

RBC WEALTH MANAGEMENT

# RBC INSTITUTIONAL CONSULTING PROGRAM DISCLOSURE DOCUMENT

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

June 29, 2012

*This wrap fee program brochure provides you with information about the qualifications and business practices of RBC Wealth Management, a division of RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC ("RBC WM"), an indirectly wholly-owned subsidiary of Royal Bank of Canada. This brochure describes only the RBC Institutional Consulting Program offered by RBC WM. This document provides investors with information about RBC WM and the program that should be considered before becoming a client of a 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 Commission ("SEC") or any state securities authority.*

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

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RBC Wealth Management®

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

## **ITEM 2: MATERIAL CHANGES**

In this Item 2, RBC WM is required to identify and discuss all material changes to its RBC Institutional Consulting Program Disclosure Document (Form ADV Part 2A Appendix 1, Wrap Fee Program Brochure). Since the January 27, 2012 version of the RBC Institutional Consulting Disclosure Document, we have the following material updates.

It is alleged by FINRA that RBC Capital Markets ("RBC CM") violated FINRA/NASD rules 1122, 2010, 2110, 3010 by failing to establish and maintain a supervisory system and establish, maintain and enforce written supervisory procedures reasonably designed to comply with applicable rules and regulations pertaining to short-term transactions in Closed-End Funds. On May 10, 2012 RBC CM was censured, fined \$200,000 and ordered to pay partial restitution of \$70,000 to a customer.

The Massachusetts Securities Division alleged that RBC CM failed to supervise and made unsuitable recommendations to brokerage and advisory clients regarding the purchase of leveraged, inverse and inverse-leveraged Exchange Traded Funds. On May 2, 2012 RBC CM entered into a consent order with the Massachusetts Securities Division under which RBC CM has paid a fine of \$250,000 and offered restitution of approximately \$2,900,000 to certain clients.

RBC WM will provide you with a new RBC Institutional Consulting Program Disclosure Document without charge, upon request to your Financial Advisor. Our RBC Institutional Consulting Program Disclosure Document is also available on the SEC's web site, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with RBC WM who are registered, or are required to be registered, as investment adviser representatives of RBC WM.

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This Disclosure Document provides a complete description of the services provided and the fees payable under the RBC Institutional Consulting program (“Program”) sponsored by RBC Wealth Management (“RBC WM,” “we,” “us,” or “our”).

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

Program services are provided pursuant to the RBC Institutional Consulting Program Agreement and Terms and Conditions, Exhibit A, and Exhibit B (collectively, the “Program Agreement”). The Program is a customized investment consulting service sponsored by RBC WM and is offered and available to both non-retirement and retirement accounts such as employer sponsored retirement plans, trusts and estates, businesses, endowments, foundations, and other suitable investors. In the Program we owe a fiduciary duty to you under the Investment Advisers Act of 1940 (“Advisers Act”).

For investment consulting and other services rendered under the Program, you may choose to pay us a negotiated one-time flat fee, a negotiated annual flat fee, or a fee based on the value of your appointed assets.

##### **A. General Description**

###### **RBC Institutional Consulting Services**

The Program consists of a menu of available investment consulting services described below. Although we may provide investment advice through the Program, neither RBC WM nor any of our Financial Advisors (“FAs”) has any discretion over your Program assets. You have sole discretion whether to accept or reject any investment strategy, any recommendation with respect to an investment manager, or any specific recommendation to purchase or sell securities.

###### **Assistance with Investment Policy Statements**

We may assist you in creating and updating from time to time a customized investment policy statement (“Policy”). The Policy may identify the categories or asset classes of investments to be made available, provide guidance for monitoring and evaluating the performance of the investments and/or investment managers and, as appropriate, adding or changing investments or managers; and help allocate investment responsibilities among the various parties. The Policy will be designed to be specific enough to provide guidance, while at the same time allowing for flexibility to respond to changing market conditions.

###### **Asset Allocation Review**

We will provide an asset allocation review designed to identify one or more investment portfolios for you based on certain information requested by us and provided by you. You shall be solely responsible for determining whether the information we take into account in formulating an asset allocation review is accurate.

#### **Selection of Investment Managers**

If the service is selected, based on our understanding of your investment objectives and the consultation process, your FA is available to consult with you regarding investment alternatives that may be compatible with your investment objectives. You may consult with your FA to select any investment manager that you believe is appropriate, regardless of whether the manager has received any degree of scrutiny from RBC WM itself. In the event that we receive information that indicates a particular investment manager may no longer be suitable for you, we may recommend that you terminate your relationship with that investment manager.

