



Davis-Rea Fixed Income Fund

Annual Management Report of Fund Performance

For the year ended December 31, 2016

Davis-Rea Fixed Income 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 Fixed Income Fund. You can get a copy of the audited annual financial statements of the Davis-Rea Fixed Income 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 Fixed Income 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 Fixed Income Fund (the “**Fund**”) is to preserve capital while providing income and some capital gains by primarily investing in bonds and other fixed income securities with a strong credit rating.

The fixed income investments held by the Fund may include government securities, corporate securities and bonds issued by foreign governments and issuers. Usually, we will not invest the Fund in such 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, 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 bond 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 low-to-medium.

Results of Operations

For the full year, the Fund achieved a positive return of 5.53% 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

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 class N units of the Fund do not pay a management fee and may only be bought by another Davis-Rea Mutual Fund.

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. The class N units of the Fund do not pay a management fee and may only be bought by another Davis-Rea Mutual Fund.

	Class A	Class B	Class F	Class O	Class N
Management Fee	1.75%	2.00%	1.50%	Negotiated	N/A
Trailer Fee (maximum rate as a percentage of management fees)	N/A	0.50%	N/A	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⁾	\$76,240,541	\$70,380,281	\$74,948,033	\$77,655,576	\$36,846,087
<i>Increase (decrease) from operations:</i>					
Total revenue	\$2,886,635	\$3,789,790	\$3,326,234	\$3,542,047	\$2,940,126
Total expenses	\$167,756	\$145,456	\$183,244	\$141,631	\$116,266
Realized gains (losses) for the period	(\$1,160,945)	\$1,114,839	\$961,397	\$706,574	\$1,490,658
Unrealized gains (losses) for the period	\$2,785,355	\$4,357,860	(\$5,195)	(\$2,230,171)	\$1,314,654
Total increase (decrease) from operations⁽²⁾	\$4,343,289	\$395,232	\$4,099,193	\$1,876,819	\$5,629,172
<i>Distributions:</i>					
From net realized gain on investments	\$0	\$1,890,827	\$903,672	\$707,370	\$1,484,774
From net investment income	\$2,770,460	\$2,912,062	\$3,172,380	\$3,402,459	\$2,797,858
From return of capital	\$0	\$0	\$0	\$688,193	\$0
Total Annual Distributions	\$2,770,460	\$4,002,890	\$4,076,052	\$4,798,022	\$4,282,632
Net assets - end of period	\$76,675,247	\$76,240,541	\$70,380,281	\$74,948,033	\$77,448,174
<i>Ratios and Supplemental Data</i>					
Total net asset value ⁽¹⁾	\$76,675,247	\$76,240,541	\$70,380,281	\$74,948,033	\$77,448,174
Number of units outstanding ⁽¹⁾	7,772,031	7,873,825	6,920,381	7,355,057	7,324,279
Management expense ratio	0.19%	0.18%	0.22%	0.18%	0.18%
Management expense ratio [^] before waivers or absorption (%) ⁽²⁾	0.19%	0.18%	0.22%	0.18%	0.18%
Trading expense ratio (%) ⁽³⁾	0.02%	0.01%	0.04%	0.06%	0.05%
Portfolio turnover rate (%) ⁽⁴⁾	147.65%	142.8%	84.1%	180.8%	197.2%
Net asset value per unit	\$9.87	\$9.68	\$10.17	\$10.19	\$10.57

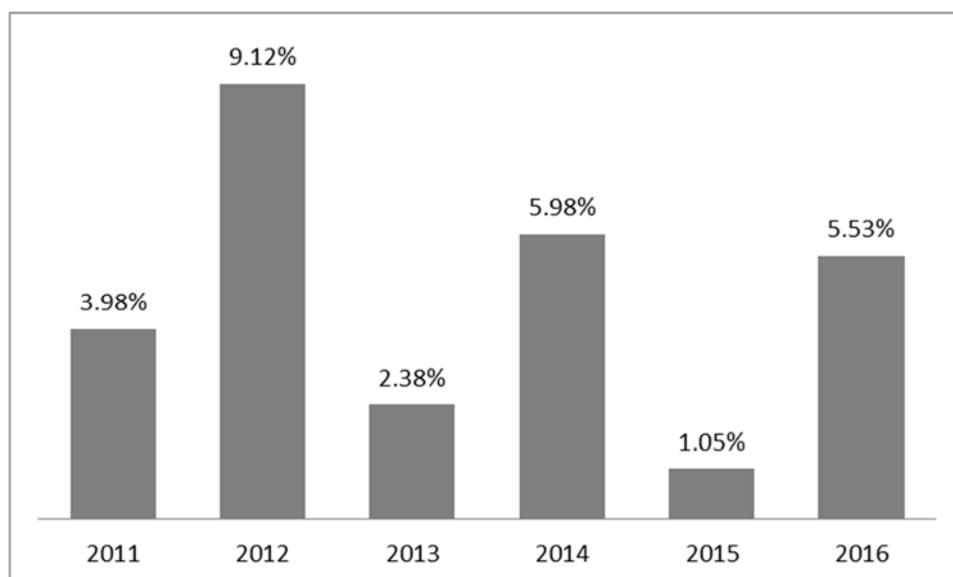
- * Class O units of the Fund were first offered by prospectus on March 18, 2013 and were offered on an exempt basis since June 19, 2011. For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.
- ** Class A, class B and class F units of the Fund are 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. Previously under Canadian GAAP, the Fund measured the values of its investments in accordance with Section 3855, Financial Instruments – Recognition and Measurement. As a result of the adoption of IFRS on January 1, 2014, an adjustment was recognized to increase the carrying value of the Fund’s investments by \$207,402 as at January 1, 2013.
- ^ Each investor enters into a class O investment management agreement with the Manager and pays a management fee to the Manager directly.

