

MUTUAL FUNDS AND GOVERNANCE: Taking Care of Your Investments



RBC
Investments

RBC
Asset
Management



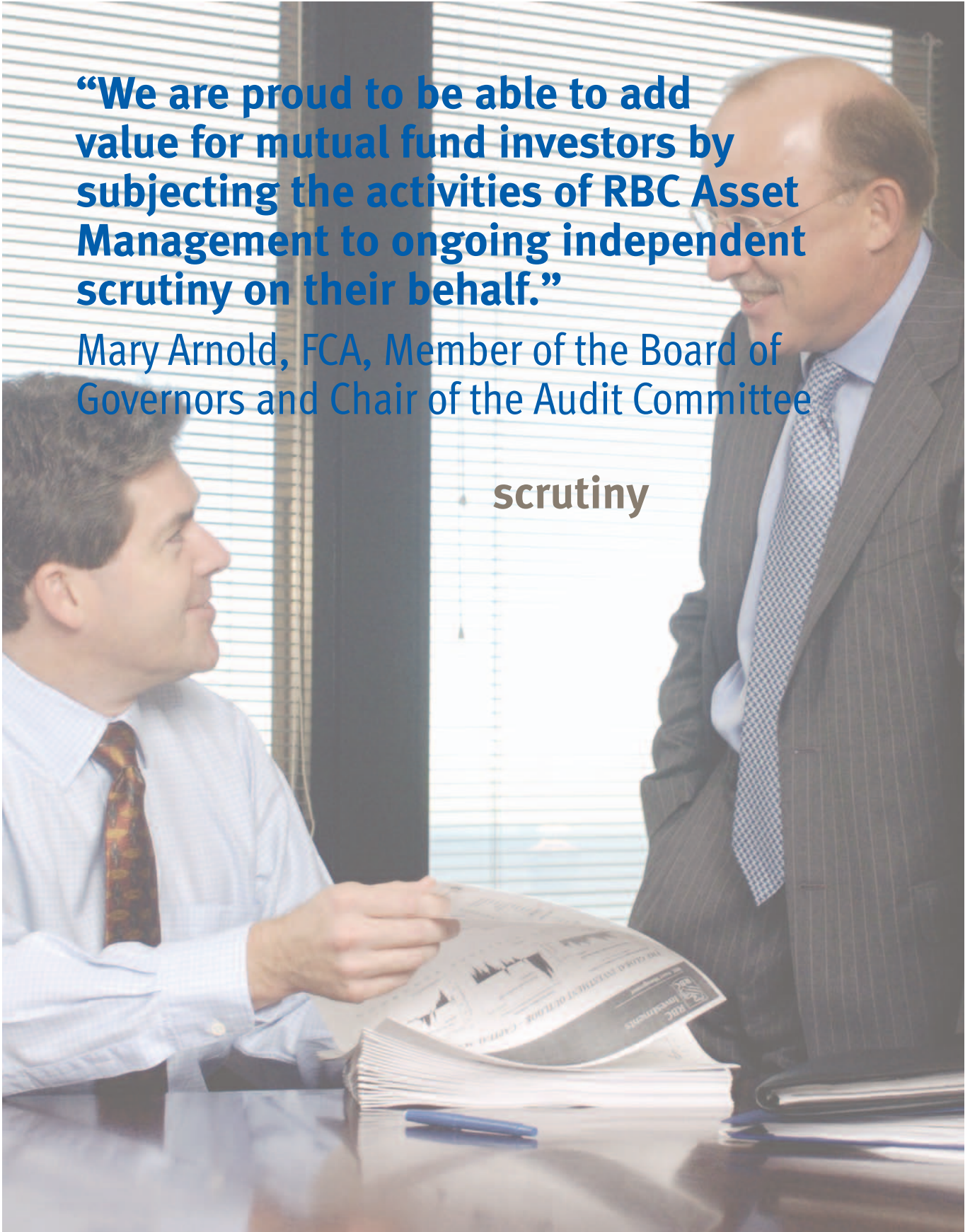
RBC Funds and RBC Private Pools are offered by RBC Asset Management Inc. and distributed through authorized dealers. Please read the prospectus before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

© Registered trademarks of Royal Bank of Canada. RBC Investments is a registered trademark of Royal Bank of Canada. Used under licence.
© 2005 RBC Asset Management Inc.

