Davis-Rea Fixed Income Fund

Semi-Annual Management Report of Fund Performance

For the six months ended June 30, 2017

This Semi-Annual Management Report of Fund Performance contains financial highlights, but does not contain the unaudited semi-annual financial statements or audited annual financial statements of the Davis-Rea Fixed Income Fund. You can get a copy of the unaudited semi-annual financial statements or 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.

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Semi-Annual Management Report of Fund Performance

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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

The Fund returned 1.86% for the first half of 2017, compared to the 2.36% return of the FTSE/TMX Canadian Universe Index over the same time period. The Fund had positive contributions from corporate bonds in both investment grade and high yield, and a decline in yields across the sector throughout the first quarter. This was partially offset by a rally in the longer end of the government curve in the second quarter, and due to the Fund's lower duration, was the source of relative underperformance in the second quarter. The Fund's exposure to interest rates continues to be lower than the comparable index, with a duration of 4.34 years vs. 10.44 years for the FTSE/TMX Canada Bond Universe which is consistent with our expectation that yields may back up in the next few months and provide us with lower exposure to interest rate risk. We continued our shift to higher quality issuers in anticipation of a rising rate environment, and saw the yield of the Fund increase slightly to 3.59% from 3.22% in the previous quarter.

Recent Developments

After a tumultuous fourth quarter of 2016, the first three months of 2017 were rather quiet in the bond market. Government bond yields bounced around a lot in the quarter, but yields remained in trading ranges. Bond markets reacted sharply to the U.S. election outcome, but are now in holding patterns, waiting to see what the Trump Administration will be able to accomplish. Canadian and U.S. corporate bonds once again outperformed their government counterparts during the first three months of 2017. Davis Rea's better relative performance in the first quarter was the result of its relatively heavy weighting in corporate bonds.

The Fund had a high yield bond from Crew Energy redeemed in the first quarter, which we replaced with a lower-yielding issue from the same company, causing the small decline in the Fund's yield. We also added some exposure to Pembina Pipeline, Superior Plus, and Brookfield Infrastructure Partners. We also purchased Riocan REIT and Morguard Corp bonds, along with a short-term Kellogg Co. bond. We continued to cut exposure to Canada's housing and mortgage market. We sold our position in Morguard's convertible debentures as it was approaching its call date and would be called at a price below the market price we received. The average credit rating of the fund remained at A-, and the Fund's duration declined to 4.31 years from 4.77 years. The Fund increased its equity weight through the purchase of Altagas Ltd.', subscription receipts, a utility and power generation company.

The economic environment is still pointing in the direction of a lengthy 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. However, as we highlight in the April, 2017 issue of the Big Picture, the material decline in corporate bond spreads has made corporate bonds less attractive than three months ago, in spite of the improving earnings backdrop. Government yields are currently at the low end of their ranges, and with the Canadian and U.S. economies strengthening modestly, there is room for yields to move higher in the months ahead. This keeps our preference intact for short-term bonds.

The second quarter of 2017 was an active one in the bond market. Over the quarter, Government of Canada bond yields rose across the curve due to a surge in yields in the second half of June. From March 31 to mid-June, Government of Canada yields declined. This same pattern was evident in most major bond markets, with yields jumping in later June as central bankers in several countries began musing about higher short-term interest rates. The general decline in bond yields over most of the second quarter was a plus for the FTSE/TMX Canada Universe Bond Index given its greater holding of long-term bonds relative to the Fund, and was the source of relative underperformance in the second quarter. However, in the final part of June and into July, the sharp increase in yields will hurt the Fund much less, since shorter-term bonds are hurt less than longer-term bonds by rising yields.

Changes in the portfolio during the second quarter focused on reducing risk, selecting opportunities to increase yield, and maintaining a focus on shorter-term bonds. A First National bond was sold early in the quarter to trim the portfolio's risk. Several transactions were undertaken to support the Fund's yield after the redemption of a high-yielding Savanna Energy Bond. The purchase of AltaGas Ltd.'s subscription receipts was the source of the increased equity allocation and largely offset the yield impact of the redeemed bond. Other purchases to enhance yield were bonds issued by Allied Properties REIT, Parkland Fuel Corporation, Canadian Natural Resources Ltd., PepsiCo Inc., Dollarama Inc., and Alectra Utilities. The Fund's average credit rating remained at A-. Finally, a very long-term 407ETR bond was sold to maintain the Fund's focus on shorter-term bonds. This helped maintain the Fund's duration at 4.34 years, little different from 4.31 years at March 31. All together, these changes boosted the Fund's yield to 3.59% at June 30 from 3.22% three months earlier.

