Davis-Rea Balanced Fund

Annual Management Report of Fund Performance

For the year ended December 31, 2016

Davis-Rea Balanced Fund

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This Annual Management Report of Fund Performance contains financial highlights, but does not contain the audited annual financial statements of the Davis-Rea Balanced Fund. You can get a copy of the audited annual financial statements of the Davis-Rea Balanced Fund at your request and, at no cost, by calling Davis-Rea Ltd. at (416) 324-2200 or at (877) 391-9929, by writing to us at 79 Wellington Street West, Suite 3535, P.O. Box 239, Toronto, Ontario, M5K 1J3, or by visiting our website at www.davisrea.com or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the Davis-Rea Balanced Fund's proxy voting policies and procedures, proxy voting disclosure record, and/or quarterly portfolio disclosure.

Management Discussion of Fund Performance

Investment Objective and Strategies

The investment objective of the Davis-Rea Balanced Fund (the "**Fund**") is to preserve capital and to minimize market fluctuations while generating superior long-term returns by primarily investing in a combination of equity and fixed income investments, either directly or indirectly.

We may shift the weighting of the Fund's assets from time to time based on our assessment of the markets. The equity securities and fixed income investments held by the Fund may include foreign securities. Usually, we will not invest the Fund in such fixed income investments unless they have a credit rating of B or higher. The duration of any fixed income investment held by the Fund will also vary depending on our assessment of the direction of interest rates. At our discretion, the Fund may also hold cash and/or short-term money market instruments, and may from time to time invest up to 70% of its assets in class N units of the Davis-Rea Equity Fund and/or the Davis-Rea Fixed Income Fund. The Fund may also invest in preferred shares and convertible debentures.

Risk

The Fund is subject to a number of risks that have not changed over the last year. These risks include the Fund not being able to obtain its investment objective, general economic conditions, interest rate fluctuations and stock market risk. See the prospectus of the Fund for a full description of the risks that the Fund may be exposed to. The Fund also continues to have a risk rating of medium.

Results of Operations

The Fund returned 7.06% in 2016, where the Canadian Balanced Growth Benchmark returned 8.99% over the year. The Fund's asset mix did not change dramatically over the year, with between 63% and 69% exposure to equities (and correspondingly 31% and 37% exposure to fixed income and cash). The Fund holds class N units of the Davis-Rea Equity Fund and the Davis-Rea Fixed Income Fund exclusively.

The Equity Fund returned 8.90% for the full year ended December 31, 2016, compared to returns of 17.72% for the S&P/TSX 60 Index and 9.54% for the S&P 500 Index. The Fund continued to explore the main investment themes of healthcare and technology. It participated and took profits as some of our energy names recovered in the face of rising oil prices. The Fund decreased equity exposure to foreign markets as geopolitical tensions remained heightened throughout the year. We entered 2016 with a cautious stance and continued to tread carefully for much of the year, maintaining a healthy cash balance that would insulate the portfolio while allowing us to be opportunistic with any short-term weakness in the markets.

The Davis-Rea Fixed Income Fund achieved a positive return of 5.53%for the year ended December 31, 2016 compared to 1.67% for the FTSE/TMX Canada Universe Bond Index. The first month of the year was a wild ride for markets. Amidst global growth concerns, equity markets sold off and investors sought protection in government bonds, causing a large sell off in corporate bonds. As the flight to safety reversed in mid-February, corporate and high yield bond spreads began to narrow, leading to the Fund's relative outperformance. In the second half of 2016, bonds struggled as yields rose rapidly post the U.S election as investors expected a sweeping stimulus package and further rate increases out of the U.S Federal Reserve. The Fund produced positive relative performance as it was defensively positioned with respect to interest rates and overweight corporate bonds.

Looking at the Fund's overall interest rate exposure, the amount of duration, measured in years, remains relatively low at 4.77 years as we remain defensive. This is slightly higher than the duration at the end of 2015. At the end of the year, the Fund's yield was 3.30%compared to 5.94% at the end of 2015.

Recent Developments

Equities

The year started with a violent sell-off caused by fears of a slowdown in global growth and concerns over negative interest rates. 2016 was ripe with uncertainty and volatility - in addition to the U.S. election, uncertainty continued to mount elsewhere in the markets as problems emerged in the European banking system, changes were made to Canada's mortgage rules, and the market sought to digest a U.S. interest rate increase in December. With so much uncertainty on the horizon, the Fund was repositioned to be slightly more defensive.

