

**RBC CORRESPONDENT SERVICES**

# TOTAL STRATEGY ACCOUNT DISCLOSURE DOCUMENT

Form ADV, Part 2A Appendix 1, Wrap Fee Program Brochure

**January 27, 2012**

*This wrap fee program brochure provides you with information about the qualifications and business practices of RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC ("RBC CM"), a wholly-owned subsidiary of Royal Bank of Canada. This brochure describes only the Total Strategy Account program offered by RBC CM. This document provides investors with information about RBC CM and the Total Strategy Account program that should be considered before becoming a client of the Total Strategy Account program. Contact us at (612) 371-2711 if you have any questions about the content of this brochure. This information has not been approved or verified by the United States Securities and Exchange ("SEC") or any state securities authority. Please retain for your records.*

Additional information about RBC Capital Markets is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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**RBC Correspondent Services**

A division of RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC.

**ITEM 2: MATERIAL CHANGES**

On July 28, 2010, the U.S. Securities and Exchange Commission published amendments to Form ADV, the disclosure document that we provide to clients in our investment advisory programs as required by SEC rules. This wrap fee program brochure ("Disclosure Document") dated January 27, 2012, is a new document prepared in accordance with the SEC's new requirements for Form ADV.

### ITEM 3: TABLE OF CONTENTS

Item 1	Cover Page.....	1
Item 2	Material Changes.....	2
Item 3	Table of Contents.....	3
Item 4	Services, Fees and Compensation.....	4
	Analysis of Client Investment Objective.....	4
	A. General Description of Program.....	4
	Other Considerations for Program Accounts .....	6
	Performance Monitoring and Client Communications .....	6
	Risks .....	7
	Tax Considerations .....	7
	General Information on Fees.....	7
	B. Comparing Costs .....	8
	C. Additional Fees .....	9
	D. Compensation to Financial Advisors .....	9
Item 5	Account Requirements and Types of Clients .....	9
	Account Requirements .....	9
	Types of Clients.....	10
Item 6	Portfolio Manager Selection and Evaluation.....	10
	A. Selection and Review of Portfolio Managers.....	10
	Eligibility.....	10
	Monitoring and Review .....	10
	Removal .....	10
	B. Related Persons.....	11
	C. Supervised Persons.....	11
	Performance-Based Fees and Side by Side Management .....	11
	Methods of Analysis, Investment Strategies.....	11
	Voting Client Securities (Proxy Voting) .....	12
Item 7	Client Information Provided to Portfolio Managers.....	12
Item 8	Client Contact with Portfolio Managers.....	12
Item 9	Additional Information.....	12
	Disciplinary Information .....	12
	Education and Business Background of Correspondent Firm Personnel .....	16
	Other Financial Industry Activities and Affiliations .....	16
	Code of Ethics .....	18
	Reviewing Accounts .....	19
	Financial Information.....	19

This Disclosure Document provides a complete description of the services provided by RBC Capital Markets and the fee payable to RBC Capital Markets under the Total Strategy Account program (“the Program”). The Program is sponsored by RBC Capital Markets, LLC (“RBC CM”, “we”, “us”, or “our”) and is offered by RBC Correspondent Services (“RBC CS”), a division of RBC CM.

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#### ITEM 4: SERVICES, FEES AND COMPENSATION

In the Total Strategy Account Program, you engage correspondent firm (“Correspondent Firm”) to provide investment advisory and other services. Correspondent Firm has entered into an agreement with us whereby we will provide certain advisory and/or other services to you and Correspondent Firm.

Program services are provided pursuant to a Total Strategy Account Client Agreement (“Client Agreement”), Total Strategy Account Terms and Conditions, and, if applicable, Tax Overlay Management Services Enrollment Form (collectively, the “Program Agreement”). The Program provides for discretionary management of the account, meaning that the overlay manager will buy, sell, and otherwise effect transactions in stocks, bonds, and other securities or assets without consulting you and without your prior consent.

The Correspondent Firm's Financial Advisor (“Financial Advisor”) works closely with you to analyze and define your investment objectives and needs. Based on this analysis and the services selected by you, the Financial Advisor will recommend an appropriate investment strategy. Correspondent Firm and RBC CM recognized that they owe a fiduciary duty to the Program client under the Investment Advisers Act of 1940, as amended (“Advisers Act”).

For investment advisory, brokerage execution, and other services rendered under the program, you pay Correspondent Firm and us a single quarterly Program fee based on the value of your account (regardless of the number of trades placed by the overlay manager).

Account assets may include a variety of securities including, but not limited to:

- equity securities
- bonds (both taxable and non-taxable)
- mutual funds (both load-waived and no-load)
- exchange traded products (“ETPs”), including exchange traded funds (ETFs), and exchange traded notes (ETNs).

Securities selected are subject to any limitations imposed by you, the overlay manager, and us.

#### Analysis of Client Investment Objectives

We and Correspondent Firm require you to provide information sufficient to determine a risk profile (“Risk Profile”) which is intended to measure your investment time horizons and risk parameters. You may also establish

additional written investment guidelines in addition to the Risk Profile, subject to acceptance by Correspondent Firm, us and the overlay manager. We provide the overlay manager with a copy of your Risk Profile, as well as any other written investment guidelines established for the account. You are responsible for promptly notifying the Correspondent Firm which will in turn notify us of any material changes in the information provided in your Risk Profile, any additional written investment guidelines, or your financial condition. You should forward these changes to Correspondent Firm, then the Correspondent Firm will forward these changes to us, and we, in turn, forward these changes to the overlay manager.

#### A. General Description of Program

The Total Strategy Account is an advisory program in which accounts of clients of the Correspondent Firm named in the Client Agreement are managed by an overlay manager, Placemark Investments, Inc. The overlay manager manages the account through investments in mutual funds, ETPs and/or in accordance with one or more model portfolios provided by investment managers.

Your Financial Advisor may provide you with information on mutual funds, ETPs, and/or model portfolios representing different investment styles and strategies that may be compatible with your investment philosophy and objectives.

We make available model portfolio providers who meet our eligibility requirements for participation in the Program. See Item 6: *Portfolio Manager Selection and Evaluation*.

The use of margin is not generally permitted in Program account(s).

#### Recommendation of Investment Strategy

Based on Correspondent Firm's understanding of your investment needs and objectives gained from the consultation process and the Risk Profile (and any additional written investment guidelines established by you), your Financial Advisor recommends an appropriate investment strategy to you. If the strategy includes an asset allocation, it will also include an investment allocation — that is, an assignment of a percentage of the overall value of the asset class to one or more mutual funds, ETPs and/or model portfolios. You select from the eligible investments and specify, in writing, the investments in which the account assets are to be invested and the allocation among those investments. Your investment allocation may subsequently be modified by you by notifying your Financial Advisor in writing, who in turn will notify us of the changes and we will forward the changes to the overlay manager. Any such changes will be effective only upon confirmation by us and the overlay manager.

The overlay manager will effect the securities transactions required to conform to revisions in the model portfolios as soon as practicable after they are received, subject to any written client-specific investment guidelines, such as security restrictions or tax overlay management services; however, delays may occur between the communication of model revisions and the execution of securities transactions for your account. The overlay manager intends to manage an account so that the estimated investment performance does not substantially deviate from the model portfolio(s), provided client-specific investment guidelines make it practical to do so.

Neither we nor the Correspondent Firm have any discretionary trading authority with respect to the account(s). You have sole discretion to accept or reject any investment strategies or investment allocations. Other than in connection with its consulting responsibilities, as described above, neither we nor the Correspondent Firm assume responsibility for the conduct of the overlay manager, including its performance or compliance with law or regulations.

### ***Rebalancing of Assets***

You may choose between two rebalancing frequencies (quarterly or annually) for bringing an account back to its written investment allocation. The overlay manager will rebalance your account at the time period selected by you in the Client Agreement if the allocation to any investment at that time deviates from the investment allocation by 5% or more. Rebalancing will not occur until the account has been open for at least one full calendar quarter. The overlay manager will affect the trades necessary to rebalance the account until all investments are within 2% of your selected investment allocation. If you have elected to receive tax overlay management services (described below), the overlay manager will evaluate the tradeoff between rebalancing your account and the tax consequences of any client constraints or tax mandates. If your account is not tax-exempt, the sale, redemption or exchange of investments may result in taxable gains or losses. We and Correspondent Firm will not be liable for any tax consequences or mutual fund redemption fees (see the fund's prospectus) as a result of rebalancing.

