholders**

For Canadian tax purposes, statements reporting distributions and other relevant tax information will be sent to all unitholders of the Fund annually on or before the date prescribed by law for such reporting.

### **Tax information reporting**

Pursuant to the Intergovernmental Agreement for the Enhanced Exchange of Tax Information under the Canada-U.S. Tax Convention entered into between Canada and the United States (the "IGA"), and related Canadian legislation, the Fund, the Manager and/or registered dealers are required to report certain information with respect to unitholders who are U.S. residents and U.S. citizens (including U.S. citizens who are residents or citizens of Canada), and certain other "U.S. Persons" as defined under the IGA (excluding registered plans such as RRSPs), to the CRA. It

is expected that the CRA will then exchange the information with the U.S. Internal Revenue Service. In addition, to meet the objectives of the Organization for Economic Co-operation and Development Common Reporting Standard (the “CRS”), the Fund, the Manager and/or registered dealers are required under Canadian legislation to identify and report to the CRA certain information (including certain financial information) relating to securityholders in the Fund who are residents in a country outside of Canada and the U.S. (excluding registered plans such as RRSPs). The CRA will provide that information to the relevant tax authority of any country that is a signatory of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information or that has otherwise agreed to a bilateral information exchange with Canada under the CRS.

### Investment by registered plans

Units of the Fund are a qualified investment under the Tax Act for RRSPs, RRIFs, DPSPs, RESPs, RDSPs and TFSAs. Units of the Fund will continue to be a qualified investment as long as the Fund is a mutual fund trust under the Tax Act.

Provided that the annuitant of an RRSP or RRIF, the holder of a TFSA or RDSP, or the subscriber of an RESP, deals at arm’s length with the Fund and does not have a “significant interest” (within the meaning of the Tax Act) in the Fund, units of the Fund will not be a prohibited investment under the Tax Act for the RRSP, RRIF, TFSA, RDSP or RESP. Annuitants of RRSPs and RRIFs, holders of TFSAs and RDSPs, and subscribers of RESPs should consult with their own tax advisors as to whether units of the Fund would be prohibited investments under the Tax Act in their particular circumstances.

## ADDITIONAL INFORMATION

### Proxy voting

The proxies associated with securities held in the Fund will be voted in accordance with guidelines which seek to enhance long-term shareholder value and which are consistent with leading corporate governance practices. The guidelines are available on our website, [www.rbcgam.com](http://www.rbcgam.com), or by contacting us at the number on the back cover of this document.

### How the Fund may engage in securities lending, repurchase transactions and reverse repurchase transactions

A securities lending transaction occurs when the Fund lends portfolio securities that it owns to a creditworthy institutional borrower. The borrower promises to return to the Fund, at a later date, an equal number or amount of the same securities and to pay a fee to the Fund for borrowing the securities. The Fund may recall the securities at any time. The borrower provides the Fund with collateral consisting of cash and/or securities or non-cash collateral equal to a percentage of the market value of the loaned securities measured each business day. Therefore, the Fund retains exposure to changes in the value of the securities loaned while earning additional income. If securities are on loan on the record date established for a particular proxy voting matter, the lender is generally not entitled to exercise the voting right of such loaned securities.

A repurchase transaction occurs when the Fund sells portfolio securities that it owns to a creditworthy institution for cash and simultaneously agrees to buy back the securities at a later date. The Fund retains exposure to changes in the value of the sold securities, but also earns additional income for participation in the repurchase transaction. In repurchase transactions, the Fund receives any interest or dividends paid by the issuer of the securities while those securities are held by the other party to the transaction.

A reverse repurchase transaction occurs when the Fund purchases portfolio securities from a creditworthy institution and simultaneously agrees to sell the securities back to the institution at a later date. The difference between the Fund’s purchase price for the securities and the resale price may provide the Fund with additional income.

See *Securities lending, repurchase and reverse repurchase risk* earlier in this document.

### Regulatory relief

The Manager has obtained relief from applicable securities legislation to engage in the types of transactions described below on behalf of investment funds (referred to as “funds” in this section only) managed by the Manager. The

Fund may rely on certain of this relief from time to time.

The exemptions may only be relied upon by the Fund where consistent with the investment objective of the Fund.

#### ***Fund of fund relief***

The Manager has received relief from certain requirements of applicable securities legislation in connection with investment by the Fund in other funds managed by the Manager or its affiliates. For this section only, the following words have the following meanings:

**“Consent Relief Jurisdictions”** mean British Columbia, Alberta, Saskatchewan, Manitoba, Québec, Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, Yukon, Northwest Territories and Nunavut.