One of many political events that occurred during the year was the June, 2016 Brexit vote, which caught markets by surprise. There was a swift sell-off in a flight to quality post the vote where the Equity Fund was opportunist in adding to our healthcare and technology holdings. In the latter part of the year, the Fund participated in secondary offerings in the energy and utility sectors which offered attractive prices and yields. The Fund also exited positions providing exposure to China and India as we believed volatility and geopolitical tensions would temper returns in the near term.

Energy was a large contributor to the Fund's positive performance for the year with the market beginning to recognize a supply response to oil production beginning at the end of the first quarter of 2016. The commodity price further recovered in the last quarter of the year when a supply-side agreement was made by OPEC members to cut oil production in an attempt to raise oil prices.

The main event of the fourth quarter was the U.S. Presidential election where the result caught most market participants and pundits off guard. With Donald Trump as President-elect, the markets rallied behind the optimism of wide sweeping reform by Trump, such as reducing regulatory restrictions for banks, repatriation of cash held overseas at favourable rates and fiscal stimulus to increase infrastructure spending and bring back jobs to the U.S. The Fund's healthcare holdings were a drag on performance throughout the year as the entire sector underperformed as concerns regarding drug pricing and business models weighed on the entire sector. The sector did however rebound slightly post-election as Trump's policies for healthcare and pricing were viewed as more lenient and favorable to those of Hillary Clinton. The Fund's technology holdings did not produce positive returns as many sector constituents sold off over concerns that Trump would impose new regulations detrimental to their businesses and products.

In the fourth quarter of 2016, the Equity Fund initiated a new position in the consumer sector when a company sold off after a solid earnings report earlier in the quarter. We had been following the company for some time and took advantage of this sell-off to initiate a position. Our energy holdings continue to possess strong balance sheets and are poised to take advantage of the improving price environment. Markets continue to move higher on the optimistic view of Trump's policy changes, but we remain cautious. We believe that while Trump's policies and proposals may sound good on paper, they might be challenging to implement. We also believe that some of the suggested policies may actually be a hindrance to trade and global growth, such a border adjustment tax. In the long run, we remain confident in our holdings, but nonetheless continue to maintain a healthy cash balance.

Fixed Income

The year started on a very negative note amidst global growth concerns, causing a sharp sell-off in corporate bonds and a rise in government bonds prices as investors searched for safety. The markets swiftly reversed direction in mid-February. This positive tone extended through the second and third quarters of the year, with commodity prices, the Canadian dollar, equities and corporate bonds all performing strongly. The widely held view that short-term interest rates are going to remain very low for an extended period of time will continue to put pressure on investors to move into corporate bonds in search of yield. Through the third quarter, both high yield and investment grade corporate bonds outperformed their Government of Canada counterparts.

The fourth quarter of 2016 was a rough one for the bond market, with government bond yields rising significantly (bond prices decrease when yields rise). The largest part of the increase occurred after the U.S. election, when markets began looking for more fiscal stimulus and more interest rate increases by the Federal Reserve. Canadian government yields were dragged higher, but rose by smaller amounts given steady expectations about Canadian fiscal policy and short-term interest rates. The jump in yields imposed material losses on bond holders as bond prices fell and more than offset the interest earned in the quarter. Corporate bonds outperformed their government counterparts in both Canada and the U.S. in the fourth quarter, as the spread between corporate and government bond yields narrowed. The Fixed Income Fund produced better relative performance on the year as a result of its relatively shorter duration and its relatively heavy weighting in corporate bonds.

The economic backdrop continues to point towards an extended period of low short-term interest rates in Canada and most other major economies outside the U.S. This is keeping downward pressure on government bond yields and continues to incent investors to seek higher yields in corporate bonds. The global, U.S. and Canadian economies are accelerating and corporate earnings are improving in tandem. This points to favourable conditions for both corporate bond and equity markets in the first half of 2017. It looks like there is still some room for bond yields to rise somewhat further. We will be watching this carefully for an opportunity to extend the duration of the Fund.

Related Party Transactions

Davis-Rea Ltd. (the "**Manager**") is the manager and portfolio adviser for the Fund. The Manager is responsible for managing the day-to-day activities of the Fund and providing or arranging for all required administrative services of the Fund. In consideration for such services, certain classes of units of the Fund pay the Manager a monthly management fee based on the net asset value ("**NAV**") of the applicable classes of units of the Fund, calculated daily. As no class A, class B or class F units of the Fund have yet been issued, the Fund has not yet incurred any management fees. Each holder of class O units of the Fund pays their management fee directly to us pursuant to their class O investment management agreement.