Alternatively, you may elect to not have the account rebalanced systematically; rather the account will only be rebalanced upon your request.

### ***Tax Management Services***

Tax overlay management services are available as an option for accounts utilizing model portfolios. If you elect tax overlay management services, the portion of your fee paid as the management fee on your account will increase. The overlay manager will develop a tax strategy for your account based on the information and instructions provided by you in the Tax Overlay

Management Services Enrollment Form. Tax overlay management services in an investment account offer benefits and limitations, as described below. The tax strategy developed for you by the overlay manager is provided solely in connection with your account and the overlay manager does not provide general tax planning services. If you do elect the tax overlay management services option, please consider the following:

- Tax overlay management services are limited in scope and are not designed to eliminate taxes in the account.
- If you select tax overlay management services for the account, information provided may result in the overlay manager making substantial deviations from the investment allocation on a more than temporary basis.
- The overlay manager intends to manage the account so that the estimated investment performance does not substantially deviate from the model portfolio(s), provided client-specific mandates make it practicable to do so.
- When providing tax overlay management services to the account, short-term gains are avoided where possible, but long-term gains are not limited. Limits can be set by you in the Tax Overlay Management Services Enrollment Form.
- If you subsequently disable tax overlay management after enrolling in the tax overlay management service, the overlay manager will begin managing the account as if it is not tax-managed, which may result in the recognition of significant gains.
- You should only complete the Tax Overlay Management Services Enrollment Form after consulting with a tax advisor.

Any tax loss carryover specified for the current calendar year may be taken into consideration by the overlay manager in managing the account. You should update this information annually. On an ongoing basis, any losses taken in the account may be taken into consideration in managing the account. If you recognize gains outside the account that result in the use of the specified losses, you must notify us and we will in turn notify the overlay manager, so that the loss carryover amount may be reduced accordingly.

Mandates or the use of limits to restrict the amount of gains realized on your total tax bill may severely restrict trading in the account and could result in substantial deviations from the investment allocation. Mandates and limits should only be imposed on the account after you have consulted with your tax advisor. Amounts specified will be used annually until you specify otherwise.

For more information on Tax Overlay Management Services, refer to Placemark's ADV.

## **Other Considerations for Program Accounts**

### ***Cash Balances***

If selected by you, cash custodied at RBC CM will be automatically invested or deposited the next business day (as applicable). This automatic process is referred to as a "Cash Sweep Option." Investments for non-retirement accounts will be made in shares in a money market fund managed by RBC Global Asset Management (U.S.) Inc. ("RBC GAM (U.S.)"), an affiliate, or in RBC CM's Credit Interest Program, RBC Bank Deposit Program or an unaffiliated money market fund. Investments for retirement accounts will be made in shares of a money market fund unaffiliated with us. You should review the RBC CS Customer's Agreement for details regarding our Cash Sweep Option and the Credit Interest Program. The Credit Interest Program and the RBC Bank Deposit Program are described in more detail in Item 9: *Other Financial Industry Activities and Affiliations*.

### ***Deposits***

You may deposit additional money into a Program account at any time (subject, for retirement accounts, to any limitations imposed under the retirement plan documents or the Internal Revenue Code of 1986, as amended).

Deposits will be invested by the overlay manager.

### ***Withdrawals***

You may make withdrawals from a Program account upon prior notice to Correspondent Firm which will, in turn, give such notice to us. We will notify the overlay manager of your withdrawal request (effective upon actual receipt of such notice by the overlay manager). Unless otherwise directed by you, withdrawals will be funded first from available amounts in the Cash Sweep Option, then sufficient securities will be sold or redeemed according to the rebalancing process. In the event that an orderly liquidation of securities cannot be accomplished by the overlay manager in a timely manner, we may effect any such withdrawal by delivering securities in kind to you.

### ***Termination***

You may terminate your Program Agreement with Correspondent Firm and us at any time by written notice to Correspondent Firm, which will in turn notify us. The Program Agreement will terminate upon our receipt of your written notice of termination. We or Correspondent Firm may terminate its Program Agreement with you upon written notice to the other parties or upon the occurrence of certain events as described in the Program Agreement. As further described below under *General Information on Fees*, upon termination, we may owe you a prorated portion of the fee.

## ***Eligibility and Classification of Certain Investments***

In identifying and selecting mutual funds eligible for use in the Program, we may use many sources of information and analysis about mutual funds, including data provided by independent third parties. Generally, however, SEC-registered funds are eligible for the Program if the funds are either "no-load" or agree to waive any front-end sales charges, have no contingent deferred sales charges (unless otherwise specified), and trade through standard facilities utilized by us. Thus, a broad array of funds are available for evaluation by investment managers, you and your Financial Advisor in the context of implementing investment strategy. In accordance with regulations, we will deliver a mutual fund's and ETP's current prospectus to you only when you purchase the mutual fund shares or ETPs through us. In situations where you purchase mutual fund shares and ETPs through another financial institution, you must rely on the firm through which the shares were purchased for delivery of a current prospectus.

Certain securities, such as annuities, that are not designated as eligible and not held by RBC CM may appear on the Client's periodic activity statements for informational purposes only. These assets are not considered to be advisory assets covered under the Program Agreement and are not subject to the advisory fee.

## ***Performance Monitoring and Client Communications***

We may provide Correspondent Firm with a performance evaluation of your account, on a periodic basis ("Portfolio Review"), which the Correspondent Firm may provide to you. The Portfolio Review may include the performance of the account in terms of rate of return and compare the account's performance to that of selected benchmarks.

To compute the value of assets held in an account custodied at RBC CM, we value the mutual fund shares at their respective net asset values as reported on the valuation date by each mutual fund. Securities traded on a national securities exchange will be valued at the last sale price on the exchange, or, if there has been no sale that day, at the last known bid price. Securities that are traded over-the-counter and on a stock exchange will be valued according to the broadest and most representative market. Securities for which market quotations are readily available will be valued at the known current bid price believed by us to most nearly represent current market value. Other securities and all other assets will be valued at fair value as determined in good faith by us or an independent third-party retained by us. For assets not custodied at RBC CM, we will rely on the information provided to us by custodian.



Assets not held at RBC CM may not be included in any performance calculations on the Portfolio Review.

Portfolio Reviews merely provide historical information regarding an account and may not be relied upon as predictive of future performance.

We provide you and Correspondent Firm (and, where appropriate, the overlay manager) with the following reports of relevant activity in your account:

- trade confirmations reflecting all transactions effected with or through us or Correspondent Firm (other than cash sweep transactions) unless designated otherwise by you;
- monthly statements itemizing all transactions in cash and securities and all deposits and withdrawals of principal and income, during the preceding calendar month and a listing of securities in custody held in your account (monthly statements may not be generated if there is no activity in your account during the month); and
- quarterly statements listing securities in custody held in your account.

### **Risks**

You are advised and should understand that:

- past performance of the overlay manager, model portfolios or other securities selected by you is no guarantee of future results;
- market conditions, interest rates, and other investment-related risks may cause losses in the account;
- the risk parameters or comparative index selections provided for accounts are guidelines only — the selected risk parameters may be exceeded and index comparisons may outperform your account;
- all trading in your account is at your risk; and
- the value of the assets in your account is subject to a variety of factors, such as the liquidity and volatility of the securities markets.

### ***Risks Relating to Money Market Fund***

An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there is no assurance that will occur, and it is possible to lose money if the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. If this happens, the fund's holdings are liquidated and distributed to the fund's

shareholders. This liquidation process is likely to take up to a month or more. During that time, these funds would not be available to you to support purchases, withdrawals and, if applicable, check writing or ATM debits from your account.

### ***Risks Relating to Differing Classes of Securities***

Different classes of securities have different rights as creditor if the issuer files for bankruptcy or reorganization. For example, bondholders' rights generally are more favorable than shareholders' rights in a bankruptcy or reorganization.

### **Tax Considerations**

The payment of the fees described below under *General Information on Fees* may produce income tax results different from those resulting from the payment of brokerage commissions or other transactional charges on a per trade basis. We do not offer advice with respect to these matters and you should seek the counsel of a qualified tax advisor, accountant and/or other professional in this respect. If you are not a tax-exempt entity, the sale, redemption or exchange of investments may result in taxable gains or losses. Further, it is your responsibility to ensure that the payment method selected, and subsequent treatment of the related expenses, complies with applicable tax and other regulations.