**“Investment Restriction Relief Jurisdictions”** means British Columbia, Alberta and Ontario.

**“Investment Restriction”** means the prohibition in the legislation of the Investment Restriction Relief Jurisdictions, prohibiting a mutual fund in Ontario, or a mutual fund, as the case may be, from knowingly making or holding an investment in:

- (i) any person or company in which the mutual fund, alone or together with one or more related mutual funds, is a substantial security holder; or
- (ii) an issuer in which any officer or director of the mutual fund, its management company or distribution company or an associate of any of them, or any person or company who is a substantial security holder of the mutual fund, its management company or its distribution company, has a significant interest.

**“Top Funds”** means mutual funds organized or to be organized as trusts governed by the laws of British Columbia or Ontario that are managed now or in the future by the Manager or its affiliate, and that are or will be offered for sale on a private placement basis pursuant to prospectus exemptions under applicable securities legislation; and

**“Underlying Funds”** means the underlying offshore mutual funds, underlying non-prospectus

mutual funds and underlying prospectus mutual funds managed or promoted by the Manager or its affiliate.

Canadian securities regulatory authorities have granted relief to the Manager as follows:

(a) in the Investment Restriction Relief Jurisdictions under the legislation of such jurisdictions, the Investment Restriction shall not apply to the Top Funds collectively, in respect of each Top Fund's investment in Underlying Funds managed or promoted by the Manager or its affiliate;

(b) in the Consent Relief Jurisdictions, under the legislation of such jurisdictions, the requirement in the legislation that prohibits a registered adviser from knowingly causing an investment portfolio managed by it, including an investment fund for which it acts as an adviser, to purchase securities of an issuer in which a responsible person or an associate of the responsible person is a partner, director or officer unless the fact is disclosed to the client and the written consent of the client to the purchase is obtained before the purchase shall not apply to the Manager, or its affiliate, as the manager of the Top Funds in respect of each Top Fund's investment in securities of the Underlying Funds; and

(c) in Ontario, British Columbia, Alberta, Saskatchewan, Nova Scotia, New Brunswick and Newfoundland and Labrador under the legislation of such jurisdictions, the requirement of a management company or, in the case of British Columbia, a mutual fund manager, to file a report of every transaction of purchase or sale of securities between a mutual fund it manages and any related person or company and any transaction in which, by arrangement other than an arrangement relating to insider trading in portfolio securities, a mutual fund is a joint participant with one or more of its related persons or companies, in respect of each mutual fund to which it provides services or advice, within 30 days after the end of the month in which it occurs, shall not apply to the Manager, or its affiliate, in respect of each Top Fund's purchase or sale of securities of an underlying prospectus mutual fund and in British Columbia in respect of each Top Fund's purchase or sale of securities of an underlying pooled fund that is organized or will be organized as trusts governed under the laws of British Columbia.

The aforementioned relief is granted, subject to the following conditions, in each case:

(a) securities of each Top Fund are distributed only on a private placement basis pursuant to available prospectus exemptions in NI 45-106;

(b) the investment by each Top Fund in an Underlying Fund is compatible with the fundamental investment objective of the Top Fund;

(c) each Top Fund does not vote any of the securities it holds of an Underlying Fund except that the Top Fund may, if the Manager so chooses, arrange for all the securities it holds of an Underlying Fund to be voted by the beneficial holders of securities of the Top Fund;

(d) no management or other fees are payable by a Top Fund that, to a reasonable person, would duplicate a fee payable by an Underlying Fund for the same service;

(e) no sales fees or redemption charges are payable by the Top Fund in relation to its purchases or redemptions of securities of an Underlying Fund;

(f) except in the case of certain specified Top Funds, no Top Fund will invest in an Underlying Fund unless the Underlying Fund invests less than 10% of its net assets in other mutual funds other than mutual funds that are “money market funds” as defined by NI 81-102 or that issue “index participation units” as defined by NI 81-102;

(g) the offering memorandum or a similar document of a Top Fund, or, if no offering memorandum or similar document is prepared, another document provided to investors in a Top Fund, will disclose:

- (i) the intent of the Top Fund to invest its assets in securities of the Underlying Funds;
- (ii) that the Underlying Funds are managed by the Manager or an affiliate of the Manager;
- (iii) the approximate or maximum percentage of net assets of the Top Fund that is intended to be invested in securities of the Underlying Funds; and
- (iv) the process or criteria used to select the Underlying Funds;

(h) investors in each Top Fund are entitled to receive from the Manager or its affiliate, on request and free of charge, a copy of the offering memorandum or other disclosure documents (if any), or the annual or semi-annual financial statements (if any) relating to all Underlying Funds in which the Top Fund may invest its assets; and

(i) prior to the time of investment, investors in a Top Fund will (if applicable) be provided with disclosure that certain officers or directors of the Manager or associates of any of them may have a significant interest in the Underlying Funds through investments made in securities of such Underlying Funds and will be advised of the potential conflicts of interest which may arise from such relationships. The foregoing disclosure will be contained in any offering memorandum or similar document of the Top Fund or, if no offering memorandum or similar document is prepared, in another document provided to investors in a Top Fund.