“We are proud to be able to add value for mutual fund investors by subjecting the activities of RBC Asset Management to ongoing independent scrutiny on their behalf.”

Mary Arnold, FCA, Member of the Board of Governors and Chair of the Audit Committee

scrutiny





A MESSAGE FROM YOUR BOARD OF GOVERNORS

Earning your trust is a goal of every firm in the mutual fund industry. Those who manage your investments have a duty to follow policies and practices that put your interests first. Most importantly, CEOs and their management teams must give life to those policies by committing themselves and their resources to a firm-wide culture of ethics, compliance and governance. Executives who not only believe in strong governance, but also demonstrate that belief by the example of their leadership, we hope will succeed in earning your trust.

Independent fund governance benefits both mutual fund investors and mutual fund managers. Knowing that their actions and decisions will be overseen – and challenged – by an independent board undoubtedly makes a management team and CEO more effective in all aspects of their duties.

You have had a voice at the RBC Funds management table for many years, through your representation by eight current Governors and eight retired members of the Board of Governors. The Governors actively participate in discussions of current mutual fund industry issues, and assertively and fearlessly ask questions and make recommendations about how to achieve a fair and reasonable result for the funds.

The members of your Board of Governors are proud to be a part of the Canadian mutual fund industry and to be associated with the team of dedicated individuals at RBC Asset Management.

Gordon J. Feeney

Chair of the Board of Governors of the
RBC Funds and RBC Private Pools





A MESSAGE FROM YOUR FUND MANAGER

In 1994, when there were only 32 RBC Funds representing \$12 billion of Canadians' investments, we drew on the experience of our previous governance agencies to set up an advisory Board of Governors for the funds. The majority of the Governors were independent of the mutual fund manager and its parent company, Royal Bank of Canada.

The role of the Board of Governors was then, and still is, to focus on the issues of concern to mutual fund investors and to objectively review the policies we follow and the decisions we make in managing your mutual funds.

Today there are 90 RBC Funds and RBC Private Pools, representing over \$50 billion of Canadians' investments. We believe as strongly now as we did more than a decade ago in the value of strong governance to our mutual fund investors and to our business – and we're pleased to see that Canadian regulators are now on the eve of implementing an industry-wide set of governance policies and practices.

Thank you for your business and your trust. We will work hard to continue to earn both and to help foster best practices in fund governance.

A handwritten signature in black ink, reading "M. George Lewis". The signature is written in a cursive style with a horizontal line underneath the name.

M. George Lewis, CFA, CA

Chief Executive Officer of RBC Asset Management Inc.,
Manager of the RBC Funds and RBC Private Pools

A MATURING INDUSTRY

From the fifth largest form of investment in 1980 to their current ranking, which is second only to home ownership, stocks have become a key tool in Canadians' personal wealth management strategies. To a large extent, equity mutual funds have facilitated this dramatic entry into investing.

As of May 31, 2005, Canadians had invested over \$500 billion in approximately 2,000 mutual funds managed by more than 100 mutual fund managers. A sizeable amount of Canadians' savings – and the public trust – is invested in this industry.

Securities regulators, who are responsible for protecting investors, are squarely focused on maintaining investor confidence in the management of their mutual funds. And as the Canadian mutual fund industry has grown, regulators' focus on mutual fund governance has also increased.

That focus led to the May 2005 issue by the Canadian Securities Administrators of a proposed rule that will require all mutual funds to have an independent review committee. The rule is intended to enhance mutual fund investor protection. Independent fund governance will help to ensure that the interests of the fund (and ultimately, of the fund's investors) are at the forefront when a fund manager is faced with a potential conflict of interest.

“The proposed rule will reinforce the bond of trust between mutual fund managers and their investors.”

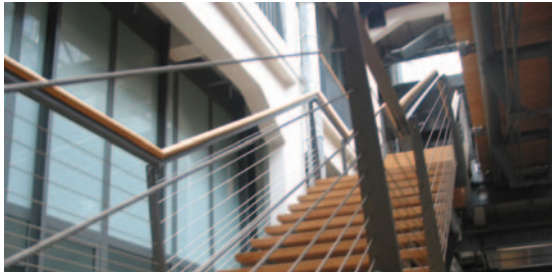
Brenda Vince, President of RBC Asset Management Inc.

trust



HOW MUTUAL FUNDS WORK

Understanding the importance of fund governance begins with an understanding of fund structure and management.