The Manager has also created an independent review committee ("**IRC**") to review and provide impartial judgment on conflict of interest matters. The IRC reviews potential conflicts of interest referred to it by the Manager and makes recommendations on whether a course of action is fair and reasonable for the Fund. The IRC prepares an annual report of its activities for interested parties. A copy of the IRC's report for 2016 will be available at www.davisrea.com at the end of March, 2017.

Management Fees

The table below outlines the Fund's annual management fees and the trailer fees, if any, that the Manager pays to dealers who distribute units of the applicable class of the Fund (i.e., a percentage of the daily NAV of such class). The Manager is paid an annual management fee by each unitholder who invests in class O units of the Fund pursuant to a class O investment management agreement, which will not exceed the management fee that we receive from class A units of the Fund.

	Class A	Class B	Class F	Class O
Management Fee	1.75%	2.00%	1.50%	Negotiated
Trailer Fee (maximum rate as a percentage of management fees)	N/A	0.50%	N/A	N/A

Class O Units*

Financial Highlights

The following tables show selected key financial information about the class O units of the Fund* and are intended to help you understand the Fund's financial performance for the past five years ended December 31**.

The Fund's Net Assets per Unit	Dec. 31, 2016***	Dec. 31, 2015***	Dec. 31, 2014***	Dec. 31, 2013***	Dec. 31, 2012
Net assets - beginning of period[1]	$22,578,372	$19,786,017	$17,297,693	$9,368,267	$1,908,877
***Increase (decrease) from operations**:*					
Total income/revenue	$489,382	$1,022,257	$303,377	$275,811	$383,666
Total expenses	$86,110	$73,018	$78,011	$60,136	$132,801
Realized gains (losses) for the period	-$221,128	$565,892	$1,206,919	$862,961	$2,412
Unrealized gains (losses) for the period	$1,361,348	($1,022,257)	($224,134)	$436,842	$227,957
Total increase (decrease) from operations[2]	$1,543,492	$492,874	$1,208,150	$1,515,478	$481,234
Distributions:					
From net realized gain on investments	$131,329	$1,150,039	$1,098,651	$811,960	$213,451
From net investment income	$240,025	$365,092	$314,705	$260,387	$55,929
Total Annual Distributions	$371,354	$1,515,131	$1,413,356	$1,072,347	$269,380
Net assets - end of period	$24,341,310	$22,578,372	$19,786,017	$17,297,693	$9,368,267
Ratios and Supplemental Data					
Total net asset value[1]	$24,341,310	$22,578,372	$19,786,017	$17,297,693	$9,368,267
Number of units outstanding[1]	1,868,611	1,825,459	1,542,168	1,344,032	755,362
Management expense ratio	0.39%	0.33%	0.39%	0.42%	1.97%
Management expense ratio ^ before waivers or absorption (%)[2]	0.39%	0.33%	0.39%	0.42%	1.97%
Trading expense ratio (%)[3]	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Portfolio turnover rate (%)[4]	**8.53%**	**3.8%**	**4.0%**	**0.4%**	**39.4%**
Net asset value per unit	**$13.03**	**$12.37**	**$12.83**	**$12.87**	**$12.40**

* Class O units of the Fund were first offered by prospectus on March 18, 2013 and were offered on an exempt basis since March 14, 2005. For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

** Class A, class B and class F units of the Fund are offered by prospectus, but as at December 31, 2016, no units of any of these classes had yet been issued to the public.

*** Financial Highlights for the years 2016, 2015, 2014 and 2013 have been prepared under IFRS standards. Prior years were prepared under Canadian GAAP standards.