You are required to meet the individual requirements of each investment manager you select and to enter into an investment advisory agreement directly with the manager. We do not review or negotiate any investment manager’s investment advisory agreement on a client’s behalf. You are responsible for promptly bringing to our attention any material change in your investment guidelines or financial condition. You are responsible for providing a copy of any additional written investment guidelines or restrictions to each investment manager you select and for communicating any material changes in the information provided to the investment managers. Investment managers are selected by you. We have no discretionary authority with respect to the Program. Other than in connection with our consulting responsibilities as described above, we do not assume responsibility for the conduct of investment managers selected by you, including their performance or compliance with law or regulations.

#### **Selection of Investments**

RBC WM may provide assistance in selecting one or more suitable investments. We may use many sources of information and analysis about investments, including data provided by independent third parties. Your FA is available to provide such information to you to aid in selecting or monitoring investments (excluding employer stock funds). In addition, we monitor certain investments (excluding employer stock funds), and may provide analysis about such investments as part of the Program. We do not necessarily monitor all investments that may be held or purchased by you. We may cease to monitor any investment if our evaluation indicates that the investment no longer satisfies our criteria. Information that we gather regarding investment data is believed to be reliable and accurate, but we do not independently verify it. We have no discretionary trading authority with respect to your assets that are invested in investment funds. We do not assume responsibility for the performance of any investment fund selected by you.

#### **Mutual Funds**

Typically, you will not purchase mutual funds through RBC WM in this Program. Where mutual funds are

purchased through an entity other than us, you should rely on the entity through whom the mutual funds were purchased for the delivery of current prospectuses. You should read the mutual fund's prospectus carefully prior to making a selection. In situations where mutual funds are purchased through us, we will deliver a current mutual fund prospectus to you.

### **Reports**

In connection with performing certain services described in Exhibit A of the Program Agreement, we and our FAs may obtain and utilize information and data from a wide variety of public and private sources including, without limitation:

- Financial publications that monitor market indices, industry research materials and other materials prepared by parties other than us;
- Information and data concerning investment management firms obtained from both the investment management firms and/or from third-party vendors.

We may also prepare portfolio reviews for you under this Program. We may from time to time modify the format of and/or the types of information contained in such reports and statements. The portfolio reviews merely provide historical information regarding the account and may not be relied upon as predictive of future performance.

If you request portfolio reviews, you are responsible for providing, or causing any applicable investment manager, record keeper, administrator, custodian and/or other third-party to provide, in a timely manner to us, all information which we may require and request for our preparation of such reports.

We will not be responsible for the accuracy or completeness of the information provided by the investment manager, record keeper, administrator, custodian, or other third-parties.

### **Screening and Evaluation of Other Service Providers**

The Program may include assistance in evaluating and selecting other necessary service providers, including administrators and custodians. If requested, your FA will meet with you (or your trustee or investment professionals) and you will be asked to provide your FA with information relating to you and, if applicable, your governing documents, as well as your budgetary considerations and other relevant information. Based on such information, we will identify what we believe are suitable and qualified service providers meeting your profile and needs. We will make recommendations to you, but you ultimately are responsible for engaging each selected administrator, custodian or other service provider.

### **Employee Communications and Education**

We are available to assist you, including those who are employee benefit plans or sponsors of such plans, in communicating with and educating your employees (including plan participants), as applicable, on investment-related topics. This assistance may include planning and/or conducting informational, educational meetings, or sessions and preparing various written materials. Our services do not include the provision of investment advice, within the meaning of ERISA, to such plan participants and employees.

### **Implementation of Consulting and Advisory Services**

You are under no obligation to take any action in response to the information and advice provided under this Program Agreement. Although we may provide guidance or recommendations, we do not make any of the actual decisions regarding your assets. Further, should you choose to implement any recommendations based on the service requested, you are under no obligation to do so through or with us.

### **Risks**

You are advised and should understand that:

- an investment's past performance 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 an 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 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**

We do not provide tax advice. You are advised to see your tax advisor for any tax questions.

### **Fees**

The Program fee may be negotiated between your FA and you and is set forth in Exhibit B of the Program Agreement. The amount of any negotiated fee will depend upon the nature and complexity of your situation and needs, the services to be performed and

other relevant factors. You may pay higher or lower fees depending on considerations such as the amount of your assets the FA is providing consulting services on, the amount of time you have been a client of ours, the total amount of business you conduct through us, and other relevant criteria. Generally, the minimum relationship size for Program is \$5,000,000 in assets and a \$15,000 annual fee. We or any of our affiliates may, under certain circumstances, serve as custodian of the assets.

Program fees include compensation for the services selected as set forth in Exhibit A.

For services provided under the Program Agreement, you may elect to pay us either 1) a negotiated fee based on percentage of assets, not to exceed one percent (1%) of assets per annum; 2) a negotiated one time flat fee, not to exceed \$500,000 per annum; or 3) an annual flat fee not to exceed \$500,000 per annum. Fees will be billed to you directly or deducted from a separate RBC WM account of yours, as directed by you.