### ***Investment restrictions***

#### ***Purchase of securities of related issuers***

The Manager has received relief which permits the Fund to purchase debt securities of a related issuer, provided that:

- (i) the transaction occurs in the secondary market;
- (ii) the debt security has an approved rating by an approved credit rating organization; and
- (iii) the price payable is not more than the ask price of the security determined as follows:
  - (A) if the purchase occurs on a marketplace, in accordance with the requirements of the marketplace; and
  - (B) if the purchase does not occur on a marketplace,
    - a. the price at which an independent seller is willing to sell or
    - b. not more than the price quoted publicly by an independent marketplace or obtained from an independent party.

The Manager has also received relief which permits the Fund to purchase debt securities of a related issuer (other than asset-backed securities), with a term to maturity of 365 days or

more, offered in the primary market (i.e. from the issuer) (an offering), provided that:

- (i) the size of the offering is at least \$100 million;
- (ii) at least two arm's-length purchasers collectively purchase at least 20% of the securities issued in the offering;
- (iii) following the purchase, the Fund does not have more than 5% of its net assets invested in the debt securities of the issuer;
- (iv) following the purchase, the Fund, together with other related funds, do not hold more than 20% of the securities issued in the offering; and
- (v) the purchase price is no more than the lowest price paid by any arm's-length purchaser.

*Purchase of securities from related dealers – principal trading*

The Manager has received relief which permits the Fund to purchase debt securities from or sell debt securities to a related party that is a principal dealer in the Canadian debt securities market and/or an international debt securities market, provided that:

- (i) the bid and ask price of the security must be determined by reference to a quote from an independent party if not publicly available;
- (ii) a purchase must not be executed at a price higher than the ask price and a sale must not be executed at a price which is lower than the bid price; and
- (iii) the purchase or sale is subject to "market integrity requirements", as defined under applicable Canadian securities legislation, and any equivalent transparency and trade reporting requirements applicable to the purchase or sale of debt securities in international debt securities markets.

*Inter-fund trades*

RBC GAM has also obtained relief which permits the Fund to engage in certain trades of portfolio securities with discretionary accounts and other investment funds managed by RBC GAM or related parties.

### Certain conflicts of interest

The Manager believes that it has established appropriate policies, procedures, practices and guidelines to ensure the proper management of the Fund, including policies and procedures relating to conflicts of interest. These policies, procedures, practices and guidelines are updated as necessary to reflect changing circumstances.

The Manager is a subsidiary of Royal Bank. The Manager may also be engaged in a wide variety of management, advisory and other business activities unrelated to the business of the Fund. Furthermore, the directors, officers and employees of the Manager or any other affiliate of the Manager or a subsidiary of Royal Bank may also hold significant investments in the Fund and/or investments held by the Fund from time to time.

In addition, if the Fund were to invest in any underlying funds managed by RBC GAM and its affiliates, by virtue of investing in the underlying funds, the Fund may be purchasing securities of issuers of which a responsible person of the Fund or an associate of the responsible person of the Fund is a partner, director or officer.

The Manager will take such steps as it considers necessary to resolve any potential conflicts of interest fairly.

Please see *General Information about the Phillips, Hager & North Absolute Return Fund – Specific risks in respect of the Phillips, Hager & North Absolute Return Fund – Conflicts of interest risk* above in this document for more information.

### Recordkeeping, disclosure and Independent Review Committee involvement

Appropriate records of the transactions described above (referred to collectively as "**Related Party Trading Activities**") must be maintained and, in certain cases, particulars must be disclosed in the financial statements of the Fund or filed with securities regulatory authorities. In addition, the Independent Review Committee must approve the policies and procedures of RBC GAM in respect of Related Party Trading Activities.