Both the Bank of Canada and the U.S. Federal Reserve are expected to increase short-term interest rates over the balance of this year and into 2018. As we highlight in the July issue of the Big Picture, the increase in rates will be modest, but will put pressure on bond yields in both countries to increase. The next several months will be trying for bond investors, but the Fund's focus on shorter term bonds positions it well for the volatility ahead. Sustained economic growth in the global, U.S. and Canadian economies bodes well for corporate earnings, and is supportive for corporate bonds. While we do not expect a major shakeout in the corporate bond market in the months ahead, some pressure on corporate bond yields to rise in relation to government yields is likely. Davis Rea's focus on shorter term bonds will also help protect the portfolio in this environment. We have positioned the Fund with a bias towards shorter-term bonds to limit near term interest rate risk, and continue to look for opportunities in shorter-dated, high quality corporate debt.

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 is available at www.davisrea.com.

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 six months ended June 30, 2017 as well as for the past five years ended December 31.

The Fund's Net Assets per Unit	Jun. 30, 2017	Dec. 31, 2016***	Dec. 31, 2015***	Dec. 31, 2014***	Dec. 31, 2013***	Dec. 31, 2012
Net assets - beginning of period(1)	$76,675,247	$76,240,541	$70,380,281	$74,948,033	$77,655,576	$36,846,087
Increase (decrease) from operations:						
Total revenue	$1,408,761	$2,886,635	$3,789,790	$3,326,234	$3,542,047	$2,940,126
Total expenses	$74,1445	$167,756	$145,456	$183,244	$141,631	$116,266
Realized gains (losses) for the period	-$148,291	-$1,160,945	$1,114,839	$961,397	$706,574	$1,490,658
Unrealized gains (losses) for the period	$222,436	$2,785,355	$4,357,860	-$5,195	-$2,230,171	$1,314,654
Total increase (decrease) from operations(2)	$1,408,761	$4,343,289	$395,232	$4,099,193	$1,876,819	$5,629,172
Distributions:						
From net realized gain on investments	$0	$0	$1,890,827	$903,672	$707,370	$1,484,774
From net investment income	$1,302,063	$2,770,460	$2,912,062	$3,172,380	$3,402,459	$2,797,858
From return of capital	$0	$0	$0	$0	$688,193	$0
Total Annual Distributions	$1,302,063	$2,770,460	$4,002,890	$4,076,052	$4,798,022	$4,282,632
Net assets - end of period	$73,197,157	$76,240,541	$76,240,541	$70,380,281	$74,948,033	$77,448,174
Ratios and Supplemental Data						
Total net asset value(1)	$73,197,157	$76,240,541	$76,240,541	$70,380,281	$74,948,033	$77,448,174
Number of units outstanding(1)	7,414,531	7,873,825	7,873,825	6,920,381	7,355,057	7,324,279
Management expense ratio	0.19%	0.18%	0.18%	0.22%	0.18%	0.18%
Management expense ratio^ before waivers or absorption (%)(2)	0.19%	0.18%	0.18%	0.22%	0.18%	0.18%
Trading expense ratio (%)(3)	0.01%	0.01%	0.01%	0.04%	0.06%	0.05%
Portfolio turnover rate (%)(4)	65.29%	142.80%	142.80%	84.10%	180.80%	197.20%

Net asset value per unit	$9.87	$9.68	$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 June 30, 2017, no units of any of these classes had yet been issued to the public.