Except in the case of a one time flat fee, fees are generally payable in advance on a quarterly basis. In limited circumstances, fees may be payable in arrears on a quarterly basis. For asset-based fees, you will provide us in a timely manner, or will cause any applicable investment manager, record keeper, administrator or custodian to provide, in a timely manner to us, all information which we may require and request for our calculation of fees. Asset-based fees are assessed on all account assets, including securities, cash, and money market balances. One time flat fees will be billed in their entirety upon completion and delivery of the contracted services.

### **Termination of Program Agreement**

You may terminate your Program Agreement with us at any time by written notice to us. The Program Agreement will terminate automatically upon our receipt of your written notice of termination. We may terminate the Program Agreement with any client upon written notice to you. Termination of the Program Agreement does not terminate any investment advisory agreement directly between you and any investment manager (if applicable). If you select One Time Flat Fee payment method for services pursuant to the Program Agreement, the Program Agreement will terminate upon the completion and delivery of contracted services. You will need to execute a new Agreement to re-engage us for further services.

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

You should note that termination will end the investment advisory fiduciary relationship between us and you as it pertains to the terms of the Program

Agreement and will cause the account to be converted to and designated as a “brokerage” account only. The investment advisory agreement will no longer apply to this account.

### **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 may include:

- your ability and the costs to obtain the desired investment advisory services;
- your ability to retain the desired investment manager(s), where applicable;
- your ability to obtain expertise in selecting and monitoring investment managers and other service providers, where applicable;
- your costs of obtaining consulting services similar to those provided in the Program; 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 services available through the Program may not be available separately or may require multiple accounts, documentation and fees.

You may request a brochure that contains more detailed information about the other advisory programs RBC Wealth Management offers by contacting your FA.

### **C. Additional Fees**

The Program fees described above cover only the services provided by us under the Program Agreement for the Program. Any fee payable by you to each selected investment manager or other service provider will be charged by each investment manager or service provider directly to you, and those fees will be in addition to fees and other charges (as applicable) payable to us.

### **D. Compensation to Financial Advisors**

If you select investment consulting service(s) described in this brochure, we allocate to your FA part of the fees payable to us in connection with the service(s) selected by you. The FA may receive different compensation depending on which service(s) you select. If you select service(s) described in this brochure, the FA may charge a fee less than the maximum fee stated above. The amount of the fee you pay is a factor we use in calculating the compensation we pay your FA. Therefore, FAs have a financial incentive not to reduce fees.

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 our FAs. FAs may receive a portion of these payments for distribution and servicing expenses related to shares of money market funds included as sweep options to cash accounts.

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## ITEM 5: ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

### Account Requirements

The RBC Institutional Consulting program generally has a minimum account size of \$5,000,000.

You are required to complete the Program Agreement (including exhibit A and B).

Generally, we will not serve as custodian for securities, cash and other assets. Ordinarily, RBC WM will not be identified as broker/dealer of record.

### Types of Clients

RBC Wealth Management provides advisory services to individuals, foundations, endowments, employee benefit plans, trusts and estates, educational institutions, corporations, business and government entities and other entities.

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## ITEM 6: PORTFOLIO MANAGER SELECTION AND EVALUATION

### A. Selection and Review of Portfolio Managers

As described in Item 4: *Selection of Investment Managers* is one of the services available in the Program. This service is designed to permit you, in consultation with your FA, to choose any investment manager that you believe is appropriate regardless of whether the manager has received any degree of scrutiny from RBC WM itself.

Investment managers are selected by you. We have no discretionary authority with respect to the Program. Other than in connection with our consulting responsibilities, as described above, we do not assume responsibility for the conduct of investment managers selected by you, including their performance or compliance with law or regulations.

Please refer to Item 4: *Services, Fees and Compensation* for a complete description of services provided in Program.

### B. Related Persons

In select programs, we may make available to qualified investors proprietary investment products that are manufactured by us or our affiliates. Certain conflicts of interest among the investment manager, fund, the fund manager, and/or the fund's broker may exist. They are found in the Private Placement Memorandum ("PPM"), prospectus, or disclosure document under the section commonly titled "Conflicts of Interest".

Where we are affiliated, through common ownership and control by the Royal Bank of Canada, with the investment manager, fund or fund manager, we may be incented to recommend the proprietary or affiliated manager, product over a nonproprietary or non-affiliated manager or product, so that fees and expenses charged by the fund or manager are earned by us, or our affiliate rather than a non-affiliate.

### C. Supervised Persons

Under this Program, no RBC WM supervised person is acting as portfolio manager.

See Item 4: *Services, Fees and Compensation* for a description of the services offered in the Program.

### 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 RBC WM Financial Advisors in providing investment advice to clients.

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 in evaluating a potential investment opportunity.