A mutual fund is a pool of many individuals' investment dollars. Pooling allows each investor to access a diversified portfolio of securities and the expertise of a team of professional investment managers, even if the individual has only a small amount to invest. Most mutual funds also benefit investors by providing daily unit valuations and by offering investment liquidity – the ability to redeem on demand.

Mutual fund managers, such as RBC Asset Management Inc., create mutual funds and offer units of the funds to investors through dealers. A fund manager is responsible for the day-to-day operation of a mutual fund. It provides services or retains other firms to provide services to the fund.

Among other things, the fund manager oversees the portfolio manager who invests the fund's money, it selects the custodian of the fund's assets, it provides record-keeping systems to record fund transactions and investor transactions, and it produces prospectuses and financial statements for the fund. Fees are charged to the fund for these services and become part of the management expenses of the fund, which are used in calculating the fund's management expense ratio, or MER.

A mutual fund that also has an independent fund governance board to review the manager's activities can provide the investor with even greater confidence in the fund manager and the fund.

RBC FUNDS AND GOVERNANCE

Canadian mutual fund managers participate in a heavily regulated industry, under rules that aim to protect the interests of mutual fund investors. A manager's executive team and its board of directors have obligations to protect the interests of the manager as well as the interests of the mutual fund investors. Securities laws specifically require them to put the interests of the mutual fund investors first.

The RBC Funds are mutual fund trusts, and The Royal Trust Company is the trustee. Mutual fund investors are the beneficial owners of units of the funds. The trustee may be a mutual fund manager or may retain a mutual fund manager to conduct the day-to-day business of the funds. In the case of the RBC Funds, the trustee has made RBC Asset Management Inc., its affiliate, responsible for the management of the Funds.

Governance, in any kind of organization, is actively taking responsibility so the organization will do the right thing. At RBC Asset Management, CEO George Lewis and his executive team take responsibility for the management of the RBC Funds and establish the policies and procedures to be followed.

Additional layers of governance are provided by those who oversee the activities of the executive team: the Chief Compliance Officer, the external auditors of the RBC Funds, the internal audit service of RBC Financial Group, and the board of directors of RBC Asset Management Inc.

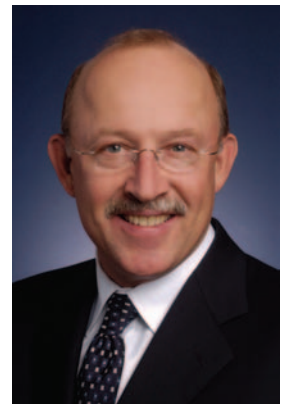
It has long been recognized at RBC that oversight of the fund manager by an independent board, whose role is to look at management decisions from the perspective of the mutual fund investors, is an important element of fund governance. In fact, independent directors were appointed to the board of one of the first RBC Funds (a RoyFund launched in 1966). The advisory Board of Governors model established in 1994 is a continuation of the long tradition of independent directors and trustees of the RBC Funds.

Securities regulation in many provinces and territories in Canada requires mutual fund managers to act in the best interests of the funds they manage, but at this point, independent oversight is arranged and supported by a fund manager on a voluntary basis.

BRENDA J. VINCE, CA
President

FRANK LIPPA, CA
*Chief Financial
Officer and Chief
Operating Officer*

DANIEL E. CHORNOUS, CFA
Chief Investment Officer



THE CASE FOR INDEPENDENCE



**MUTUAL FUNDS
AND MUTUAL FUND INVESTORS**

**FUND MANAGER AND ITS
BOARD OF DIRECTORS**

**INDEPENDENT FUND
GOVERNANCE BOARD**

The fund manager is required to put the interests of the mutual funds first and it owes duties to both its shareholders and to the mutual funds it manages.

The independent fund governance board acts exclusively in the best interests of the mutual funds.

Much has been written and said about the independence required of members of an oversight board. The value of having an independent governing body is particularly important for a mutual fund manager, given its dual responsibility to mutual fund investors and to its own shareholders. It is clear that since the role of the independent board is to speak for the mutual fund investors rather than the fund manager, the members of the oversight board must have an independence of mind, and be able to act objectively.