### **General Information on Fees**

The Program fee may be negotiated between your Financial Advisor and you and is set forth in your Client Agreement. Generally, minimum initial account values will be required in accordance with Program guidelines. You may pay higher or lower fees depending on considerations such as the size of your account, the amount of time you have had an account with Correspondent Firm, the total amount of business you conduct through Correspondent Firm, the types of securities and services provided, and other relevant criteria.

In the Program, the fee covers the services provided by us, Correspondent Firm, model portfolio providers and the overlay manager. The portion of the Program fee paid by Correspondent Firm and RBC CM to the overlay manager and model portfolio providers, collectively, typically ranges from the annual rate of 0.08% to 0.70% of account assets under management, depending on investment strategy and services selected by you. The portion of the program fee retained by us for advisory services typically ranges from the annual rate of 0.15% to 0.50% of account assets under management. Program fees that are not paid to the overlay manager, model portfolio providers or us will be paid to Correspondent Firm.

The Program fee includes compensation for:

- an initial analysis of your investment objectives and needs with periodic re-evaluations provided by Correspondent Firm;
- consulting services provided by Correspondent Firm, as to investments and model portfolio providers;
- ongoing evaluations provided by us on model portfolio providers and the overlay manager;
- investment advisory services and portfolio management services rendered by us, Correspondent Firm, and the overlay manager through the program;
- custodial and execution services (including brokerage commissions) provided by us; and
- other account-related services provided by us.

Your Program fees are calculated as a percentage of the account value. Fees are generally payable in advance on a quarterly basis and calculated based on our appraisal of the market value of the billable assets in your account as of the last business day of the preceding calendar quarter. Fees are assessed on all assets under management, including securities, cash, and money market funds, RBC Bank Deposit Program balances or Credit Interest Program balances.

Fees are prorated for any billing period that is less than a complete quarter, and your fee may be adjusted proportionately based on the value of cash or securities added to or withdrawn from your account between billing periods.

The Correspondent Firm's Disclosure Document (brochure) or Part 2 of the Form ADV if applicable, contains important information regarding the fees in your account.

You can elect to be invoiced for the amount of the fees, authorize us to deduct the amount of the fees from your account, or direct us to deduct the fees from another of your RBC CM accounts (provided the account is not a retirement account). Automatic fee deductions will be funded from available cash or the proceeds of the sale of securities in the account.

### ***Transferred Mutual Fund Shares***

We may, in our discretion, accept into the Program account shares of mutual funds held in other Correspondent Firm advisory or brokerage accounts and purchased outside of the Program account at the Correspondent Firm or at other financial institutions. Mutual fund shares transferred into a Program account are referred to as "Transferred Shares." You may have been assessed a sales load, sales charge, or distribution fees on Transferred Shares prior to their transfer into your Program account. You will not be charged the applicable Program fee on Transferred Shares that were purchased through RBC CM with a front-end sales load until you

have held those shares for two (2) or more years from the date of initial purchase. Transferred Shares purchased at other financial institutions will be subject to the applicable Program fee immediately, regardless of whether you paid a front-end load or other compensation. Because the exception is not available for Transferred Shares purchased at another financial institution, the overall cost to you of transferring mutual fund shares into a Program account may be higher for shares you purchased at another financial institution. You should review the costs carefully before making a decision to transfer mutual fund shares into the Program account.

### ***Ineligible Securities***

If your Program account is funded with assets that are ineligible for the Program, generally those assets will be liquidated by us or the overlay manager, or moved to another account by Correspondent Firm where such assets are eligible. Your account may incur certain transaction charges.

### ***Fees Upon Termination***

If the Program Agreement is terminated prior to the last day of the calendar quarter, a prorated portion of the Program fee paid by you, based upon the days remaining in the quarter, will be refunded to you as required by law.

## **B. Comparing Costs**

Your total cost of each of the services provided through the Program, if purchased separately, could be more or less than the costs of the Program. Cost factors can include:

- your ability and the costs to obtain the desired investment advisory services;
- your ability to retain the desired overlay manager and obtain model portfolio(s), where applicable;
- your ability to obtain expertise in selecting and monitoring the overlay manager and model portfolio providers;
- your ability to invest in and where applicable, rebalance the desired investments without payment of a sales charge;
- your costs and ability to obtain custodial services, trading and execution costs (including principal mark-ups and mark-downs); and
- your ability to obtain reports comparable to those provided through the Program.

When making cost comparisons, you should be aware that the combination of investment management, custodial, consulting, and brokerage services available through the Program may not be available separately or may require multiple accounts, documentation and fees. In addition, certain model portfolio providers or the overlay manager may not be available to you outside of



the Program either because of minimum account size requirements, fee schedules, geographic availability, or other factors. You should also consider the amount of trading activity anticipated when assessing the overall costs of the Program. If the Program account is actively traded through Correspondent Firm and us, the Program fees may be less expensive than separately paying investment management fees, consulting fees and commissions. If an account is not actively traded, then the Program fees may be more expensive than separately paying investment management fees, sales charges, consulting fees and commissions.

When utilizing no-load mutual funds within the Program, you will be paying a fee on assets that could otherwise be purchased outside of an advisory account at no additional cost. Additionally, by investing in mutual funds within the Program account, management fees and other fees charged by a mutual fund company are not included as a part of the Program fees, and could result in higher costs to you.

### C. Additional Fees

Program fees cover only the services provided under the Program Agreement and do not cover certain additional fees for which you may be responsible. Such fees may include the following:

- commissions, mark-ups, spreads and other transactional charges on securities transactions effected through or with brokers and dealers other than us and our affiliates;
- interest on debit account balances, where applicable;
- the entire public offering price (including underwriting commissions or discounts) on securities purchased from an underwriter or dealer (including us and our affiliates) involved in a distribution of securities;
- bid-ask spreads, odd-lot differentials, exchange fees, transfer taxes and other fees required by law;
- Investment Access® Account fees, where applicable;
- Individual Retirement Account (IRA) fees, qualified retirement plan account fees and other Account maintenance fees, where applicable;
- our usual and customary transaction charges on the liquidation of assets not eligible for the Program;
- any contingent deferred sales charge assessed on the sale or liquidation of mutual fund shares, where applicable;
- check reordering costs and fees, where applicable;
- redemption fees imposed by certain mutual funds (see the fund prospectus for details);
- short-term trading charges for purchases and corresponding redemptions of certain mutual fund shares (see fund prospectus for details) made within a short period of time;

- management and other fees on certain securities, which may include open-end and closed-end mutual funds, unit investment trusts (UITs) and ETPs;
- RBC Express Credit (margin) interest;
- safekeeping fees for physical securities; and
- RBC Bank Deposit Program fees.

Other account maintenance fees may apply and certain investment products, such as closed-end funds or ETPs may incur management and operating expenses that are not covered by the Program fees. Please refer to each investment product's disclosure document for a more detailed description of the fees and expenses you may pay as an investor.

Each mutual fund pays separate management fees and other fees and expenses as detailed in the fund prospectus. Some of the fees and expenses are paid to and, where permitted under applicable regulatory requirements, may be retained by us or Correspondent Firm for advisory, distribution, and/or other services. As a result, you may indirectly pay duplicate advisory and other fees in connection with such investments. Certain mutual funds may charge you redemption fees that are not imposed by us.

### D. Compensation to Financial Advisors

Correspondent Firm may pay a portion of the program fee to your Financial Advisor. This compensation may be more than your Financial Advisor would receive if you participated in another Correspondent Firm or RBC CM program or paid separately for investment advice, brokerage, and other services. Therefore, Financial Advisors may have a financial incentive to recommend the Program over other available services and programs.

Mutual fund companies make payments, which may be based on assets and/or sales volume, to us via the fund's distributor, investment advisor, or other entity. These payments are generally made from the management fees they earn and may, where permitted under applicable regulatory requirements, be made to and retained by us and Correspondent Firm who in turn may pass on to Financial Advisors. Correspondent Firm may receive a portion of these payments for distribution and servicing expenses related to shares of mutual funds.

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## ITEM 5: ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

### Account Requirements

The general minimum account size for the Program is listed below. We have the discretion to accept accounts that are below the minimum account size.

- \$250,000 for accounts utilizing model portfolios
- \$25,000 for accounts utilizing only mutual funds and/or ETPs

## Types of Clients

The Program is offered to individuals, foundations, endowments, employee benefit plans, trusts and estates, educational institutions, corporations, business and government entities and other entities. The Program is available for both non-retirement and retirement accounts, including individual retirement accounts (IRAs).