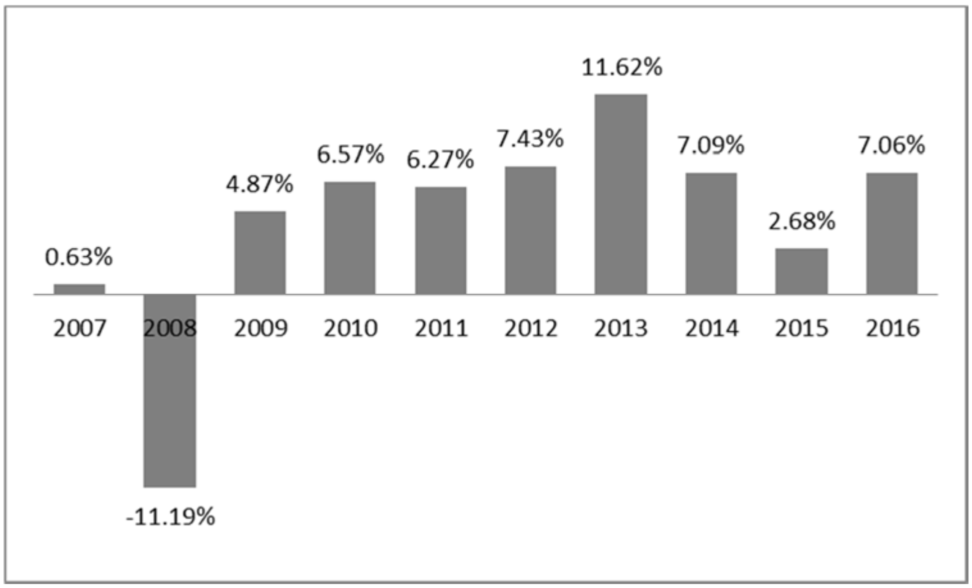
^ Each investor enters into a class O investment management agreement with the Manager and pays a management fee to the Manager directly, beginning January 1, 2013. In previous years (2012 and prior), an annual management fee of 1.25% was paid to the Manager by the Fund and was included in the management expense ratio.

Past Performance

The following information does not take into account any class O management fees, which are paid to the Manager pursuant to a class O investment management agreement beginning on January 1, 2013. In previous years (2012 and prior), an annual management fee of 1.25% was paid to the Manager by the Fund which is taken into account below. The past performance indicated below assumes that all distributions made by the Fund in the periods shown were re-invested in additional units of the applicable class of the Fund. In addition, the past performance results shown below does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance, Finally, past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart below shows the Fund's performance for class O units in each of the years shown. It illustrates how the Fund's performance has changed from year to year. In percentage terms, the bar chart shows how much an investment made at the beginning of the period has increased or decreased by the end of the period.



Annual Compound Returns

The following table shows the annual compound total returns for the class O units of the Fund for the last year, three years, five years, ten years and since inception (i.e., March 14, 2005). The annual returns are compared to the returns of a Blended Balanced Growth Benchmark. This benchmark return is generated using a 60% weighting in the S&P/TSX 60 Index and a 40% weighting in the DEX Universe Bond Index.

	Since Inception (March, 2005)	**1 Year**	**3 Year**	**5 Year**	**10 year**
Davis-Rea Balanced Fund	4.64%	7.06%	5.59%	7.13%	4.12%
Blended Balanced Growth Benchmark	4.91%	8.99%	4.77%	4.83%	3.32%

The above comparison demonstrates how over the past 10 years, the Fund has generally achieved its investment objective of preserving and enhancing capital over the majority of the time periods indicated. For example, over the three, five and ten year periods, the performance of the Class O units of the Fund was above the return of the Davis-Rea Canadian Balanced Growth benchmark.

Explanatory Notes to Financial Highlights

Net assets per unit:

(1) This information is derived from the Fund's audited annual financial statements. In the period the Fund or a class of units of the Fund is established, the financial information is provided from the date of inception to the end of the period.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. This table is not intended to be a reconciliation of opening and closing net assets per unit.

Ratios and Supplemental Data:

(1) This information is provided at the end of the period shown.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(3) The trading expense ratio represents the total commissions and other portfolio transaction costs expressed as an annualized percentage of net asset value during the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's investments are traded. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all its investments once in the course of the relevant period. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

Summary of Investment Portfolio

Davis-Rea Balanced Fund – as at December 31, 2016

	% of NAV
Mutual Funds	
Davis-Rea Investments	
Davis-Rea Equity Fund, Class 'N'	68.04%
Davis-Rea Fixed Income Fund, Class 'N'	30.97%
Total Mutual Funds	**99.01%**
Total Investments	**99.01%**
Other Assets and Liabilities, Net	**0.99%**
Net Assets Attributable to Holders of Reedemable Units	**100.00%**

The Fund's summary of investment portfolio set out above will change due to ongoing portfolio transactions. A quarterly update is available on request.

DAVIS-REA BALANCED FUND

Davis-Rea Ltd.

79 Wellington Street West

Suite 3535, P.O. Box 239

Toronto, Ontario

M5K 1J3

Tel: (416) 324-2200 / (877) 391-9929

Fax: (416) 324-2201

E-Mail: info@davisrea.com