The role of independent fund governance is to add the voice of mutual fund investors to decision-making for the fund. Mutual funds are not required to hold annual unitholder meetings and securities regulation requires prior investor approval only for changes to the fund's most essential elements. Mutual fund investors select fund managers by buying units in their funds. Investor dissatisfaction

with a fund manager is generally expressed by selling those units. But most mutual fund investments are meant to be long-term investments and there may also be a cost to the investor in selling. Providing investors with the assurance of independent fund governance can help them feel confident that their interests are being addressed.

Independent fund governance allows a review of a mutual fund manager's activities from the perspective of mutual fund investors. It can be provided in a cost-effective way by a group of individuals, independent of the fund manager, who help the fund manager to meet its duty to the mutual fund investors.

Members of an independent fund governance body, however, are not involved in the management of the mutual funds they oversee and owe no duty to the fund manager or its shareholders.

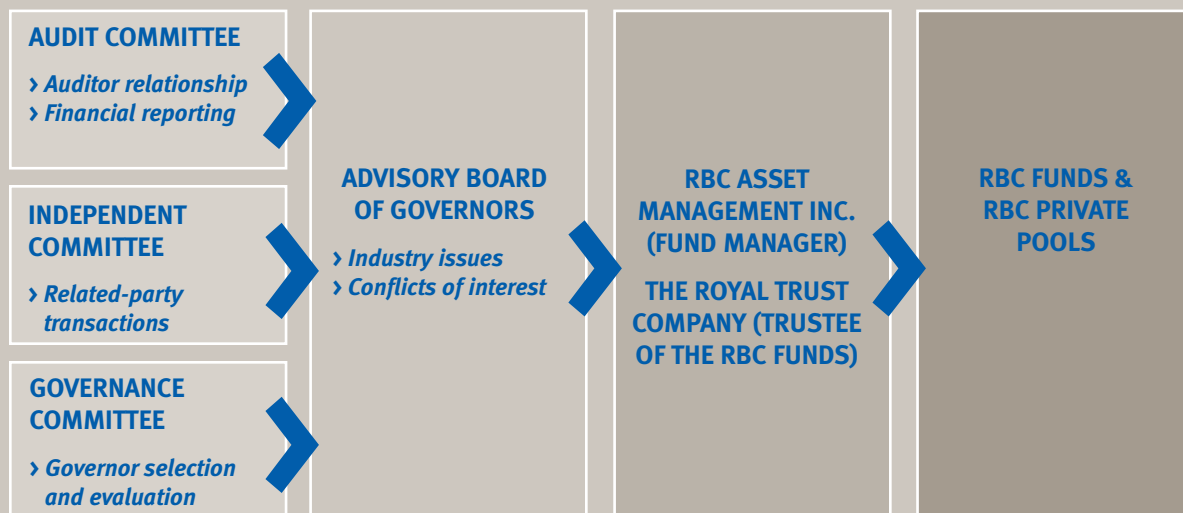
In writing about Canadian corporate governance in their essential book Making Boards Work: What Directors Must Do To Make Canadian Boards Effective, authors David Leighton and Donald Thain state what's really important: "The fact of the matter is that all directors represent and are related to someone and something. Independence is a state of mind, not a relationship. The truly independent director is one who may from time to time have conflicts of interest, but who recognizes them, declares them, can put them aside, and can address the issue at hand with rationality and a high level of objectivity."

© 1997, McGraw-Hill Ryerson Limited. Reprinted with permission.

INDEPENDENT FUND GOVERNANCE AT RBC



The advisory Board of Governors of the RBC Funds was established in 1994 and has provided independent fund governance and oversight of the fund manager's activities since then. The full Board meets with management at least four times per year, and each meeting agenda provides time for the Governors to meet privately without management. The Board regularly receives presentations from the fund manager's executive officers on mutual fund industry issues, fund policies and internal controls.



A close-up photograph of a hand pulling a silver door handle. The hand is in the lower-left corner, and the handle is attached to a metallic door. The background is a blurred office setting with a window and a chair.

