Davis-Rea Balanced Fund

Annual Management Report of Fund Performance

For the year ended December 31, 2017

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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 0.39% in 2017, where the Canadian Balanced Growth Benchmark returned 4.76% over the year. The Fund's asset mix did not change dramatically over the year, with between 68% and 70% exposure to equities (and correspondingly 30% and 32% exposure to fixed income and cash). The Fund holds Class N units of the Equity Fund and the Fixed Income Fund exclusively.

The Equity Fund returned -0.47% for the full year ended December 31, 2017, compared to returns of 6.03% for the S&P/TSX Composite Index and 19.42% for the S&P 500 Index. The Equity Fund continued to explore the main investment themes of healthcare and technology, and reduced its exposure to the energy sector. It participated and took profits as some of our energy names recovered in the face of rising oil prices, and subsequently trimmed our positions. Increased equity exposure to U.S. markets primarily in the technology, healthcare and financials sectors were the strongest sources of growth. The fourth quarter was difficult for the Equity Fund, as utilities and natural gas exposure lagged significantly, holding back performance. Currency headwinds also played a part in the underperformance. However, the rest of the Equity Fund's holdings continue to offer attractive value propositions and we remain bullish on future performance.

For the full year, the Fixed Income Fund achieved a positive return of 3.08% compared to 2.58% for the iShares Core Canadian Universe Bond Index ETF. The Fixed Income Fund continued to focus on keeping its duration short for 2017, and maintaining its focus on corporate bonds, which remained attractively valued for 2017, as we continue to position the portfolio for rising interest rates in both Canada and the U.S. The Fixed Income Fund outperformed the benchmark as interest rates rose throughout 2017. Bond yields had a tough year, starting the year by trading in a range after the surge in the fourth quarter of 2016 due to the results of the U.S. election, and continued their general upward trajectory throughout the year. In the second half of 2017, bonds struggled as a much stronger than expected Canadian economy prompted the Bank of Canada to increase the overnight interest rate twice in the third quarter, and the U.S. Federal Reserve increased the overnight rate once in the fourth quarter. The Fixed Income Fund produced positive relative performance as it was defensively positioned with respect to interest rates, and overweight corporate bonds. Corporate bonds provided some cushion to the increase in interest rates, as corporate spreads tightened for most of the year.

Looking at the Fixed Income Fund's overall interest rate exposure, the amount of duration, measured in years, remains relatively low at 4.30 years versus 4.77 years at the end of 2016 as we continue to remain defensive. At the end of the year, the Fixed Income Fund's yield was 3.83% as compared to 3.30% at the end of 2016.

Recent Developments

Equities

The year started with upward market trends in anticipation of wide-sweeping tax reform by President Trump. However, the slower than expected implementation caused cyclical market sectors to sell off with funds flowing back into utilities, healthcare and technology. Positive first quarter performance was spread between our technology, utilities, consumer, industrial, and healthcare positions. As the "reflation" trade lost steam over the quarter, our technology, utilities and health care positions rallied. Negative performance for the quarter was concentrated in the energy sector, over concerns on the rising level of U.S. crude inventories/stockpiles. The market questioned whether the coordinated OPEC cuts would hold, putting pressure on the commodity price and the sector.

The Equity Fund increased its weighting to Amazon.com on temporary weakness, and exited a position in Aritzia Inc. We initiated a position in Altagas Subscription Receipts, a utility company with great management and strong cash flows that provide underlying support for its dividend. The Equity Fund wrapped up the first quarter with a large cash position to stay opportunistic as markets continued to trade sideways in anticipation of further developments with regards to U.S. Tax reforms.

The second quarter saw continued upward U.S. market movement sustained by continued strength in growth sectors such as technology and healthcare. Canadian markets continued to struggle in the face of commodity price pressure, seeing price depreciation in crude, natural gas and gold, and was exacerbated by the presence of special situations involving alternative mortgage lenders dragging down financials.

The price of crude remained relatively stagnant as OPEC's deliberation on additional production costs failed to materially affect market movements. The rising interest rate environment, potential tax reform and increased market volatility caused investor funds to flow out of secular growth names and increasing the value propositions of more cyclical sectors such as U.S. financials. A new position in Goldman Sachs was initiated in the second quarter, as we saw the economic environment as one that would be highly beneficial to their trading and investment banking departments. Markets continued to grind higher, increasing valuations, but we continued to maintain a cash weighting to deploy into better opportunities.