*** Financial Highlights for the period ending June 30, 2017 and 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.

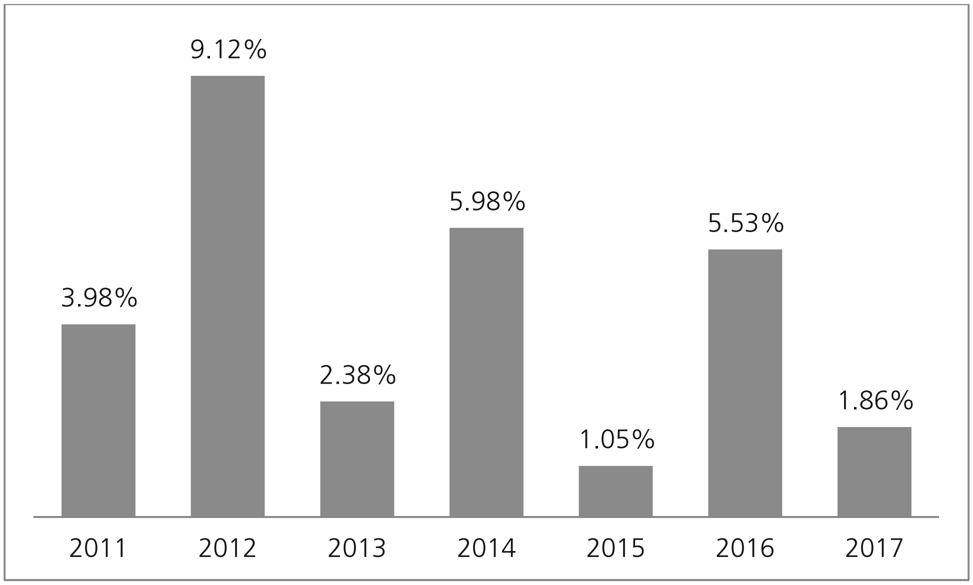
^ Each investor enters into a class O investment management agreement with the Manager and pays a management fee to the Manager directly.

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. The return shown for 2017 is for the six months ended June 30, 2017. The return shown for 2011 is for the period from inception on June 19, 2011.


9.12%
5.98%
5.53%
3.98%
2.38%
1.86%
1.05%
2011
2012
2013
2014
2015
2016
2017

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 six months ended June 30, 2017 as well as the past five years ended December 31.

The Fund's Net Assets per Unit	Jun. 30, 2017	Dec. 31, 2016**	Dec. 31, 2015**	Dec. 31, 2014**	Dec. 31, 2013**	Dec. 31, 2012
Net assets - beginning of period(1)	$7,603,969	$6,853,033	$5,962,044	$4,951,634	$3,224,328	$609,653
Increase (decrease) from operations:						
Total revenue	$134,226	$255,989	$315,600	$272,631	$191,703	$108,006
Total expenses	$7,457	$14,932	$12,187	$15,520	$7,665	$4,271
Realized gains (losses) for the period	-$14,914	-$103,619	$91,482	$80,166	$38,241	$54,759
Unrealized gains (losses) for the period	$22,371	$238,498	$383,668	-$26,867	-$137,885	$43,194
Total increase (decrease) from operations(2)	$134,226	$375,936	$778,564	$310,410	$84,395	$201,689
Distributions:						
From net realized gain on investments	$0	$0	$161,272	$79,741	$46,730	$61,640
From net investment income	$130,390	$249,589	$248,220	$270,051	$200,465	$102,296
From return of capital	0	$0	$0	$0	$28,853	$0
Total Annual Distributions	$130,390	$249,589	$409,492	$349,792	$276,048	$163,936
Net assets - end of period	$7,347,048	$7,603,969	$6,853,033	$5,962,044	$4,951,634	$3,215,743
Ratios and Supplemental Data						
Total net asset value(1)	$7,347,048	$7,603,969	$6,853,033	$5,962,044	$4,951,634	$3,215,743
Number of units outstanding(1)	745,700	772,296	709,144	587,393	486,886	304,488
Management expense ratio	0.19%	0.19%	0.18%	0.23%	0.18%	0.18%
Management expense ratio before waivers or absorption (%)(2)	0.21%	0.19%	0.18%	0.23%	0.18%	0.18%
Trading expense ratio (%)(3)	0.01%	0.02%	0.01%	0.04%	0.06%	0.05%
Portfolio turnover rate (%)(4)	65.29%	147.65%	142.82%	84.10%	180.80%	197.20%
Net asset value per unit	$9.85	$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 period ending June 30, 2017 and 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 unaudited semi-annual financial statements and 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 relevant 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 June 30, 2017