“Responsible mutual fund managers devote significant time and resources to acting in the best interests of the funds, but the added oversight of independent fund governance gives the mutual fund investor a voice at the management table.”

Michael Thorley, member of the Board of Governors and Chair of the Independent Committee

independent



THE ROLE OF THE BOARD OF GOVERNORS

Due to the number of funds and the complexity of issues considered by the Board of Governors, portions of the work of the Board are conducted through three sub-committees: the *Audit Committee*, *Independent Committee* and *Governance Committee*.

The four-member *Audit Committee*, chaired by Mary Arnold, focuses on the relationship with the independent auditor of the funds and the financial reporting of the funds. The audit firm is responsible for providing an opinion to investors on the financial statements of the funds, based on its audits. The RBC Funds retained a new auditor in 2004, the chartered accounting firm Deloitte & Touche LLP. Each member of the Board of Governors played a role in reviewing and approving the appointment of the new auditor.

The main purpose of the *Independent Committee* is to review transactions of the funds involving related parties, including Royal Bank of Canada and RBC Dominion Securities Inc. For example, in 2002, a number of the funds obtained permission from securities regulators to trade in shares of Royal Bank of Canada, subject to the continuing review by the Independent Committee. This three-person committee is chaired by Michael Thorley.

The *Governance Committee* was established in 2004 to provide advice to RBC Asset Management on Governor selection, independence, evaluation and compensation. Elaine Phénix is the Chair of the three-member Governance Committee.

The Board of Governors and each committee address a full agenda of issues. Members receive written materials in advance of each meeting, copies of policies and reports from the fund manager and presentations from executives. Governors ask questions of executives, participate in discussions, reach conclusions and provide advice and counsel directly to the executive team of the fund manager.

In May 2005, Canadian Securities Administrators published a draft fund governance rule for public comment. The proposed rule would require each Canadian mutual fund to have an independent fund governance board, or independent review committee.

Throughout the development of the regulators' fund governance initiative, RBC Asset Management has publicly stated its support for the principles set out in the proposals. During the more than five years of the regulatory development process, the executive team and the Board of Governors have provided comments and information to regulators drawn from their actual

*Mary Arnold
Michael Thorley
Elaine Phénix*



fund governance experiences. In fact, the role of the independent review committee described in the May 2005 proposed rule very closely reflects the mandate that the advisory Board of Governors has followed since its creation in 1994.

THE TRANSPARENCY FACTOR

The effectiveness of any independent fund governance body depends upon the openness and candour of the fund manager. An organizational culture – established and led by the manager’s executive team – of recognizing potential conflicts of interest and openly explaining them to the independent board is essential. Lloyd McGinnis, a member of the current Board of Governors, has participated in the independent governance of the RBC Funds since 1986. According to Dr. McGinnis, successive management teams for the RBC Funds have embraced and demonstrated a culture of ethics, compliance and openness: “The interests of the RBC Funds and their investors have remained at the forefront of the fund manager’s decision-making processes.”



ONE YEAR OF FUND GOVERNANCE

The Board of Governors of the RBC Funds meets regularly to oversee management of the RBC Funds and RBC Private Pools on behalf of the investors. The summary below outlines highlights of the formal fund governance proceedings at RBC Asset Management in 2004.

JANUARY 2004	<i>Board of Directors of RBC Asset Management Inc.</i>	Review and approve business issues, RBC Funds' annual reports and other fund governance issues
	<i>Independent Committee</i>	Review Funds' trading in Royal Bank common shares
	<i>Audit Committee</i>	Review Funds' annual reports, including related-party arrangements, and auditor's opinion on Funds' financial statements
FEBRUARY	<i>Personal Trading Review Committee</i>	Review personal trading policy and annual compliance report
	<i>Board of Governors</i>	Review industry issues and reports on MERs, fund performance, auditor independence and Governor self-evaluations
	<i>Audit Committee</i>	Review proposed process for change of auditor of the Funds
	<i>Independent Committee</i>	Review proxy voting policy and proposed exercise of Funds' Royal Bank proxies
MARCH	<i>Audit Committee</i>	Review presentation from potential replacement auditor of the Funds
	<i>Independent Committee</i>	Review Funds' purchases of related-party underwriting and the change of auditor process
	<i>Board of Governors and Independent Committee</i>	Review Audit Committee report and approve change of auditor of the Funds
APR	<i>Board of Directors</i>	Review and approve business issues and fund governance issues
MAY	<i>Independent Committee</i>	Review Funds' trading in Royal Bank common shares
	<i>Audit Committee</i>	Review auditor's 2004 audit plan
	<i>Board of Governors</i>	Review fund performance, exemptive relief policy, soft dollar commission policy, Funds' MERs and RBC Private Pools
JULY	<i>Board of Directors</i>	Review and approve business issues and fund governance issues