The Independent Review Committee has approved standing instructions in respect of Related Party Trading Activities by the Fund. In accordance with the conditions of the applicable

standing instructions of the Independent Review Committee, the Independent Review Committee typically reviews these activities on a quarterly basis. In its review, the Independent Review Committee considers whether investment decisions in respect of Related Party Trading Activities:

- were made by RBC GAM in the best interests of the Fund and were free from any influence of Royal Bank and without taking into account any consideration relevant to an entity related to Royal Bank or its associates or affiliates;
- were in compliance with the conditions of the policies and procedures of RBC GAM;
- were in compliance with the applicable standing instructions of the Independent Review Committee; and
- achieved a fair and reasonable result for the Fund.

#### **Reliance on prospectus exemptions and certain required disclosure**

Units of the Fund are offered pursuant to certain exemptions from the prospectus requirements of the securities legislation of the provinces and territories of Canada. Purchasers may be required to acquire units at an aggregate acquisition cost of not less than an amount prescribed by applicable securities legislation. Subscribers for units of the Fund will be required to execute an investment management agreement or a subscription agreement and may be required to execute such certificates and other documents to evidence their eligibility and entitlement to rely on such exemptions.

If the investor is resident in Ontario, applicable securities legislation requires that the Fund notify the investor that (i) the investor's full name, residential address, telephone number, number and type of securities purchased, the total purchase price and the prospectus exemption relied on must be delivered by the Fund to the Ontario Securities Commission, (ii) the information is collected indirectly by the Ontario Securities Commission under the authority granted to it in securities legislation for the purposes of the administration and enforcement of the securities legislation of Ontario, and (iii) the public official who can be contacted regarding the

indirect collection of information is the Inquiries Officer at the Ontario Securities Commission, 20 Queen Street West, 22<sup>nd</sup> Floor, Toronto, Ontario M5H 3S8, Telephone 416-593-8314 or toll free 1-877-785-1555. Such investors, by their investment, will be deemed to have consented to the indirect collection of the information by the Ontario Securities Commission.

## **WHAT ARE YOUR LEGAL RIGHTS?**

Securities legislation in certain of the provinces and territories of Canada provides purchasers with, in addition to any other rights they may have at law, a remedy for rescission or damages, or both, where this Offering Memorandum and any amendment to it and, in some cases, advertising and sales literature used in connection therewith, contains a misrepresentation (as such term may be defined in the applicable legislation). However, those remedies, or notice with respect thereto, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed in applicable legislation. Further, such rights may depend on the particular private placement exemption relied upon by the issuer. Each purchaser should refer to the provisions of the applicable legislation for the particulars of these rights or consult with a legal adviser.

The summary of the rights of rescission or to damages, or both, available to purchasers under the securities legislation of certain of the provinces and territories of Canada or provided by contract are set forth in Schedule A hereto. Such rights are expressly conferred upon investors by the delivery of this Offering Memorandum.

## SCHEDULE “A”- PURCHASERS’ RIGHTS OF ACTION FOR DAMAGES OR RESCISSION

The statutory rights of action and rescission available to purchasers where there is a misrepresentation are set forth below for Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Northwest Territories, Nunavut, Yukon and Québec. For the purposes of the following, “misrepresentation” in this Schedule “A” means an untrue statement of a material fact, or an omission to state a material fact that is required to be stated, or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

The rights of action and rescission described below are in addition to, and without derogation from, any right or remedy available at law to the purchaser and are subject to the defences contained in those laws. These remedies must be exercised by the purchaser within the time limits set out below. Purchasers should refer to the available provisions of securities laws for the complete text of these rights or consult with a legal advisor.

### Saskatchewan

Section 138 of The Securities Act, 1988 (Saskatchewan), as amended (the “**Saskatchewan Act**”) provides that where an offering memorandum, such as this Offering Memorandum, or any amendment to it is sent or delivered to a purchaser and it contains a misrepresentation, a purchaser who purchases a security covered by the offering memorandum or any amendment to it is deemed to have relied upon that misrepresentation and has a right of action for rescission against the issuer or a selling security holder on whose behalf the distribution is made or has a right of action for damages against:

- (a) the issuer or a selling security holder on whose behalf the distribution is made;
- (b) every promoter and director of the issuer or the selling security holder, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered;
- (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;

- (d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed the offering memorandum or the amendment to the offering memorandum; and
- (e) every person who or company that sells securities on behalf of the issuer or selling security holder under the offering memorandum or amendment to the offering memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or selling security holder, it shall have no right of action for damages against that party;
- (b) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the securities resulting from the misrepresentation relied on;
- (c) no person or company, other than the issuer or a selling security holder, will be liable for any part of the offering memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered; and
- (e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation.