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## ITEM 6: PORTFOLIO MANAGER SELECTION AND EVALUATION

### A. Selection and Review of Portfolio Managers

#### Eligibility

We have certain standards of eligibility for model portfolio providers and the overlay manager (each a “Portfolio Manager”) in the Program. We consider and select only model portfolio providers who meet our eligibility requirements. In identifying and choosing model portfolio providers, we evaluate the financial and organizational stability of the firm and product, historical performance results, experience and other factors. Based on the evaluation, model portfolio providers are categorized by their respective investment styles and performance. Information that we gather regarding Program model portfolio providers is believed to be reliable and accurate, but we do not independently verify it. Based on selected criteria identified above, we chose Placemark Investments, Inc. as overlay manager for the Program.

As described above in Item 4: *Services, Fees and Compensation*, you will establish a Risk Profile, which is intended to measure your investment time horizons and risk parameters. Correspondent Firm and your Financial Advisor are available to consult with you regarding investment alternatives that may be compatible with your Risk Profile. You then choose one or more investments or model portfolios.

The account is managed by the overlay manager. Other than in connection with our responsibilities to you we have no discretionary authority and do not assume responsibility for the conduct of the overlay manager or third-party model portfolio provider selected by you, including their performance or compliance with applicable law or regulations.

The overlay manager is required to provide us with a copy of its written disclosure statement (Part 2 of its Form ADV), which we in turn provide to each applicable client upon account opening. This disclosure statement describes the disciplinary history of the overlay manager, general standards of education and business experience that the overlay manager requires of its professionals, as well as the specific educational and business backgrounds of certain supervisory personnel and other information about the overlay manager.

## Monitoring and Review

We review performance data of all model portfolio providers on a periodic basis. The evaluation may involve, among other things, investment discipline and trends in investment philosophies. Comparisons are made to other accounts and to standard industry market statistics. In addition, we may compare account performance to the data that the investment manager or model portfolio provider reports to various consulting and database services. This review is designed to determine whether the reported performance data is consistent with the actual experience of Program accounts. We attempt to monitor, review, and calculate account performance. We do not:

- audit the performance data reported to the databases to be sure they are calculated on a uniform and consistent basis;
- review the appropriateness of the methodology used to calculate performance;
- audit the mathematical accuracy of the calculations; or
- audit compliance with any standards a model portfolio provider has stated it will follow.

As part of our account monitoring process, we maintain a watch list of model portfolio providers for which there may be developments of potential concern. Such developments may include the model portfolio provider's adherence to management style, consistency with client objectives, unexplained poor performance, or other matters that come to our attention. The watch list provides us with the means to review and communicate developments related to model portfolio providers in the Program. Placement of model portfolio providers on the watch list initiates a probationary period that allows us adequate time to better assess the effects — negative or positive — stemming from the developments in question.

We conduct periodic reviews of Placemark's overlay manager function to evaluate adherence to model portfolios and investment allocations selected by you.

#### Removal

We may recommend to Correspondent Firm the termination of a model portfolio provider from the Program if our original opinion of the model portfolio provider is materially changed. This is most commonly a result of fundamental developments that are determined to be detrimental to the potential longer-term success of the model portfolio provider, or underlying investment strategy.

In the event that we terminate any model portfolio provider selected by you, we will promptly contact Correspondent Firm, which will in turn contact you and consult with you as to the reallocation of the applicable account assets.

If you do not select a new model portfolio provider, we will move the assets to a model portfolio provider available under the program that we deem to be most consistent with the model portfolio provider that is no longer available. If an appropriate model portfolio provider is not available, we will move the assets to an appropriate ETP or mutual fund.

We may provide Correspondent Firm with information regarding replacement of a mutual fund or ETP in the event that it is no longer eligible for inclusion in the Program. Correspondent Firm will contact you and consult with you as to the reallocation of the applicable account assets. If you do not select a new mutual fund or ETP available under the Program, we will move the assets to a mutual fund or ETP available under the Program that we deem to be consistent with the mutual fund or ETP that is no longer available.

We may replace Placemark Investments, Inc. as overlay manager upon advance written notice to the affected clients.

## **B. Related Persons**

Affiliates (also referred to as a related person) of RBC CM may act as model portfolio providers in the Program. If you select an affiliated model portfolio provider, the affiliates will receive compensation under the terms of their agreement with us. Participation of the affiliate in the Program may create an incentive for us to recommend the affiliate over another qualified and suitable non-affiliated model portfolio providers. Related persons of ours acting as model portfolio providers are subject to the same eligibility, review, and removal procedures as non-affiliated model portfolio providers as described above. When related persons act as model portfolio providers for Program clients, certain conflicts of interest may exist.

You may be able to invest in certain investment products that are manufactured by us or our affiliates, including RBC's money market funds, as described above in Item 4: *Services, Fees and Compensation*. Certain conflicts of interest among the fund, the fund manager, and/or the fund's broker may exist as described in the fund's prospectus. Where we are affiliated, through common ownership and control by the Royal Bank of Canada, with a fund or fund manager, we may be incented to recommend the proprietary or affiliated product over a non-proprietary or non-affiliated product, so that fees and expenses charged by the fund or manager are earned by us, or our affiliate rather than a non-affiliate.

If, and to the extent that, your cash balances are invested in a money market fund managed by an affiliate of ours, you will indirectly pay duplicate advisory and other fees to us in connection with such cash balances (i.e., the Program fees and, as a fund shareholder, your prorated portion of the fund's fees and expenses).

Each of RBC's money market funds is a series of RBC Funds Trust, a registered open-end investment company managed by RBC GAM (U.S.), an affiliate of ours. We will make available to Correspondent Firm and its clients the ability to purchase shares in such funds or other RBC funds managed by RBC GAM (U.S.).

Additional information regarding money market funds, including investment policies and fees and expenses, is set forth in the fund's current prospectus. You should read the fund's prospectus carefully prior to making a selection.

## **C. Supervised Persons**

We may act as a model portfolio provider in the Program. Our participation in the Program may create an incentive for us to recommend ourselves over another qualified and suitable model portfolio provider.

We may utilize model portfolios created by our internal research group(s), referred to herein as Portfolio Advisory Group ("PAG"). PAG provides timely, independent information to Correspondent Firm Financial Advisors and you by independently analyzing research from its research providers. The research that is produced by PAG seeks to provide a broad and extensive array of fundamental research in the marketplace by focusing on key analysts, recommendations, and trends within their research sources, including those of RBC CM, as well as through nationally recognized research providers. PAG does not receive compensation for making their model portfolios available to Correspondent Firm and you in the Program.

We may make model portfolios created by our internal Advisory Research Group available to Correspondent Firm and you in the Program. While the research conducted in creating model portfolios is independent, we may have an indirect incentive to use certain mutual funds in a model, since we may receive additional compensation from the investments made in certain mutual funds.

## **Performance-Based Fees and Side by Side Management**

We do not have any performance-based fees for any advisory programs.

## **Methods of Analysis, Investment Strategies**

We prepare and disseminate various research reports on mutual funds, securities and affiliated and unaffiliated investment advisers that are utilized by Correspondent Firm and Financial Advisors in providing investment advice to you.

There is no guarantee of performance for any investment strategy implemented. Past performance with respect to other accounts does not predict your account's future performance. Investing in securities involves risk of loss that you should be prepared to bear. Raising the awareness

of this risk and discussing the factors that could lead to a loss is an important consideration for you when evaluating a potential investment opportunity.

### **Voting Client Securities (Proxy Voting)**

Neither we nor Correspondent Firm shall vote proxies on behalf of your account. Except as provided below, we will forward all proxy solicitation and related materials, including annual and interim reports and any other issuer mailings that are received with respect to the securities in your account, to you to vote. You may change your proxy voting authorization election at any time upon written notice to Correspondent Firm who will, in turn, notify us at no cost to you.

Subject to their acceptance, you may designate in the Client Agreement to have the overlay manager receive proxy solicitations and to vote proxies on your behalf. Alternatively, you may give written instructions to Correspondent Firm, which will in turn notify us, to direct all proxy solicitations to an independent third-party selected by you to vote on your behalf. Identification and selection of an independent third-party and payment of any additional costs associated with the voting of proxies shall be your express responsibility.