Additional information on the services provided in this Program can be found under item 4: *Services, Fees and Compensation*.

### Voting Client Securities (Proxy Voting)

We shall have no responsibility or authority to vote proxies on your behalf.

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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 keep confidential all information concerning your identity, financial data and investments. Recommendations and advice given to you shall be regarded as confidential among you and, if applicable, the Investment Manager(s).

## ITEM 8: CLIENT CONTACT WITH PORTFOLIO MANAGERS

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

If you have a direct contractual relationship with an investment manager, you may contact the manager directly to discuss the management of the account and your investment objectives.

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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 advisors 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 RBC WM is a division of RBC Capital Markets, LLC ("RBC CM") in each of the instances described below, we entered into various orders, consent and settlements without admitting or denying any of the allegations.

It is alleged by FINRA that RBC CM violated FINRA/NASD rules 1122, 2010, 2110, 3010 by failing to establish and maintain a supervisory system and establish, maintain and enforce written supervisory procedures reasonably designed to comply with applicable rules and regulations pertaining to short-term transactions in Closed-End Funds. On May 10, 2012 RBC CM was censured, fined \$200,000 and ordered to pay partial restitution of \$70,000 to a customer.

The Massachusetts Securities Division alleged that RBC CM failed to supervise and made unsuitable recommendations to brokerage and advisory clients regarding the purchase of leveraged, inverse and inverse-leveraged Exchange Traded Funds. On May 2, 2012 RBC CM entered into a consent

order with the Massachusetts Securities Division under which RBC CM has paid a fine of \$250,000 and offered restitution of approximately \$2,900,000 to certain clients.

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 Advisor 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 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. RBC CM also 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. RBC CM 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; 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 rules 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 the 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 maintained 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, in. 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 conformation 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. The NYSE also 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 Pierce 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 SEC, as well as 46 States/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/provide opportunities for liquidity and was fined an aggregate amount of \$7,678,992.96.

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

RBC WM is a division of RBC CM which 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 Program, we sponsor other investment advisory programs and engage in a broad range of brokerage and other financial services. 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.

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;
- recommend to you that you buy or sell 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 recommend to you.

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.

In certain situations, investment managers may execute trades through us. It is the duty of investment manager to seek the best net price and execution on securities trades for their clients. In the event that we sell a security to you or buy a security from you, we will use all reasonable efforts to assure 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 of 1934, 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, your transaction will not be affected. We may 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 nonpublic 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.

We have no control over where the manager executes its trades; however, in situations where investment managers execute trades through us, a financial incentive may exist for us and we may 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 WM executive offices are located at RBC Plaza, 60 South Sixth Street, Minneapolis, MN 55402-4422. We service our clients from numerous branch offices located throughout the United States.

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.

Client may select O'Shaughnessy Asset Management ("O'Shaughnessy") as their Investment Manager. 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 WM 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 WM receives from the banks, RBC WM 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 WM through the RBC Bank Deposit Program will be in addition to the advisory fees paid to RBC WM. 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, ETF 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.

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 prompts the internal reporting through a defined escalation path regarding violations of the Investment Adviser 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 Investment Adviser Code of Ethics

### **Reviewing Accounts**

The Program consists of a menu of available investment consulting services described above in Item 4: *Services, Fees and Compensation*. You will make your selection of services

as set forth in Exhibit A. If you choose services that create an ongoing relationship with us, your FA will be available for periodic consultation with you.

### **Client Referrals**

Through our Advisory Referral Program, we provide investment advisory services to individuals, institutions, and other persons who have been referred to us by an independent third party ("Solicitor"). We enter into an agreement with the Solicitor whereby the Solicitor will refer potential clients to us. We will share a portion of the advisory fee we receive from clients (generally about 25% of the client fee) for successful referrals that result in the opening of one of our sponsored advisory Program accounts. We may pay a fee greater or less than 25%, depending on the facts and circumstances of the relationship.

We may receive referral fees from third-party investment advisers for successful client referrals made by our Financial Advisors. The investment adviser shares a portion of the advisory fee it receives from the client with us pursuant to a referral agreement between us and the investment adviser. In the case where a Financial Advisor refers a client to an affiliate, there may be a monetary incentive for us to recommend an affiliate over other qualified and suitable non-affiliated advisors.

The client acknowledges the referral fee arrangement by signing the investment adviser's consent and disclosure document.

An RBC WM employee or an affiliate may also refer a client to an RBC WM Financial Advisor. As an incentive, the referring employee may receive a percentage or a portion of the fees paid by the client for selected services. The referring employee's role in the ongoing client relationship, if any, may vary depending on each client's particular situation.

The amount of the referral fee paid to us by a third-party investment adviser or by us to an employee providing a referral varies depending on the facts and circumstances.

### **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 WM nor its predecessors have been the subject of a bankruptcy petition during the past 10 years.