In addition, no person or company, other than the issuer or selling security holder, will be liable if the person or company proves that:

- (a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered;
- (b) on becoming aware of any misrepresentation, the person or company withdrew the person's or company's consent to the memorandum and gave reasonable general notice to the issuer of the withdrawal and the reason for it; or
- (c) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Not all defences upon which we or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser is deemed to have relied on the misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for damages against the individual who made the verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention

of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any other action, other than an action for rescission, the earlier of:
  - (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or
  - (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act has a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

## Manitoba

Section 141.1 of the *Securities Act* (Manitoba) provides that if an offering memorandum, such as this Offering Memorandum contains a misrepresentation a purchaser resident in Manitoba is deemed to have relied on the

misrepresentation and has a right of action against the applicable issuer, every director of the issuer at the date of the memorandum and every person or company who signed the memorandum for damages, or alternatively, for rescission, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission, more than 180 days after the date of the purchase; or
  - (ii) for damages, the earlier of (A) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (B) two years after the date of the purchase;
- (b) no person or company will be liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) no person or company (excluding the issuer) will be liable if the person or company proves that (i) the memorandum was sent to the purchaser without the person's or company's knowledge or consent, and that, after becoming aware of its delivery, the person or company promptly gave reasonable notice to the issuer that it was sent without the person's or company's knowledge or consent, (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it, or (iii) with respect to any part of the memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report or statement;
- (d) no person or company (excluding the issuer) will be liable with respect to any part of the memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report,

opinion or statement, unless the person or company did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been on misrepresentation, or believed that there had been a misrepresentation;

- (e) in action for damages, a defendant will not be liable for any portion of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation; and
- (f) in no case shall the amount recoverable exceed the price at which the securities were sold to the purchaser.

## Ontario

Section 130.1 of the *Securities Act* (Ontario) provides that in the event that an offering memorandum, such as this Offering Memorandum, together with any amendment hereto, delivered to a purchaser of units resident in Ontario contains a misrepresentation and it was a misrepresentation at the time of purchase of units by such purchaser, the purchaser will have, without regard to whether the purchaser relied on such misrepresentation, a right of action against a fund for damages or, while still the owner of units of a fund purchased by that purchaser, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against a fund, provided that:

- (a) the right of action for rescission or damages will be exercisable only if the purchaser commences an action to enforce such right, not later than:
  - (i) in the case of an action for rescission, 180 days after the date of purchase; or
  - (ii) in the case of an action for damages, the earlier of (A) 180 days following the date the purchaser first had knowledge of the misrepresentation, and (B) three years after the date of purchase;
- (b) the fund, will not be liable if it proves that the purchaser purchased the units with knowledge of the misrepresentation;
- (c) in the case of an action for damages, the fund will not be liable for all or any portion of the

damages that it proves does not represent the depreciation in value of the units as a result of the misrepresentation relied upon;

- (d) the fund will not be liable for a misrepresentation in forward-looking information if the fund proves:
  - (i) that the offering memorandum contains reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information;
  - (ii) the reasonable cautionary language and disclosure of material factors appear proximate to the forward-looking information; and
  - (iii) the fund has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information; and
- (e) in no case will the amount recoverable in any action exceed the price at which the units were offered.

The foregoing rights do not apply if the purchaser is:

- (a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank;
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

### New Brunswick

Section 150(1) of the *Securities Act* (New Brunswick) provides that where a memorandum,

such as this Offering Memorandum, is delivered to a purchaser resident in New Brunswick and contains a misrepresentation that was a misrepresentation at the time of purchase, the purchaser will be deemed to have relied on the misrepresentation and will have a right of action against the issuer or selling securityholder for damages or, alternatively, while still the owner of the purchased securities, for rescission, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission, more than 180 days after the date of the purchase; or
  - (ii) for damages, more than the earlier of (A) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, and (B) six years after the date of the purchase;
- (b) no person or company will be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) in an action for damages, no person or company will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered under the offering memorandum; and
- (e) no person or company will be liable for a misrepresentation in forward-looking information if the person or company proves that:
  - (i) the memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and

- (ii) the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.
- (f) no person or company (but excluding the issuer or selling securityholder) will be liable if it proves that (i) the memorandum was delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after the delivery of the memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the memorandum, the person or company withdrew the person's or company's consent to the memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert; and
- (g) no person or company (but excluding the issuer or selling securityholder) will be liable with respect to any part of the memorandum not purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or, (ii) believed that there had been a misrepresentation.