In Program accounts in which you have given us proxy authorization, we have adopted a proxy voting policy and use the proxy voting guidelines of a third-party provider who acts as our primary provider of proxy research and voting recommendations.

The engagement of the third-party provider is not intended to be a delegation of our proxy voting responsibilities and does not relieve us of any fiduciary obligations with respect to the voting of proxies.

### **Retirement Accounts**

With respect to retirement accounts that are subject to Title I of ERISA ("ERISA Accounts"), we and Correspondent Firm have no responsibility or authority to vote proxies on behalf of the account. For ERISA Accounts, the right to direct the voting of proxies is reserved to a named fiduciary of the plan as selected by you.

Unless you indicate otherwise in the Client Agreement, we, the Correspondent Firm and/or the overlay manager are expressly precluded from voting proxies on behalf of an ERISA Account (although the Correspondent Firm may, in its capacity as a broker, act pursuant to the instructions of a named plan fiduciary). We deem the authority to vote proxies as expressly reserved to a named plan fiduciary and we have no obligation to take action on your behalf with respect to proxy-related material.

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### **ITEM 7: CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

Except as otherwise agreed to in writing or as required or permitted by law, we shall keep confidential all information concerning your identity, financial data and investments.

We will share relevant Client information with (1) the overlay manager in order for the overlay manager to adequately manage your account and (2) certain companies that we or the overlay manager partner with to service your accounts. Recommendations and advice given to you shall be regarded as confidential between you and the overlay manager.

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### **ITEM 8: CLIENT CONTACT WITH PORTFOLIO MANAGERS**

Correspondent Firm, through us, shall serve as the liaison for communications between you and the overlay manager and model portfolio providers selected by you.

We do not restrict you from contacting and consulting with Correspondent Firm or your Financial Advisor.

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### **ITEM 9: ADDITIONAL INFORMATION**

#### **Disciplinary Information**

In the past, we have entered into various orders, consents and settlements with our regulators and other third parties and have been the subject of adverse legal and disciplinary events. Below are summaries of certain events that may be material to your decision in selecting or maintaining our services for your investment advisory needs. Please note that certain disclosures discuss disciplinary events associated with Tucker Anthony, Inc.; Sutro & Co., Inc.; Rauscher Pierce Refsnes; Seasongood & Mayer, LLC; Ferris, Baker Watts, LLC.; J.B. Hanauer & Co. and RBC Dain Rauscher Inc. ("RBC Dain Rauscher"). These disclosures are adverse events that involved a company that was either a predecessor broker-dealer or was merged or acquired by us.

It should be noted that the disciplinary reporting requirements for broker-dealers and investment advisers differ. Since we are registered as both a broker-dealer and investment adviser, we file information as required by both sets of regulatory requirements. In addition to the descriptions below, you can find additional information about us and management personnel on the Securities and Exchange Commission's website located at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) as well as the Financial Industry Regulatory Authority's (FINRA) website located at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

Please note that in each of the instances described below, we entered into various orders, consents and settlements without admitting or denying any of the allegations.

FINRA alleged that RBC CM violated FINRA rule 2010, 2110 and 3010 by charging markups and markdowns on Collateralized Mortgage Obligations (CMO) with mostly retail, non-institutional customers that exceeded the internal guidelines based on the type and maturity. In addition, RBC CM did not adjust or justify in writing on the order records the reason for the markup and markdown. RBC CM also failed to establish, maintain and enforce a supervisory system and written supervisory procedure reasonably designed to ensure that the markup and markdowns were fair, reasonable and compliant



with FINRA rule 2440. On January 3, 2012; RBC CM was censured and fined \$25,000.

FINRA alleged that RBC CM violated various FINRA, MSRB and SEC rules because it failed to report the following to the TRACE for TRACE eligible securities: block transactions within 15 minutes of execution time, transactions it was required to report, the correct contra-party's identifier, the time of trade execution in the correct format, the correct price and symbol indicating whether the trade was a buy or sell and the correct trade execution time. RBC CM also reported transactions to TRACE it was not required to report and double reported TRACE transactions. RBC CM also failed to report information regarding purchase and sale transactions and block purchase and sale transactions effected in municipal securities to the RTRS within 15 minutes of the time of trade to a RTRS portal. RBC CM also improperly reported information to RTRS, failed to report information and reported a transaction it should not have. RBC CM failed to report the correct yield for municipal securities to the RTRS and provided written notification disclosing to customers the incorrect yield. RBC CM failed to transmit to the OTC reporting facility (OTCRF) last sale reports of transactions within 90 seconds after execution and to designate the reports as late. RBC CM failed to report to the OTCRF the correct execution time for transactions in reportable securities. It is also alleged that RBC CM failed to show the correct execution time on brokerage order memoranda, execute orders fully and promptly, use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price for customers were as favorable as possible under the prevailing market conditions. On November 8, 2011; RBC CM was censured and fined \$125,000 and ordered to pay \$241.26, plus interest, in restitution to investors.

ICE Futures U.S., Inc. alleged that RBC CM violated Exchange Rule 27.09(a) by failing to assign unique login IDs to three employees of a corporate affiliate who accessed the Exchange's electronic trading platform through the Firm. On September 28, 2011, RBC CM was ordered to cease and desist and pay a fine of \$15,000.

It is alleged by the SEC that RBC CM violated Sections 8A, 17(A)(2) and 17(A)(3) of the Securities Act of 1933 (the "Securities Act"), Section 15(B) of the Securities Exchange Act of 1934 ("Exchange Act"), and Section 203(E) of the Investment Advisers Act of 1940 by negligently marketing and selling collateralized debt obligations (CDOs) to five school districts in Wisconsin that may have been inadequate or unsuitable. On September 27, 2011, RBC CM was censured, ordered to cease and desist and paid \$6.6 million in disgorgement and restitution, plus interest of \$1.8 million. RBC CM also paid a civil penalty of \$22 million.

FINRA alleged that in several transactions RBC CM violated MSRB Rules G-17 and G-30(A) by purchasing municipal securities for its own account from a customer and/or sold

municipal securities for its own account to a customer at an aggregate price (including any mark-down or mark-up) that was not fair and reasonable. On August 25, 2011, RBC CM was censured and was ordered to pay \$43,157 plus interest in restitution and a fine of \$95,000.

FINRA alleged that Ferris, Baker Watts, LLC (FBW), a firm acquired by RBC CM, violated FINRA rules 2110, 2310, 3010(A), and 3010(B) because it failed to have adequate written supervisory procedures governing suitable sales of reverse convertible notes and to reasonably supervise certain accounts that purchased the notes. On October 20, 2010, RBC CM was censured and paid \$189,723 in restitution and a fine of \$500,000.

It is alleged by NYSE ARCA that RBC CM failed to reasonably supervise the activities of its associated persons by implementing adequate controls, including a reasonable system of follow-up and review, designed to detect and prevent potential violation of wash trading activity on the NYSE ARCA Marketplace. On September 15, 2010, RBC CM was censured and was fined \$95,000.

The Nebraska Department of Banking & Finance alleged that RBC CM did not enforce policies and procedures designed to prevent an RBC Financial Consultant from engaging in trading in a customer's account that appeared to be excessive in size or frequency in view of the customer's financial resources and the character of the account. On May 1, 2010, RBC CM was fined \$60,000, plus disgorgement and restitution.

FINRA alleged that RBC CM violated various FINRA, MSRB and SEC rules because it had fail-to-deliver positions and failed to immediately take proper action before executing proprietary short sales in the security. RBC CM sent information to the Order Audit Trail System (OATS) that contained inaccurate, incomplete or improperly formatted data and made this data available in a report on the covered orders in National Market System Securities. RBC CM acted as principal for its own account and failed to provide written notification disclosing to its customers that it was a market maker in each such security. The supervisory system was not reasonably designed to achieve compliance with applicable securities laws and regulations concerning the use of multiple market participant identifiers (MPIDs). RBC CM did not make available in a timely manner a report on the covered orders in National Market System Securities that it received and did not, in a timely manner, make publicly available the reports on the routing of non-directed orders in covered securities or execute orders fully and promptly. RBC CM did not use reasonable diligence to ascertain the best inter-dealer market, accept or decline transactions in reportable securities within 20 minutes after execution in the trade reporting facility. RBC CM transacted in municipal securities for its own account and with customers at an aggregate price (including any mark-down or mark-up) that was not fair and reasonable and failed to report trade



reporting and compliance engine (TRACE) transactions in eligible securities within 15 minutes of the time of execution. Information regarding transactions and block transactions effected in municipal securities to the real-time transaction reporting system (RTRS) was not made within 15 minutes to a portal. RBC CM failed to report the correct special condition indicator code to the RTRS in municipal securities transaction reports and over-reported transactions in municipal securities. RBC CM was censured, ordered to revise its written supervisory procedures, and pay a fine of \$150,000, plus restitution payments of \$7,254, plus interest.