Canadian markets rallied in the third quarter due to a strengthening energy sector on the back of more stabilized oil prices above $50 - a key technical level - and strength in the financials sector as the Bank of Canada hiked rates for a second time. U.S. markets continued to be strong, particularly in the healthcare and technology sectors, with continued funds flowing into interest rate sensitive sectors such as financials. Positive third quarter performance was concentrated in oil companies, healthcare and technology sectors, with primary laggards concentrated in the gas and consumer sectors.

Fourth quarter markets continued to melt upwards, with Canadian markets driven by the healthcare (mainly marijuana stocks), real estate and financial sectors. Positive performance was primarily due to strength in our consumer, industrial and energy holdings. Negative performance was concentrated in the healthcare and utilities sector. The fourth quarter was difficult for the Equity Fund, as holdings with exposure to natural gas continued to weigh down the portfolio. However, the rest of the Equity Fund's holdings performed well, and we are seeing early signs that the energy market is firming up behind the price of oil finding support in the mid $60s.

The Equity Fund reduced holdings in its energy names on rallies, with the intention of reallocating the capital towards other opportunities such as Priceline.com (now Booking.com), Aptiv PLC and Activision Blizzard Inc. We also trimmed our position in Facebook as it had grown to an outsized weight in the Equity Fund. We increased our position in financials, as these companies stand to benefit from rising interest rates and tax reform, and increased our position in Accenture.

Fixed Income

The year started on a quiet note, as the bond market digested the move higher in rates after the results of the U.S. Presidential election in the fourth quarter of 2016. Bond yields traded in a range, and corporate bonds outperformed in the first quarter. The Fixed Income Fund, with its greater allocation to corporate bonds, outperformed in the first quarter. In the second quarter, Government of Canada yields declined for most of the quarter, and contributed to the Fixed Income Fund's underperformance, as the Fixed Income Fund maintained a conservative duration of 4.3 vs the benchmarks duration of 9 years. The Fixed Income Fund took advantage of the rallying market to reduce risk, and rotate into higher quality names, and select opportunities to increase yields.

The preference for shorter term debt helped us in the third quarter as the Bank of Canada increased the overnight interest rate twice. Central bankers outside of Canada took note, and talked about raising short term interest rates, but did not take any action. Despite the selloff in yields, corporate spreads remained relatively firm, and provided us with some insulation, helping corporate bonds outperform their government counterparts. The Fixed Income Fund took opportunities in the third quarter to add more credit exposure to take advantage of the favorable economic and earnings environment and to increase diversification without extending duration.

In the fourth quarter, two and five-year Government of Canada bond yields increased by 16 and 11 basis points respectively, pushing down bond prices and depressing returns. U.S. short-term interest rates continued to edge higher in the quarter as the Federal Reserve increased the Federal funds rate by 0.25%, contributing to U.S. Treasury yields rising across all maturities. In corporate bonds, investment grade bonds underperformed their Government of Canada and high yield counterparts despite posting positive returns.

The Fixed Income Fund underperformed the benchmark in the fourth quarter because of movements in Government of Canada yields that generated a headwind for shorter-term bonds and a tailwind for longer-term issues. The Fixed Income Fund's emphasis on shorter-term corporate bonds hurt returns compared to the benchmark, which has a greater weight in longer-term and government bonds. However, over the last year, rising government yields and better performing corporate bonds contributed to the Fixed Income Fund's outperformance relative to the benchmark. The Fixed Income Fund continued to maintain credit exposure into the fourth quarter, and keeping maturities short to take advantage of reinvestment opportunities at more compelling yields in 2018.

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 2017 will be available at www.davisrea.com at the end of March, 2018.