SEPTEMBER 2004	Independent Committee	Review Funds' trading in Royal Bank common shares
	Audit Committee	Review Committee self-evaluation results, fair valuation policy and new Fund financial disclosure requirements
	Board of Governors	Review industry issues, fair valuation policy and approve Independent Committee oversight of RBC Private Pools
OCTOBER	Governance Committee	Inaugural meeting to approve Committee mandate and review policies on Board of Governors composition and Governors' compensation
	Board of Directors	Review and approve business issues and fund governance issues
NOVEMBER	Independent Committee	Review Funds' trading in Royal Bank common shares
	Audit Committee	Review internal auditor's report, proposed Fund financial statement disclosures and best execution monitoring
	Governance Committee	Review Board and Committee self-evaluation forms and independence policy
	Personal Trading Review Committee	Review updates to personal trading policy and review annual compliance report
	Board of Governors	Review update on RBC Private Pools, review fund performance and receive educational presentation on Governors' roles and responsibilities
	Independent Committee	Review Funds' purchases of related-party underwriting
	Governors' meeting with Ontario Securities Commission senior staff	Provide input on proposed fund governance regulation
DECEMBER	Governors' meeting with staff of Autorité des marchés financiers du Québec	Provide input on proposed fund governance regulation

The Personal Trading Review Committee provides independent oversight of the code of ethics and personal trading policy of RBC Asset Management Inc. The Model Code for Personal Investing upon which the code of ethics and personal trading policy are based, was published by the Investment Funds Institute of Canada (of which RBC Asset Management is a member), the mutual fund industry association. This four-member committee, chaired by Selwyn Kossuth and made up of members of the Board of Governors, was established in 1998 and reports to the Board of Directors.

THE BOARD OF GOVERNORS OF THE RBC FUNDS

GORDON J. FEENEY,
TORONTO, ONTARIO
Retired financial services executive

A member of the Board since its creation in 1994, Gordon Feeney is the Chair of the Board of Governors and a member of the Audit Committee and Personal Trading Review Committee. He is well-recognized for his expertise in corporate governance and service as the chair or director of numerous Canadian corporations and a federal government agency. Mr. Feeney was a senior executive of the Royal Bank of Canada until his retirement from the Bank in June 2001.

MARY C. ARNOLD, FCA,
EDMONTON, ALBERTA
President, Richford Holdings Ltd.

Mary Arnold is the Chair of the Audit Committee of the Board of Governors and a member of the Independent Committee and Personal Trading Review Committee. She has served on the Board since 2002. A chartered accountant, the President of Richford Holdings Ltd. and a member of the board of a major pension plan, Ms. Arnold is a corporate executive who has developed an expertise in corporate governance by serving on boards of directors and audit committees.

MICHAEL G. THORLEY,
TORONTO, ONTARIO
Retired law partner

A member of the Board of Governors since 1994, Michael Thorley is the Chair of the Independent Committee of the Board of Governors and a member of the Audit Committee and Personal Trading Review Committee.

He is experienced in liability insurance matters and also serves as Chair of the Canadian Lawyers Liability Assurance Society. Mr. Thorley is a lawyer and was formerly a partner of Torys LLP, a major international law firm.

ELAINE C. PHÉNIX,
MONTREAL, QUÉBEC
President, Phénix Capital Inc.

Elaine Phénix is the Chair of the Governance Committee of the Board of Governors and has served on the Board since 1999. She is a financial strategy consultant with business and regulatory experience in Canadian capital markets, and is often consulted by securities regulators. She is a former executive vice-president of the Montreal Exchange. Ms. Phénix is the President of Phénix Capital Inc. and has extensive experience as a corporate director.