### Nova Scotia

Section 138 of the *Securities Act* (Nova Scotia) states that in the event that an offering memorandum, such as this Offering Memorandum, together with any amendment thereto, or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) used in connection with an offering memorandum, contains a misrepresentation, any investor in Nova Scotia

who purchases securities offered thereunder shall be deemed to have relied on such misrepresentation, if it was a misrepresentation at the time of purchase, and shall have, subject as hereinafter provided, a right of action either for damages against the seller, every director of the seller at the date of the offering memorandum and every person who signed the offering memorandum, or alternatively for rescission, exercisable against the seller provided that:

- (a) no person or company will be held liable if it proves that the investor purchased the securities with knowledge of the misrepresentation;
- (b) in an action for damages, the seller will not be liable for all or any portion of such damages that it proves does not represent the depreciation in value of the securities as a result of the misrepresentation relied upon;
- (c) no person or company will be liable if the person or company proves that (i) the offering memorandum or amendment thereto was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after delivery of the offering memorandum or amendment thereto and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the memorandum, the person or company withdrew the person's or company's consent to the memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum or amendment thereto purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum or amendment thereto did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
- (d) no person or company will be liable with respect to any part of the memorandum not

purporting to be made on the authority of an expert, or to be a copy, or an extract from, a report, opinion or statement of expert unless the person or company failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation, or believed that there had been a misrepresentation; and

- (e) in no case shall the amount recoverable exceed the price at which the securities were offered under the offering memorandum or amendment thereto.

No action shall be commenced to enforce the rights of action more than 120 days after the date on which payment was made for the securities or after the date on which the initial payment for the securities was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

### Prince Edward Island

Section 112(1) of the *Securities Act* (Prince Edward Island) provides that if an offering memorandum, such as this Offering Memorandum, contains a misrepresentation, a purchaser resident in Prince Edward Island who purchased a security under this memorandum will be deemed to have relied upon the misrepresentation and will have a right of action against the applicable issuer, the selling securityholder on whose behalf the distribution is made, every director of the issuer at the date of this memorandum and every person who signed this memorandum for damages or, alternatively, for rescission, exercisable against the issuer or the selling securityholder on whose behalf the distribution is made, provided that:

- (a) no action shall be commenced to enforce a right of action:
  - (i) for rescission, more than 180 days after the date of the purchase; or
  - (ii) for any action other than rescission, the earlier of (A) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of the action, or (B) three years after the date of the purchase;
- (b) no person or company will be liable if the person or company proves that the purchaser

purchased the securities with knowledge of the misrepresentation;

- (c) no person or company (but excluding the issuer or selling securityholder) will be liable if it proves that (i) the memorandum was delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after the delivery of the memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the memorandum, the person or company withdrew the person's or company's consent to the memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
- (d) no person or company (but excluding the issuer or selling securityholder) will be liable with respect to any part of the memorandum not purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or, (ii) believed that there had been a misrepresentation;
- (e) in an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (f) in no case shall the amount recoverable exceed the price at which the securities were sold to the purchaser.

## Newfoundland and Labrador

Section 130.1 of the *Securities Act* (Newfoundland and Labrador) provides that where an offering memorandum, such as this Offering Memorandum, is delivered to a purchaser resident in Newfoundland and Labrador and it contains a misrepresentation, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the issuer, every director of the issuer at the date of the offering memorandum, and every person or company who signed the offering memorandum. In addition, such purchaser has a right of rescission against the issuer. If a purchaser elects to exercise a right of rescission against the issuer, the purchaser has no right of action for damages.

Where a misrepresentation is contained in an offering memorandum, a person or company shall not be liable for an action for damages or rescission:

- (a) where the person or company proves that the purchaser had knowledge of the misrepresentation;
- (b) where the person or company proves that the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of the person or company;
- (c) if the person or company proves that the person or company, on becoming aware of the misrepresentation in the offering memorandum, withdrew the person's or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it;
- (d) if, with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, the person or company proves that the person or company did not have any reasonable grounds to believe and did not believe that:
  - (i) there had been a misrepresentation; or

- (ii) the relevant part of the offering memorandum:

- (A) did not fairly represent the report, opinion or statement of the expert; or
- (B) was not a fair copy of, or an extract from, the report, opinion or statement of the expert; and

- (e) with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company:

- (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation; or
- (ii) believed there had been a misrepresentation.

Of the above defences, the issuer shall only be able to rely on (a) above.

The amount recoverable shall not exceed the price at which the securities were offered under the offering memorandum.

In an action for damages, the defendant is not liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation.

No action may be commenced to enforce a right of action:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of an action, other than an action for rescission, the earlier of:
  - (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action; or
  - (ii) three years after the date of the transaction that gave rise to the cause of action.