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. 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, and since inception (i.e., June 19, 2011). The annual returns are compared to the returns of the FTSE/TMX Canada Universe Bond Index.

	Since Inception (June, 2011)	1 Year	3 Year	5 Year
Davis-Rea Fixed Income Fund	5.07%	5.53%	4.16%	4.83%
FTSE/TMX Universe Bond Index	4.26%	1.67%	4.61%	3.23%

The above comparison demonstrates how the Fund has generally achieved its investment objective of preserving capital and providing income to unitholders. For example, since inception, the performance of the Class O units was 0.81% above the return of the FTSE/TMX Canada Universe Bond Index.

Class N Units*

Financial Highlights

The following tables show selected key financial information about the class N 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⁾	\$6,853,033	\$5,962,044	\$4,951,634	\$3,224,328	\$609,653
<i>Increase (decrease) from operations:</i>					
Total revenue	\$255,989	\$315,600	\$272,631	\$191,703	\$108,006
Total expenses	\$14,932	\$12,187	\$15,520	\$7,665	\$4,271
Realized gains (losses) for the period	(\$103,619)	\$91,483	\$80,166	\$38,241	\$54,759
Unrealized gains (losses) for the period	\$238,498	\$383,668	(\$26,867)	(\$137,885)	\$43,194
Total increase (decrease) from operations⁽²⁾	\$375,936	\$40,990	\$310,410	\$84,395	\$201,689
<i>Distributions:</i>					
From net realized gain on investments	\$0	\$161,272	\$79,741	\$46,730	\$61,640
From net investment income	\$249,589	\$248,220	\$270,051	\$200,465	\$102,296
From return of capital	\$0	\$0	\$0	\$28,853	\$0
Total Annual Distributions	\$249,589	\$409,492	\$349,792	\$276,048	\$163,936
Net assets - end of period	\$7,603,969	\$6,853,033	\$5,962,044	\$4,951,634	\$3,215,743
<i>Ratios and Supplemental Data</i>					
Total net asset value ⁽¹⁾	\$7,603,969	\$6,853,033	\$5,962,044	\$4,951,634	\$3,215,743
Number of units outstanding ⁽¹⁾	709,144	709,144	587,393	486,886	304,488
Management expense ratio	0.19%	0.18%	0.23%	0.18%	0.18%
Management expense ratio before waivers or absorption (%) ⁽²⁾	0.19%	0.18%	0.23%	0.18%	0.18%
Trading expense ratio (%) ⁽³⁾	0.02%	0.01%	0.04%	0.06%	0.05%
Portfolio turnover rate (%) ⁽⁴⁾	147.65%	142.82%	84.1%	180.8%	197.2%
Net asset value per unit	\$9.85	\$9.66	\$10.15	\$10.17	\$10.56

- * Class N units of the Fund may only be purchased by another Davis-Rea Mutual Fund. For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.
- ** Financial Highlights for the years 2016, 2015, 2014, and 2013 have been prepared under IFRS standards. Prior years were prepared under Canadian GAAP standards. Previously under Canadian GAAP, the Fund measured the values of its investments in accordance with Section 3855, Financial Instruments – Recognition and Measurement. As a result of the adoption of IFRS on January 1, 2014, an adjustment was recognized to increase the carrying value of the Fund’s investments by \$8,585 as at January 1, 2013.