NASDAQ alleged that RBC CM entered orders into the NASDAQ market center that failed to correctly indicate whether the orders were a buy, short sale or long sale, in violation of NASDAQ Rule 4755. On January 6, 2010, RBC CM was ordered to pay a fine of \$5,000 to NASDAQ.

FINRA alleged that RBC CM failed to maintain adequate written supervisory procedures relating to non-cash compensation that was relevant for its non-cash compensation monitoring compliance and FINRA's non-cash compensation rules, in violation of FINRA Rules 2110 and 3010(B). On January 4, 2010, RBC CM was ordered to pay a fine of \$5,000.

FINRA alleged that RBC CM violated MSRB Rule G-36 by, acting as an underwriter in primary offerings and advance refunding of municipal securities, failing to submit forms G-36(OS) and related official statements with the MSRB in a timely manner. In addition, it is alleged that RBC CM failed to submit Forms G-36(ARD) and related advance refunding documents to the MSRB in a timely manner and submitted Form G-36(OS) with inaccurate information. On January 4, 2010, RBC CM was censured and fined \$7,500.

FINRA alleged the RBC CM sold unregistered securities in violation of Section 5 of the Securities Act and failed to establish, maintain and enforce a supervisory system reasonably designed to detect and prevent the sale of unregistered securities, in violation of FINRA Rules 2110 and 3010. On January 4, 2010, RBC CM was censured and was ordered to pay a fine of \$135,000.

FINRA alleged that certain research analysts at RBC CM did not have the proper registrations and the names of those analysts had appeared on numerous research reports, in violation of FINRA Rules 1050 and 2110. On July 8, 2009, RBC CM was censured and fined \$150,000.

It is alleged by FINRA that RBC CM violated FINRA Rules 2110, 2420, 3010, 3110, NYSE Rule 345(A), Sections 15(A) and 17(A) and Rules 17a-3 and 17a-4 of the Exchange Act because it permitted a non-registered finder to act in the capacity of a registered broker-dealer in the conduct of certain stock loan transactions and made or caused profit-based payments to be made to the non-registered finder. RBC CM allowed the non-registered finder to negotiate the terms of the stock loan transactions, select

the counterparties to those transactions, and was aware of and arranged with the non-registered finder for another broker-dealer to make payment to the non-registered finder based on the profits of related arbitrage transactions. RBC CM also failed to reasonably supervise the activities of its stock loan department in that it did not have adequate supervisory procedures in place to detect and deter these types of transactions and payments. On March 16, 2009, RBC CM was censured and fined \$400,000.

It is alleged by the SEC that RBC CM violated the fair dealing, gifts and gratuities, and supervisory rules of the Municipal Securities Rulemaking Board for advances made on behalf of and expenses reimbursed to one of its municipal clients during the client's municipal bond issuance process, in violation of MSRB rule G-17, G-20, G-27 and Section 15B of the Exchange Act. On February 24, 2009, RBC CM was censured, ordered to cease and desist and fined \$125,000.

The NYSE alleged that RBC CM violated NYSE rules by entering for execution odd-lot orders that aggregate 100 shares or more without having those orders consolidated into round lots as far as possible and filed with the NYSE inaccurate daily program trade reports. In addition, it is alleged that RBC CM failed to file certain daily program trade information with the NYSE within the required timeframes and failed to provide for, establish and maintain appropriate procedures of supervision and control, including a system of follow-up and review reasonably designed to achieve compliance with NYSE Rules and policies pertaining to odd-lot orders and the submission of daily program trade reports. On October 8, 2008, RBC CM was censured and fined \$125,000.

Seasongood & Mayer, LLC, a broker-dealer acquired by RBC Dain Rauscher, allegedly violated MSRB Rule G-14 by failing to report information about transactions effected in municipal securities within 15 minutes to the RTRS in the manner prescribed by Rule G-14 RTRS procedures and the RTRS users manual. On January 10, 2008, Seasongood & Mayer was censured and fined \$7,500.

It is alleged by FINRA that RBC Dain Rauscher violated FINRA Rule 3370 by accepting customer short sales in certain securities and failed to make/annotate an affirmative determination to receive delivery of the security on behalf of the customer for delivery by settlement date. On January 3, 2008, RBC Dain Rauscher was fined \$5,000.

The NYSE alleged violations of NYSE Rules 342, 401(A) and 1100(B) by RBC Dain Rauscher, in connection with the delivery of prospectuses and product descriptions for sales of registered securities and exchange traded funds as well as providing for, establishing, and maintaining appropriate supervision and control procedures relating to the delivery of prospectuses and product descriptions. RBC Dain Rauscher was censured and ordered to pay a fine of \$500,000 on October 2, 2007.

It is alleged by the NYSE that RBC Dain Rauscher violated NYSE Rules 351(A)(8) and 445 by failing to establish written procedures regarding the filing of Suspicious Activity Reports. It also failed to conduct an adequate review for structuring and have an adequate monitoring system to review and document follow-up on exceptions found by the firm's Anti-Money Laundering Department. It is also alleged that RBC Dain Rauscher failed in certain instances to promptly report to the exchange the settlement of customer complaints. RBC Dain Rauscher was censured and ordered to pay a fine of \$90,000 on April 18, 2007.

The NASD alleged that from January 2002 through July 2004, RBC Dain Rauscher violated NASD Rules 2110 and 3010 by failing to establish, maintain and enforce systems and procedures designed to ensure that all eligible investors received the benefit of net asset value transfer programs offered by various mutual fund companies. RBC Dain Rauscher was censured, ordered to pay restitution and a fine of \$250,000 on December 11, 2006.

It is alleged by the NASD that RBC Dain Rauscher failed to submit to OATS required information for reporting members, in violation of NASD Rule 6955(A). On January 3, 2008, RBC Dain Rauscher was censured and fined \$20,000.

The SEC alleged that RBC Dain Rauscher violated Section 17(a)(2) of the Securities Act by engaging in one or more of the following practices: completion of open or market bids, intervention in auctions, bids to prevent failed auctions, bids to set a "market" rate, bids to prevent all-hold auctions, prioritization of bids, submission or revision of bids after deadlines, allocation of securities, partial orders, express or tacit understanding to provide higher returns, and providing certain customers with information that gave them an advantage over other customers. RBC Dain Rauscher was ordered to cease and desist and pay a fine of \$1.5 million on May 31, 2006.

It is alleged that RBC Dain Rauscher violated Section 7-11-203 of the Rhode Island Uniform Securities Act of 1990, wherein five investment adviser representatives conducted investment advisory business in the state without being licensed or exempt from licensing. On October 28, 2005, RBC Dain Rauscher was ordered to pay a fine of \$10,000 plus \$750 in back taxes to the state of Rhode Island.

The NASD alleged that RBC Dain Rauscher violated Exchange Act Rules 17a-3 and 17a-4 and various NASD Conduct Rules because it bought a security for its own account from a customer or sold a security for its own account to a customer and failed to buy or sell such security at a price that was fair. RBC Dain Rauscher's supervisory system for its high-yield bond desk did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations and NASD rules concerning fair pricing and NASD's mark-up policy. On October 28, 2005, RBC Dain Rauscher was censured, ordered to revise its supervisory

procedures and ordered to pay a fine of \$1 million and made restitution payments totaling \$158,467 plus interest.

The NASD alleged that RBC Dain Rauscher violated Section 17(A) and Rule 17a-4 of the Exchange Act, and NASD Conduct Rules 2830(K), 2110, 3110 and 3010 by maintaining shelf space (or revenue sharing) programs in which participating mutual fund complexes paid a fee in return for preferential treatment which included enhanced access to the sales forces and hyperlinks to those funds' websites on the internal website. Participating fund complexes paid all or some of their fees for participating in the programs by directing mutual fund portfolio brokerage commissions to RBC Dain Rauscher. In addition, RBC Dain Rauscher failed to establish and maintain a system and procedures reasonably designed to detect and prevent the electronic mail retention violations. RBC Dain Rauscher was censured and ordered to pay a fine of \$1.7 million on June 8, 2005.