## Northwest Territories

Section 112 of the *Securities Act* (Northwest Territories) provides that where an offering memorandum, such as this Offering Memorandum, is delivered to a purchaser resident in the Northwest Territories and it contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution is deemed to have relied on the misrepresentation, and has a right of action for damages against the issuer, the selling securityholder on whose behalf the distribution is made, every director of the issuer at the date of the offering memorandum, and every person who signed the offering memorandum. In addition, such a purchaser also has a right of rescission against the issuer or the selling securityholder on whose behalf the distribution is made.

These rights are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or the selling securityholder on whose behalf the distribution is made, it shall have no right of action for damages against that party;
- (b) a person or company will not be liable if the person or company proves that the purchaser purchased the securities with the knowledge of the misrepresentation;
- (c) a person or company (other than the issuer or selling securityholder on whose behalf the distribution is made) will not be liable if:
  - (i) the offering memorandum was sent to the purchaser without the person or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of that person or company;
  - (ii) the person or company, on becoming aware of the misrepresentation in the offering memorandum, withdrew the person or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it; or

- (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that:

- (A) there had been a misrepresentation; or
- (B) the relevant part of the offering memorandum did not fairly represent the report, statement or opinion of the expert or was not a fair copy of, or an extract from, the report, statement or opinion of the expert;

- (iv) for any part of an offering memorandum that is not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, unless the person or company:

- (A) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or
- (B) believed that there had been a misrepresentation.

In addition, no person or company will be liable if:

- (a) the offering memorandum containing the forward-looking information contained, proximate to the forward-looking information,
  - (i) reasonable cautionary language identifying the forward-looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and
  - (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the

forecasts or projections set out in the forward-looking information.

In an action for damages, a defendant will not be liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the security resulting from the misrepresentation.

The amount recoverable by the purchaser in an action for damages must not exceed the price at which the securities purchased by the purchaser were offered.

No action may be commenced to enforce a right of action more than the earlier of:

- (a) in the case of an action for rescission, 180 days after the date of the purchase; or
- (b) in the case of an action for damages, (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase.

#### Nunavut

Section 112 of the *Securities Act* (Nunavut) provides that where an offering memorandum, such as this Offering Memorandum, is delivered to a purchaser resident in Nunavut and it contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution is deemed to have relied on the misrepresentation, and has a right of action for damages against the issuer, the selling security holder on whose behalf the distribution is made, every director of the issuer at the date of the offering memorandum, and every person who signed the offering memorandum. In addition, such a purchaser also has a right of rescission against the issuer or the selling security holder on whose behalf the distribution is made.

These rights are subject to certain limitations, including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or the selling security holder on whose behalf the distribution is made, it shall have no right of action for damages against that party;
- (b) a person or company will not be liable if the person or company proves that the purchaser

purchased the securities with the knowledge of the misrepresentation;

- (c) a person or company (other than the issuer or selling security holder on whose behalf the distribution is made) will not be liable if:
  - (i) the offering memorandum was sent to the purchaser without the person or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of that person or company;
  - (ii) the person or company, on becoming aware of the misrepresentation in the offering memorandum, withdrew the person or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it; or
  - (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that:
    - (A) there had been a misrepresentation; or
    - (B) the relevant part of the offering memorandum did not fairly represent the report, statement or opinion of the expert or was not a fair copy of, or an extract from, the report, statement or opinion of the expert;
  - (iv) for any part of an offering memorandum that is not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, unless the person or company:
    - (A) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or

(B) believed that there had been a misrepresentation.

In addition, no person or company will be liable if:

- (a) the offering memorandum containing the forward-looking information contained, proximate to the forward-looking information,
  - (i) reasonable cautionary language identifying the forward-looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and
  - (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts or projections set out in the forward-looking information.

In an action for damages, a defendant will not be liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the security resulting from the misrepresentation.

The amount recoverable by the purchaser in an action for damages must not exceed the price at which the securities purchased by the purchaser were offered.

No action may be commenced to enforce a right of action more than the earlier of:

- (a) in the case of an action for rescission, 180 days after the date of the purchase; or
- (b) in the case of an action for damages, (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase.

## Yukon

Section 112 of the *Securities Act* (Yukon) provides that where an offering memorandum, such as this Offering Memorandum, is delivered to a purchaser

resident in the Yukon and it contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution is deemed to have relied on the misrepresentation, and has a right of action for damages against the issuer, the selling securityholder on whose behalf the distribution is made, every director of the issuer at the date of the offering memorandum, and every person who signed the offering memorandum. In addition, such a purchaser also has a right of rescission against the issuer or the selling securityholder on whose behalf the distribution is made.