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 Fixed Income Fund – as at December 31, 2016

	% of NAV
CANADIAN BONDS	
Corporate Bonds	
407 International Inc., Callable, 3.30%, 2045/03/27	1.08%
AGT Food and Ingredients Inc., Callable, 5.88%, 2021/12/21	1.20%
Air Canada, Callable, 4.75%, 2023/10/06	4.70%
Alliance Grain Traders Inc., Restricted, 9.00%, 2018/02/14	1.19%
Artis REIT, Series 'A', 3.75%, 2019/03/27	2.41%
BMW Canada Inc., Series 'O', 1.83%, 2021/06/15	1.18%
Brookfield Asset Management Inc., Callable, 3.95%, 2019/04/09	1.24%
Brookfield Infrastructure Finance ULC, Callable, 3.45%, 2022/03/11	2.41%
Brookfield Renewable Partners ULC, Series '10', Callable, 3.63%, 2027/01/15	1.74%
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 3.00%, 2024/10/28	1.20%
Crew Energy Inc., Restricted, Callable, 2014/02/21, 8.38%, 2020/10/21	3.66%
DHX Media Ltd., Restricted, Callable, 5.88%, 2021/12/02	1.79%
Dollarama Inc., Restricted, 2.34%, 2021/07/22	0.59%
Emera Inc., 2.90%, 2023/06/16	1.77%
Fairfax Financial Holdings Ltd., 4.50%, 2023/03/22	2.47%
Fairfax Financial Holdings Ltd., Callable, 4.70%, 2026/12/16	0.72%
Fairfax Financial Holdings Ltd., Callable, 6.40%, 2021/05/25	2.69%
First National Financial Corp., Callable, 4.01%, 2020/04/09	1.18%
Kraft Canada Inc., Variable Rate, Restricted, 1.70%, 2018/07/06	1.19%
Lightstream Resources Ltd., Callable, 8.62%, 2020/02/01	0.16%
Liquor Stores NA Ltd., Convertible, Callable, 4.70%, 2022/01/31	1.20%
Morguard Corp., Series 'B', 4.01%, 2020/11/18	2.39%
Morguard North American REIT, Convertible, Callable, 4.65%, 2018/03/30	3.61%
Morguard REIT, Convertible, Callable, 4.85%, 2017/10/31	2.46%
Parkland Fuel Corp., Callable, 5.75%, 2024/09/16	1.22%
Precision Drilling Corp., Callable, 6.62%, 2020/11/15	0.97%
RioCan REIT, Series 'V', 3.75%, 2022/05/30	2.48%
Rogers Communications Inc., Callable, 3.00%, 2023/03/15	3.17%
Royal Bank of Canada, 1.40%, 2019/04/26	2.37%
Royal Bank of Canada, 1.58%, 2021/09/13	3.72%
Savanna Energy Services Corp., Callable, 7.00%, 2018/05/25	1.77%
Suncor Energy Inc., Series '5', Callable, 3.00%, 2026/09/14	0.59%
Suncor Energy Inc., Series '5', Callable, 4.34%, 2046/09/13	0.92%
TD Capital Trust III, Variable Rate, Perpetual, 7.24%, 2018/12/31	3.93%
WTH Car Rental ULC, Series 'A', Sinkable, 1.91%, 2020/07/20	1.16%
Total Corporate Bonds	66.53%

Provincial and Municipal Bonds

Canada Housing Trust No. 1, 1.90%, 2026/09/15	3.23%
Municipal Finance Authority of British Columbia, 2.95%, 2024/10/14	1.10%
Province of Alberta, 2.20%, 2026/06/01	1.15%
Province of Alberta, 3.30%, 2046/12/01	1.78%
Province of British Columbia, 2.30%, 2026/06/18	0.59%
Province of Manitoba, 2.55%, 2026/06/02	2.53%
Province of Manitoba, Subscription Receipt, 1.55%, 2021/09/05	2.16%
Province of Ontario, 1.35%, 2022/03/08	1.16%
Province of Ontario, 2.40%, 2026/06/02	1.30%
Province of Ontario, 2.60%, 2025/06/02	1.21%
Province of Quebec, 2.75%, 2025/09/01	2.44%
Province of Saskatchewan, 2.75%, 2046/12/02	1.05%
Total Provincial and Municipal Bonds	19.70%
Total Canadian Bonds	86.23%

Foreign Bonds

United States Treasury Inflation Indexed Bond, 0.75%, 2045/02/15	3.85%
Total Foreign Bonds	3.85%
Total Bonds	90.07%

Canadian Equities

Automotive Properties REIT	3.17%
Total Equities	3.17%
Total Investments	93.24%
Other Assets and Liabilities, Net	6.76%
Net Assets	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 FIXED INCOME 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

The forward-looking information, opinions, estimates and projections contained herein are solely those of Davis-Rea Ltd. ("**Davis-Rea**"), and are subject to change without notice. Davis-Rea makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Davis-Rea assumes no responsibility for any losses or damages, whether direct or indirect, that arise out of the use of this information.

The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Commissions, trailing commissions, management fees and expenses may all be associated with an investment in the Davis-Rea Mutual Funds. Please read the prospectus before investing. The Davis-Rea Mutual Funds are not guaranteed, their units fluctuate in value and past performance may not be repeated.