It is alleged that RBC Dain Rauscher violated NASD conduct Rules 2110 and 3010, and NASD Marketplace Rule 6130(b) relating to violations of automated confirmation transaction service (ACT) reporting and firm procedure to review trade reports for compliance with Rule 6130(b). On June 3, 2005, RBC Dain Rauscher was censured and fined \$15,000.

The NASD alleged that during the period December 23, 2002 to January 21, 2003, RBC Dain Rauscher failed to report 15 short sale transactions with the appropriate short sale modifier, in violation of NASD Rule 6130. On February 8, 2005, RBC Dain Rauscher was censured and fined \$8,000.

The NASD alleged that RBC Dain Rauscher violated Article V, Sections 2(c) and 3(b) of NASD's bylaws, and NASD Rules 2110 and 3010 due to not filing in a timely manner at least 140 late amendments to Forms U4 and U5, which represented approximately 35% of the required amendments relating to reportable customer complaints, terminations, regulatory actions, and criminal disclosures. It was also alleged that during the relevant period, RBC Dain Rauscher's supervisory system and procedures were not reasonably designed to achieve compliance with its Article V reporting obligations. On November 30, 2004, RBC Dain Rauscher was censured and fined \$150,000.

It is alleged that RBC Dain Rauscher violated NASD Conduct Rule 2110 and 1021(a) having permitted an individual to engage in activities requiring registration as a general securities principal when he was not so registered. On October 25, 2004, RBC Dain Rauscher was censured and ordered to pay a fine of \$5,000.

The NASD alleged that based on bids obtained from a broker, RBC Dain Rauscher purchased securities from public customers for its own account and then sold the securities to a broker at a nominal gain, which were below the fair market value, in violation of MSRB Rules G-17 and G-30(A). By relying on the bids, RBC Dain Rauscher failed to ensure that the transactions were executed at aggregate prices that were fair and reasonable. On October 21, 2004,

RBC Dain Rauscher was censured and ordered to pay a fine of \$10,000, plus \$8,714 plus interest in restitution.

The SEC alleged violations of Exchange Act Rule 15c3-3 for failing to fund RBC Dain Rauscher's proprietary account for introducing brokers causing a hindsight deficiency. The NYSE alleged violations of NYSE Rule 92(b) by entering proprietary orders while representing customer orders without using separate proprietary accounts. There were also alleged violations of Exchange Act Rules 17a-3(a)(6) and 17a-4(b)(1) and NYSE Rule 440 for failing to make, maintain and preserve certain required records of customer orders. Alleged violations of NYSE Rules 342(a) and (b) for failing to provide appropriate procedures of supervision and control and establish a system of follow-up and review to prevent such violations. On September 21, 2004, RBC Dain Rauscher was censured and fined \$80,000.

The NASD alleged that Rauscher Pierce Securities Corporation, a division of RBC Dain Rauscher, violated NASD Marketplace Rule 6130(b) and NASD Conduct Rule 2110 relating to violations of the ACT. On August 27, 2003, RBC Dain Rauscher was censured and fined \$7,500.

The NYSE alleged that RBC Dain Rauscher failed to make and preserve timely records relating to the designation and execution of customer orders, in violation of NYSE Exchange Rules 342 and 440 and Exchange Act Rules 17a-3 and 17a-4. On August 22, 2003, RBC Dain Rauscher was censured and fined \$275,000.

The NASD alleged that RBC Dain Rauscher caused locked/cross market and failed to timely respond to trade or move messages, in violation of NASD Marketplace Rule 4613(E)(1)(C). On June 26, 2003, RBC Dain Rauscher was censured and ordered to pay a fine of \$17,500.

It is alleged by the NYSE that Tucker Anthony, Inc. and Sutro & Co., Inc. failed in the supervision of joint NYSE Floor trading activity, maintenance of outside accounts and Continuing Education requirements in violation of NYSE rules. On February 5, 2003, RBC Dain Rauscher was censured and fined \$125,000.

It is alleged that RBC Dain Rauscher failed to timely report Fixed Income Pricing System (FIPS) transactions, in violation of NASD Conduct Rule 2110 and NASD Marketplace Rule 6240(A)(2). On January 30, 2003, RBC Dain Rauscher was censured and ordered to pay a fine of \$12,500.

The SEC alleged that Rauscher Piece Refsnes Inc. violated anti-fraud provisions of the Securities Act and Exchange Act in connection with their capacity as underwriter or financial advisor on 12 one-year taxable note offerings and one pooled tax and revenue anticipated note offering. On August 13, 2002, RBC Dain Rauscher was ordered to cease and desist and fined \$500,000.

The NASD alleged that RBC Dain Rauscher caused locked/cross market, failed to respond to trade or move messages

and failed to meet the Firm's firm quote, in violation of NASD Conduct Rule 3320, NASD Marketplace Rule 4613(B), 4613(E)(1)(C) and Exchange Act Rule 11Ac1-1. On August 5, 2002, RBC Dain Rauscher was censured and ordered to pay a fine of \$35,000.

The NASD alleged that RBC Dain Rauscher inaccurately reported FIPS transactions, in violation of NASD Marketplace Rules 6240(A)(3) and 6240(B)(3). On April 2, 2002, RBC Dain Rauscher was censured and ordered to pay a fine of \$7,500.

The SEC, as well as 46 states and territories, alleged in separate allegations that RBC CM failed to disclose in communications with customers the increasing risks associated with auction rate securities that the firm underwrote, marketed and sold. Between June of 2009 and July of 2011, RBC CM was ordered to cease and desist, repurchase or provide opportunities for liquidity and was fined an aggregate amount of \$7.6 million.

### **Education and Business Background of Correspondent Firm Personnel**

The Correspondent Firm is required to provide you with a copy of its regulatory brochure. This brochure describes the disciplinary history of Correspondent Firm, general standards of education and business experience that Correspondent Firm requires of its professionals, and other information about Correspondent Firm. We have no affiliation with Correspondent Firm, other than providing clearing services for securities transactions.

Refer to Correspondent Firm's regulatory brochure for its Code of Ethics.

### **Other Financial Industry Activities and Affiliations**

RBC CM is a full-service brokerage and financial services firm and is registered as a broker-dealer and an investment adviser with the U.S. Securities and Exchange Commission. RBC CM is also registered with the Commodity Futures Trading Commission (CFTC) as a futures commission merchant. Further, RBC CM is a member of the New York Stock Exchange (NYSE), the Financial Industry Regulatory Authority (FINRA), the Securities Investor Protection Corporation (SIPC), and several other exchanges and self-regulatory organizations.

In addition to sponsoring the Programs, RBC CM sponsors other investment advisory programs and engages in a broad range of brokerage and other financial services. Please contact your Correspondent Firm or Financial Advisor for information regarding these Programs. These include public and private investment banking and underwriting, retail and institutional brokerage and trading, institutional research and numerous other brokerage, advisory and financial services. Our broker-dealer activities are our principal business and account for the vast majority of our time, energies and resources.



Through our Correspondent Services division, we provide and market correspondent clearing services on a fully disclosed basis to broker-dealers, including Correspondent Firm, who are charged fees based on their use of these services. We, in our capacity as a securities broker-dealer, investment banker and investment adviser, are routinely engaged in various securities transactions and trading activities for various clients and customers (in addition to you) which could create conflicts of interest among our duties to you and our duties to other clients and customers.

As a full service broker-dealer, on an ongoing basis and as permitted by applicable law, we may, when appropriate:

- act as principal, buy securities from, or sell securities to you;
- act as broker or agent, effect securities transactions for compensation for you;
- act as broker or agent for any person other than a Program client, effect transactions in which a Program client's securities are sold to or bought from a brokerage client;
- make available to Correspondent Firm securities or investment products in which we or a related person has some financial interest; or
- buy or sell for ourselves securities that we also make available to Correspondent Firm.

We have adopted and enforce internal policies and procedures with respect to conflicts of interest between us and our clients. Pursuant to these policies and procedures, we, when engaging in the activities enumerated above, treat your orders fairly and do not give our own orders preference over your orders. Where required by applicable law or exchange rules, we obtain the consent of affected clients in advance of any transactions in which we will be engaging in the activities referenced above. When we engage in the activities referenced above, all statements and/or confirmations of such transactions contain the disclosures required by applicable law and exchange rules. Securities activities are monitored daily to detect and prevent employees from trading ahead of client accounts.