	% of NAV
Canadian Bonds	
Corporate Bonds	
AGT Food and Ingredients Inc., Callable, 5.875%, 2021/12/21	1.89%
Air Canada, Callable, 4.750%, 2023/10/06	5.00%
Alectra Inc., Series 'A', Callable, 2.488%, 2027/05/17	1.22%
Allied Properties REIT, Series 'C', Callable, 3.636%, 2025/04/21	2.44%
Artis REIT, Series 'A', 3.753%, 2019/03/27	2.52%
BMW Canada Inc., Series 'O', 1.830%, 2021/06/15	1.23%
Brookfield Asset Management Inc., Callable, 3.950%, 2019/04/09	1.29%
Brookfield Infrastructure Finance ULC, Callable, 3.315%, 2024/02/22	1.25%
Brookfield Infrastructure Finance ULC, Callable, 3.452%, 2022/03/11	2.55%
Brookfield Renewable Partners ULC, Series '10', Callable, 3.630%, 2027/01/15	1.88%
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 3.000%, 2024/10/28	1.26%
Canadian Natural Resources Ltd., 2.050%, 2020/06/01	0.98%
Canadian Natural Resources Ltd., Callable, 3.420%, 2026/12/01	0.61%
Crew Energy Inc., Callable, Restricted, 6.500%, 2024/03/14	3.63%
DHX Media Ltd., Restricted, Callable, 5.875%, 2021/12/02	1.98%
Dollarama Inc., Restricted, 2.337%, 2021/07/22	0.62%
Dollarama Inc., Restricted, Callable, 2.203%, 2022/11/10	0.43%
Emera Inc., 2.900%, 2023/06/16	1.89%
Fairfax Financial Holdings Ltd., 4.500%, 2023/03/22	2.60%
Fairfax Financial Holdings Ltd., Callable, 4.700%, 2026/12/16	0.77%
Fairfax Financial Holdings Ltd., Callable, 6.400%, 2021/05/25	2.78%
Kraft Canada Inc., Variable Rate, Restricted, 1.741%, 2018/07/06	1.25%
Lightstream Resources Ltd., Callable, 8.625%, 2020/02/01	0.16%
Liquor Stores NA Ltd., Convertible, Callable, 4.700%, 2022/01/31	1.29%
Morguard Corp., Series 'B', 4.013%, 2020/11/18	3.79%
Parkland Fuel Corp., Callable, 5.750%, 2024/09/16	1.28%
Parkland Fuel Corp., Callable, Restricted, 5.625%, 2025/05/09	0.75%
Pembina Pipeline Corp., Callable, 2.990%, 2024/01/22	1.24%
Precision Drilling Corp., Callable, 6.625%, 2020/11/15	0.95%
RioCan REIT, Series 'V', 3.746%, 2022/05/30	2.60%
RioCan REIT, Series 'Y', 2.830%, 2022/10/03	0.87%
Rogers Communications Inc., Callable, 3.000%, 2023/03/15	3.25%
Royal Bank of Canada, 1.400%, 2019/04/26	2.48%
Royal Bank of Canada, 1.583%, 2021/09/13	3.90%
Suncor Energy Inc., Series '5', Callable, 3.000%, 2026/09/14	0.62%
Suncor Energy Inc., Series '5', Callable, 4.340%, 2046/09/13	1.05%
Superior Plus L.P., Restricted, Callable, 5.250%, 2024/02/27	0.96%
TD Capital Trust III, Variable Rate, Perpetual, 7.243%, 2018/12/31	4.02%
WTH Car Rental ULC, Series 'A', 1.912%, 2020/07/20	1.23%
Total Corporate Bonds	**70.49%**
Provincial and Municipal Bonds	
Municipal Finance Authority of British Columbia, 2.950%, 2024/10/14	1.16%
Province of Alberta, 2.200%, 2026/06/01	1.22%
Province of British Columbia, 2.300%, 2026/06/18	0.62%
Province of Manitoba, 1.550%, 2021/09/05	2.25%
Province of Manitoba, 2.550%, 2026/06/02	2.50%
Province of Ontario, 1.350%, 2022/03/08	1.21%
Province of Ontario, 2.600%, 2025/06/02	1.27%
Province of Quebec, 2.750%, 2025/09/01	2.57%
	12.80%
Total Canadian Bonds	**83.29%**
Foreign Bonds	
PepsiCo Inc., Restricted, Callable, 2.150%, 2024/05/06	0.25%
United States Treasury Inflation Indexed Bond, 0.750%, 2045/02/15	3.92%
Total Foreign Bonds	**4.17%**
Total Bonds	**87.46%**
Canadian Equities	
Financial Services	
Automotive Properties REIT	3.45%
	3.45%
Utilities	
AltaGas Ltd.	6.22%
	6.22%
Total Equities	**9.67%**
Total Investments	**97.13%**
Cash and Equivalents	**2.20%**
Other Assets and Liabilities, Net	**0.67%**
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

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