SELWYN B. KOSSUTH,
MISSISSAUGA, ONTARIO
Independent financial consultant

Selwyn Kossuth is Chair of the Personal Trading Review Committee and a member of the Audit Committee and Independent Committee of the Board of Governors. He has served on the Board since 1995. Mr. Kossuth is a former executive director of the Ontario Securities Commission, a past president and chief executive officer of the Investment Funds Institute of Canada, and currently serves as an adjudicator on disciplinary hearing panels of the Mutual Fund Dealers Association of Canada, a securities regulatory organization.

LLOYD R. MCGINNIS, O.C.,
WINNIPEG, MANITOBA
CEO, ISIS Canada

Lloyd McGinnis has served on the Board of Governors since it was created in 1994. He has extensive experience in governance, business development and global trade. Dr. McGinnis is a professional engineer and is the Chief Executive Officer of ISIS Canada, and was appointed an Officer of the Order of Canada in 2003.

JOSEPH P. SHANNON,
PORT HAWKESBURY, NOVA SCOTIA
President, Atlantic Corp. Ltd.

Joseph Shannon has been a member of the Board of Governors since 1998 and is a member of the Governance Committee. Mr. Shannon is President of Atlantic Corp. Ltd. and has had experience in many regulated industries. He also serves as a director of a number of Canadian corporations and volunteer organizations.

JAMES W. YUEL,
SASKATOON, SASKATCHEWAN
President and CEO, PIC Investment Group Inc.

James Yuel is a member of the Governance Committee and has served on the Board of Governors since 2000. He is President and Chief Executive Officer of PIC Investment Group and has experience in venture capital investment and global export. Mr. Yuel served for eight years as a member of the Board of Directors of the Canadian Chamber of Commerce and is a past President of the Saskatchewan Chamber of Commerce.

The Board of Governors



“The Board of Governors, when appointed, shall advise the Trustee and any Manager in the administration of its duties and deal with situations where there exists a conflict or potential for conflict between the interests of the Trustee or the Manager of a Fund or any Affiliate of the Trustee or the Manager on the one hand and the interests of such Fund and the Participants thereof on the other.”

Mandate of the Board of Governors from RBC Funds Declaration of Trust

L to R: Michael G. Thorley, Gordon J. Feeney, Mary C. Arnold, Joseph P. Shannon, Lloyd R. McGinnis, James W. Yuel, Elaine C. Phénix, Selwyn B. Kossuth

PROPOSED FUND GOVERNANCE REGULATION

After more than five years of review and consultation, the Canadian Securities Administrators published *National Instrument 81-107, Independent Review Committee for Investment Funds* for public comment in May 2005. It proposes that all mutual funds and investment funds have an independent review committee, or IRC.

RBC Asset Management and members of the Board of Governors have been active participants in the Canadian Securities Administrators' development of the proposed rule. Experience in working together as an independent board and management team have allowed the Governors and executives to play a significant consultative role in this important regulatory development.