It is the duty of the overlay manager to seek the best net price and execution on securities trades for client accounts. In the event that we sell a security to you or buy a security from you, we will use all reasonable efforts to ensure that you obtain the best net price and execution on the purchase or sale based on prevailing inter-dealer market prices. In some circumstances, the change in market price may result in a financial benefit to us. We may consider it appropriate to use our own execution services to effect purchases and sales of securities for investment advisory clients. We may receive brokerage commissions in connection with such transactions and, in accordance with Section 11(a) of the Exchange Act, may execute transactions for investment advisory accounts over which we have discretion on the floors of securities exchanges of which we are a member.

Mark-ups and mark-downs charged by a dealer unaffiliated with us may be included in the price of certain transactions.

From time to time, we may incur trade errors. In these instances, we may profit from the error or may incur a loss. Regardless, the client transaction will not be affected. We may, from time to time, receive compensation from executing transactions for securities for which we have also received compensation as a result of providing research services.

We and our affiliates may give advice and take action in performing our duties to other clients that differs from advice given, or the timing and nature of action taken, with respect to you. In the course of our respective investment banking activities or otherwise, we and our affiliates may, from time to time, acquire material non-public or other information about corporations or other entities or their securities. We and our affiliates are not obligated and may not be permitted to divulge any such information to or for the benefit of clients, or otherwise act on the basis of any such information in providing services to clients. We, our related persons and affiliates may purchase for our own accounts securities that are recommended to Program clients.

It is contemplated that investment managers and overlay managers will affect substantially all portfolio trades for Program accounts with or through us. This arrangement could create an incentive for us to recommend investment managers or model portfolios with lower portfolio turnover rates. This arrangement may also create a financial incentive for investment managers or overlay managers to refrain from searching as actively among other securities brokers and dealers for best execution.

RBC CS, a division of RBC CM, headquarters are located at RBC Plaza, 60 South Sixth Street, Minneapolis, MN 55402.

RBC CM corporate headquarters are located at 3 World Financial Center, 200 Vesey Street, New York, NY 10281.

RBC GAM (U.S.) is an affiliate of RBC CM. RBC GAM (U.S.) is an SEC-registered investment adviser providing taxable and tax-exempt fixed income and portfolio management services to federal, state and local entities (separately managed and pooled funds); corporations; financial, insurance and health care institutions; pension and profit-sharing plans; foundations and endowments; registered investment companies and individuals. On occasion, RBC CM solicits clients for RBC GAM (U.S.) individually managed account services. RBC CM also sweeps some account credit balances into RBC GAM (U.S.)-advised money market funds.

RBC CM and RBC GAM (U.S.) are wholly-owned subsidiaries of RBC USA Holdco Corporation, which is a wholly-owned indirect subsidiary of Royal Bank of Canada.

Royal Bank of Canada owns shares of certain series of preferred stock in Placemark Holdings, Inc., the parent company of Placemark Investments, Inc. Royal Bank of Canada does not control Placemark Investments, Inc. for regulatory purposes and Placemark Investments, Inc. disclaims control by Royal Bank of Canada.

O'Shaughnessy Asset Management, LLC ("O'Shaughnessy") serves as investment sub-adviser to certain Van Kampen O'Shaughnessy mutual funds that are offered by us. Royal Bank of Canada owns a minority interest in O'Shaughnessy, but Royal Bank of Canada does not control O'Shaughnessy for regulatory purposes.

RBC CM and its affiliated banks, RBC Bank (USA) and RBC Bank (Georgia), N.A., receive financial benefits in connection with the RBC Bank Deposit Program. In addition to the fees RBC CM receives from the banks, RBC CM receives other compensation that is reflected by allocations made for reporting purposes. Through the RBC Bank Deposit Program, RBC Bank (USA) and RBC Bank (Georgia), N.A., will receive a stable source of deposits at a cost that may be less than other funding sources available to them. RBC Bank (USA) and RBC Bank (Georgia), N.A., intend to use deposits to fund current and new businesses, including lending activities and investments. The profitability on such loans and investments is generally measured by the difference, or "spread," between the interest rate paid on the deposits and other costs of maintaining the deposit accounts, and the interest rate and other income earned on those loans and investments made with the deposits. Fees earned by RBC CM through the RBC Bank Deposit Program will be in addition to the advisory fees paid to RBC CM. It should be noted that Royal Bank of Canada, through its affiliate, has entered into an agreement for the sale of RBC Bank (USA) to an unaffiliated third party. The closing of such sale is currently anticipated to be on or around March 2, 2012. At such time, RBC Bank (USA) will no longer be an affiliated bank. Prior to the closing of the sale, and pending any necessary regulatory approvals, it is anticipated that balances in RBC Bank (USA) will be transferred to RBC Bank (Georgia), a bank affiliated with RBC WM.

The Credit Interest Program option represents our direct obligation to repay the invested amount, on demand, plus interest. We invest Credit Interest Program assets and periodically adjust the interest rate payable on Credit Interest Program accounts. The spread between interest earned by us from our investments and the rate paid to Credit Interest Program account holders may be favorable to us. Because we do not waive the Program fees, to the extent that your cash balance is invested in the Credit Interest Program, we earn duplicate income on such investments. The Credit Interest Program is not available to retirement account clients or to those clients who reside in Louisiana or Utah.

We may receive payments from mutual fund companies, investment managers, model portfolio providers, ETP companies and overlay managers. We use this money for

general marketing and educational programs, to offset compliance and product management costs, and to support client education, Financial Advisor education, and other internal programs and educational seminars. In return for the payments, fund companies and investment managers are given access to our branch offices for the purpose of educating our Financial Advisors and informing them about the available products. Our Financial Advisors do not receive any extra commission for selling funds from these companies, nor do they receive additional compensation by using a specific investment manager or overlay manager in one of our advisory Programs. Each Correspondent Firm individually evaluates the mutual fund, investment manager and model portfolio, and then works with you to choose the appropriate investment for your individual financial needs.

We may also receive payments to help offset administrative costs and the cost of maintaining shareholder accounts, a service which is typically performed by the mutual fund's transfer agent. Such services could include sending shareholder transaction confirmations and account statements; sending federal income tax information; maintaining shareholder records; calculating and disbursing dividends and capital gains; facilitating enforcement of prospectus requirements; and performing regulatory mailings.

#### **Code of Ethics**

Our Investment Adviser Code of Ethics, summarized below, is available separately upon your request. All covered personnel are subject to our Code of Ethics and must certify receipt and compliance with the Code of Ethics annually.

We are committed to ensuring that in our capacity as an investment adviser as well as a broker-dealer, we achieve the objectives below, as reflected in our Code of Ethics:

- Act in the best interests of our clients and not allow personal interests or the interests of the organization to take precedence over the interests of our clients;
- Act with due skill, care and diligence in conducting our business and all transactions and trading activities;
- Preserve client confidentiality at all times;
- Respect the intellectual property rights of others;
- Prevent and/or fully disclose any perceived or real conflicts of interest;
- Protect and promote the integrity of the market;
- Preserve honesty, integrity and trust in all communications with clients, employees and shareholders;
- Encourage and foster an organization and work environment that promotes the internal reporting through a defined escalation path regarding violations of the Code of Ethics as related to securities transactions, personal trading activities of employees and supervisory personnel, employee behavior, and the RBC Code of Conduct;



- Comply with applicable securities laws, rules, and regulations through leveraging an ethics-based approach;
- Promote honest and ethical conduct by all employees, Financial Advisors, and executives, including the ethical management of actual or apparent conflicts of interest between external, personal and professional relationships;
- Promote full, fair, accurate, and understandable disclosure in reports, documents, and client communications that we create, submit, and disseminate; and
- Establish accountability on the part of employees, Financial Advisors, and executives regarding adherence to the Code of Ethics.

### **Reviewing Accounts**

At account opening, your Correspondent Firm confirms that the account and the investment strategy are suitable investments for you. Your Financial Advisor is then responsible for reviewing your account on an ongoing basis. Your Correspondent Firm will contact you at least annually and be available for consultation with you to discuss your accounts as well as your investment objectives and financial condition.

### **Financial Information**

We are not required to include a balance sheet in this brochure because we do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We do not have any financial conditions that are reasonably likely to impair our ability to meet our contractual commitments to clients.

Neither RBC Capital Markets nor its predecessors have been the subject of a bankruptcy petition during the past 10 years.