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, 2017***	Dec. 31, 2016***	Dec. 31, 2015***	Dec. 31, 2014***	Dec. 31, 2013***
Net assets - beginning of period[1]	$24,341,310	$22,578,372	$19,786,017	$17,297,693	$9,368,267
***Increase (decrease) from operations*:**					
Total income/revenue	$427,171	$489,382	$1,022,257	$303,377	$275,811
Total expenses	$68,567	$86,110	$73,018	$78,011	$60,136
Realized gains (losses) for the period	$8,759	($221,128)	$565,892	$1,206,919	$862,961
Unrealized gains (losses) for the period	($319,127)	$1,361,348	($1,022,257)	($224,134)	$436,842
Total increase (decrease) from operations[2]	$48,237	$1,543,493	$492,874	$1,208,150	$1,515,478
Distributions:					
From net realized gain on investments	$357,876	$131,329	$1,150,039	$1,098,651	$811,960
From net investment income	$242,416	$240,025	$365,092	$314,705	$260,387
Total Annual Distributions	$600,292	$371,354	$1,515,131	$1,413,356	$1,072,347
Net assets - end of period	$21,714,478	$24,341,310	$22,578,372	$19,786,017	$17,297,693
Ratios and Supplemental Data					
Total net asset value[1]	$21,714,478	$24,341,310	$22,578,372	$19,786,017	$17,297,693
Number of units outstanding[1]	1,704,518	1,868,611	1,825,459	1,542,168	1,344,032
Management expense ratio	0.30%	0.39%	0.33%	0.39%	0.42%
Management expense ratio ^ before waivers or absorption (%)[2]	0.30%	0.39%	0.33%	0.39%	0.42%
Trading expense ratio (%)[3]	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Portfolio turnover rate (%)[4]	**3.01%**	**8.53%**	**3.8%**	**4.0%**	**0.4%**
Net asset value per unit	**$12.74**	**$13.03**	**$12.37**	**$12.83**	**$12.87**

* 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, 2017, no units of any of these classes had yet been issued to the public.

*** Financial Highlights for the years 2017, 2016, 2015, and 2014 have been prepared under IFRS standards. Prior years were prepared under Canadian GAAP standards.

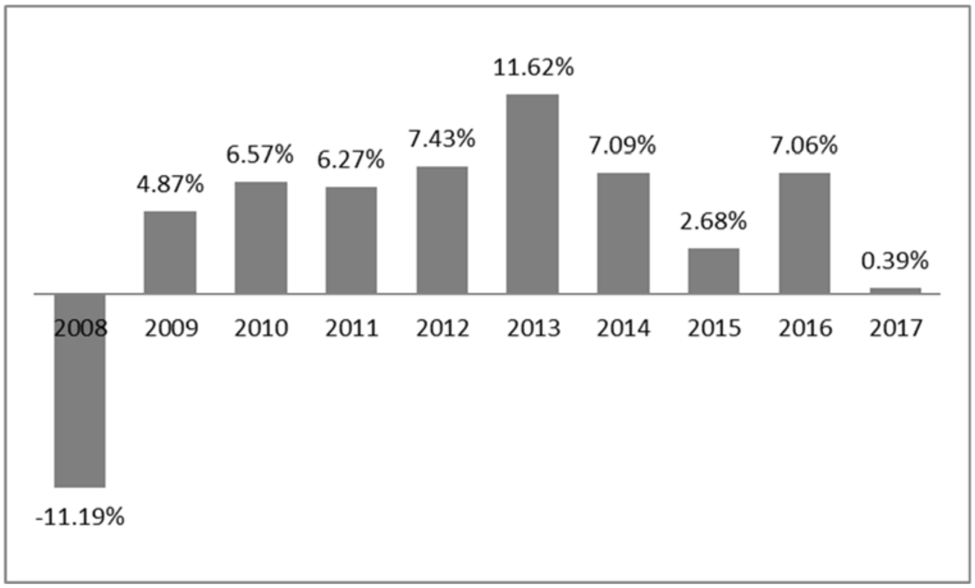
^ Each investor enters into a Class O investment management agreement with the Manager and pays a management fee to the Manager directly, beginning January 1, 2013. In previous years (2012 and prior), an annual management fee of 1.25% was paid to the Manager by the Fund and was included in the management 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 Composite Index and a 40% weighting in the iShares Core Canadian Universe Bond Index ETF.

	Since Inception (March, 2005)	1 Year	3 Year	5 Year	10 year
Davis-Rea Balanced Fund	4.30%	0.39%	3.34%	5.69%	4.10%
Blended Balanced Growth Benchmark	4.67%	4.76%	3.39%	4.77%	3.21%

The above comparison demonstrates how over the past 10 years, the Fund has generally achieved its investment objective of preserving and enhancing capital over a number of the time periods indicated. For example, over the 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, 2017

	% of NAV
Mutual Funds	
Davis-Rea Investments	
Davis-Rea Equity Fund, Class 'N'	68.79%
Davis-Rea Fixed Income Fund, Class 'N'	30.88%
Total Mutual Funds	**99.67%**
Total Investments	**99.67%**
Other Assets and Liabilities, Net	**0.33%**
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.

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