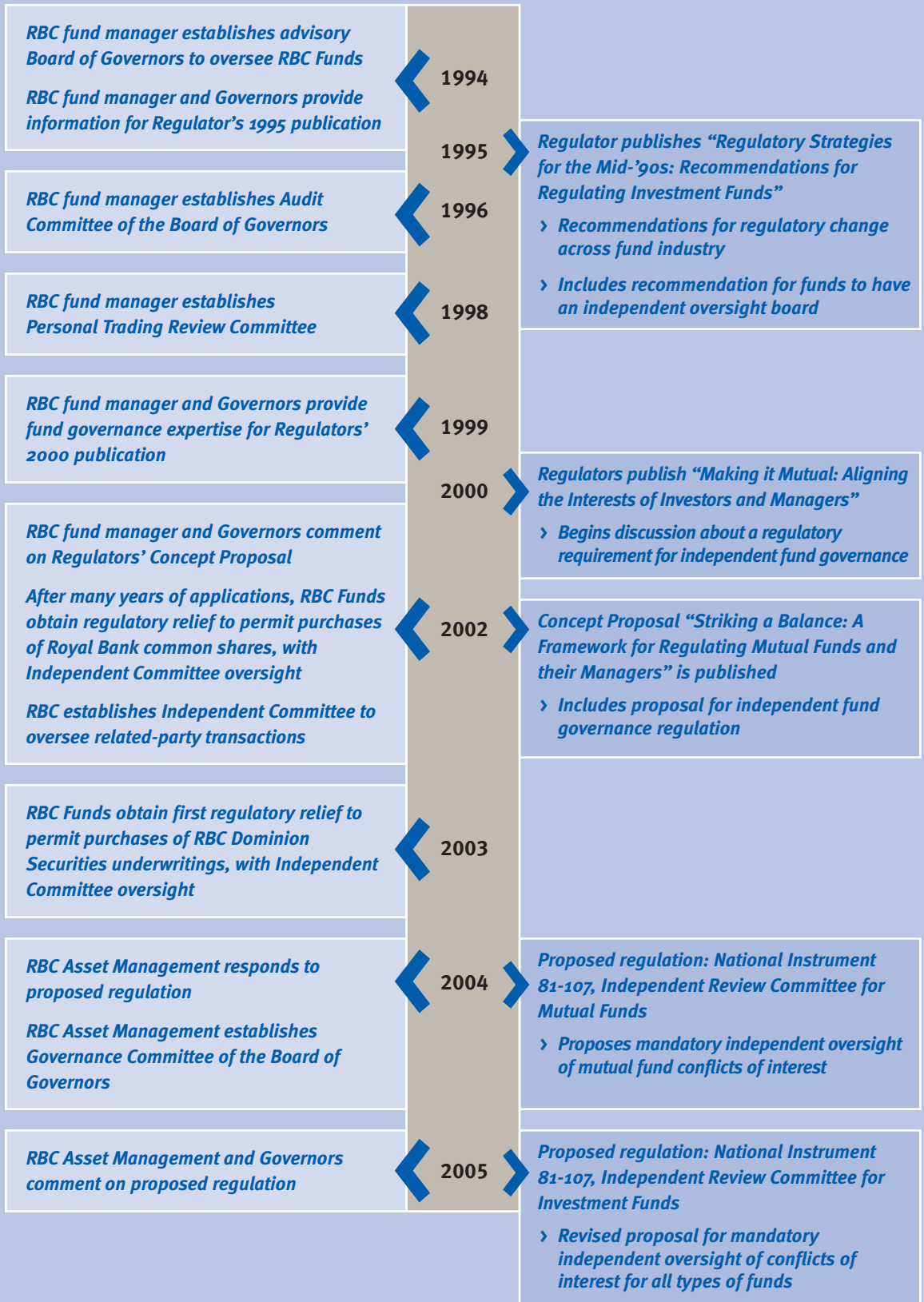
The proposed IRC would provide independent fund governance by reviewing matters in which a reasonable person would consider the manager to have an interest that may conflict with its duties to the mutual funds. All transactions between a fund and a related party would also be subject to IRC review.

The IRC would be expected to make recommendations to the fund manager so that the manager's proposed action will "achieve a fair and reasonable result" for the funds. In certain cases where an activity is otherwise prohibited by current mutual fund rules, the manager would only be able to act with the prior approval of the IRC.

The draft rule also proposes that the IRC report on an annual basis to mutual fund investors about its activities, and to securities regulators if it becomes aware that the fund manager has acted without the required IRC approval or in a manner contrary to the IRC's recommendations.

Through our experience, we have seen the value of strong fund governance. We support the securities regulators' views of the benefit of independent oversight. Building on our tradition of independent fund governance, RBC Asset Management will continue to develop and implement best practices in governance for the benefit of the investors of the mutual funds we manage.

REGULATORY FOCUS ON MUTUAL FUND GOVERNANCE 





“We have found that independent fund governance is effective when the fund manager maintains a culture of transparency. Open communication is key to a successful working relationship.”

Elaine Phénix, member of the Board of Governors and Chair of the Governance Committee



transparency

For more information about mutual fund governance, please see:

Investment Funds Institute of Canada www.ific.ca

Canadian Securities Administrators www.csa-acvm.ca

RBC Funds www.rbcfunds.com

RBC Asset Management Inc.

P.O. Box 7500, Station A

Toronto, Ontario

M5W 1P9

Customer Service:

1-800-ROYAL® 1-1 (1-800-769-2511)

and select “Investments”



RBC
Investments

RBC
Asset
Management