These rights are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or the selling securityholder on whose behalf the distribution is made, it shall have no right of action for damages against that party;
- (b) a person or company will not be liable if the person or company proves that the purchaser purchased the securities with the knowledge of the misrepresentation;
- (c) a person or company (other than the issuer or selling securityholder on whose behalf the distribution is made) will not be liable if:
  - (i) the offering memorandum was sent to the purchaser without the person or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of that person or company;
  - (ii) the person or company, on becoming aware of the misrepresentation in the offering memorandum, withdrew the person or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it; or
  - (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that:

- (A) there had been a misrepresentation; or
- (B) the relevant part of the offering memorandum did not fairly represent the report, statement or opinion of the expert or was not a fair copy of, or an extract from, the report, statement or opinion of the expert;
- (iv) for any part of an offering memorandum that is not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, unless the person or company:
  - (A) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or
  - (B) believed that there had been a misrepresentation.

In addition, no person or company will be liable if:

- (a) the offering memorandum containing the forward-looking information contained, proximate to the forward-looking information,
  - (i) reasonable cautionary language identifying the forward-looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and
  - (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts or projections set out in the forward-looking information.

In an action for damages, a defendant will not be liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the security resulting from the misrepresentation.

The amount recoverable by the purchaser in an action for damages must not exceed the price at which the securities purchased by the purchaser were offered.

No action may be commenced to enforce a right of action more than the earlier of:

- (a) in the case of an action for rescission, 180 days after the date of the purchase; or
- (b) in the case of an action for damages, (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase.

### Québec

Section 221 of the *Securities Act* (Québec) provides that, if this Offering Memorandum, together with any amendment hereto or any document incorporated by reference herein, delivered to an investor resident in Québec contains a misrepresentation, you will have: (i) a right of action for damages against the fund, every person in charge of the fund's patrimony, the dealer (if any) under contract to the fund and any expert whose opinion, containing a misrepresentation, appeared, with the expert's consent in this Offering Memorandum, and (ii) a right of action against the fund for rescission of the purchase contract or revision of the price at which the units were sold to you.

This statutory right of action will be available to you whether or not you have relied on the Offering Memorandum. You will be able to bring an action for rescission of the purchase contract or revision of the price without prejudice to your claim for damages.

However, there will be various defences available to the persons against whom you will have a right of action. For example, they will have a defence if you knew of the misrepresentation when you purchased the units. In an action for damages, a person listed above, other than the fund or the person(s) in charge of the fund's patrimony, will not be liable if that person acted with prudence and diligence.

In addition, the defendant will not be liable for a misrepresentation in forward-looking information if the defendant proves that:

- (a) this Offering Memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection; and
- (b) there was a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

If you intend to rely on the rights described in (i) or (ii) above, you will have to do so within strict time limitations. You will have to commence an action for rescission of the purchase contract or revision of the price within three years after the date of the purchase. You will have to commence an action for damages within the earlier of (i) three years after you first had knowledge of the facts giving rise to the cause of action (except on proof of tardy knowledge imputable to your negligence) or (ii) five years after the filing of this Offering Memorandum with the Autorité des marchés financiers.

### Other Canadian jurisdictions

The foregoing summaries are subject to the express provisions of *The Securities Act, 1988* (Saskatchewan), the *Securities Act* (Manitoba), the *Securities Act* (Ontario), the *Securities Act* (New Brunswick), the *Securities Act* (Nova Scotia), the *Securities Act* (Prince Edward Island), the *Securities Act* (Newfoundland and Labrador), the *Securities Act* (Northwest Territories), the *Securities Act* (Nunavut), the *Securities Act* (Yukon) and the *Securities Act* (Québec) and the regulations and policy statements thereunder, and reference is made thereto for the complete text of such provisions.

Although securities legislation in Alberta and British Columbia do not provide or require the Fund to provide to unitholders resident in these jurisdictions any rights of action if this Offering Memorandum, any amendment hereto or any document incorporated herein by reference, contains a misrepresentation, the Fund hereby grants to such unitholders the equivalent contractual rights of action as are described above for unitholders resident in Ontario.

### General

The rights summarized above are in addition to and without derogation from any other rights or remedies available at law to an investor.

**HEAD OFFICE**

155 Wellington St. W.  
Suite 2200  
Toronto, Ontario  
M5V 3K7

**PHILLIPS, HAGER & NORTH**

Investment Management\*

**MAIN OPERATING OFFICE**

20<sup>th</sup> Floor, 200 Burrard Street  
Vancouver, British Columbia  
Canada V6C 3N5

Email: [info@phn.com](mailto:info@phn.com)

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