



Davis-Rea Fixed Income Fund

Annual Management Report of Fund Performance

For the year ended December 31, 2017

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 3.08% compared to 2.58% for the iShares Core Canadian Universe Bond Index ETF.

The 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 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 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 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 Fund's yield was 3.83% as compared to 3.30% at the end of 2016.

Recent Developments

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 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 Fund's underperformance, as the Fund maintained a conservative duration of 4.3 vs the benchmarks duration of 9 years. The 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 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 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 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 Fund's outperformance relative to the benchmark. The 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 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 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. 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, 2017***	Dec. 31, 2016***	Dec. 31, 2015***	Dec. 31, 2014***	Dec. 31, 2013***
Net assets - beginning of period⁽¹⁾	\$76,675,247	\$76,240,541	\$70,380,281	\$74,948,033	\$77,655,576
<i>Increase (decrease) from operations:</i>					
Total revenue	\$2,749,692	\$2,886,635	\$3,789,790	\$3,326,234	\$3,542,047
Total expenses	\$153,662	\$167,756	\$145,456	\$183,244	\$141,631
Realized gains (losses) for the period	(\$164,203)	(\$1,160,945)	\$1,114,839	\$961,397	\$706,574
Unrealized gains (losses) for the period	\$172,407	\$2,785,355	\$4,357,860	(\$5,195)	(\$2,230,171)
Total increase (decrease) from operations⁽²⁾	\$2,259,418	\$4,343,289	\$395,232	\$4,099,193	\$1,876,819
<i>Distributions:</i>					
From net realized gain on investments	\$0	\$0	\$1,890,827	\$903,672	\$707,370
From net investment income	\$2,628,115	\$2,770,460	\$2,912,062	\$3,172,380	\$3,402,459
From return of capital	\$0	\$0	\$0	\$0	\$688,193
Total Annual Distributions	\$2,628,115	\$2,770,460	\$4,002,890	\$4,076,052	\$4,798,022
Net assets - end of period	\$68,735,614	\$76,675,247	\$76,240,541	\$70,380,281	\$74,948,033
<i>Ratios and Supplemental Data</i>					
Total net asset value ⁽¹⁾	\$68,735,614	\$76,675,247	\$76,240,541	\$70,380,281	\$74,948,033
Number of units outstanding ⁽¹⁾	7,011,631	7,772,031	7,873,825	6,920,381	7,355,057
Management expense ratio	0.21%	0.19%	0.18%	0.22%	0.18%
Management expense ratio [^] before waivers or absorption (%) ⁽²⁾	0.21%	0.19%	0.18%	0.22%	0.18%
Trading expense ratio (%) ⁽³⁾	0.00%	0.02%	0.01%	0.04%	0.06%
Portfolio turnover rate (%) ⁽⁴⁾	80.05%	147.65%	142.8%	84.1%	180.8%
Net asset value per unit	\$9.80	\$9.87	\$9.68	\$10.17	\$10.19

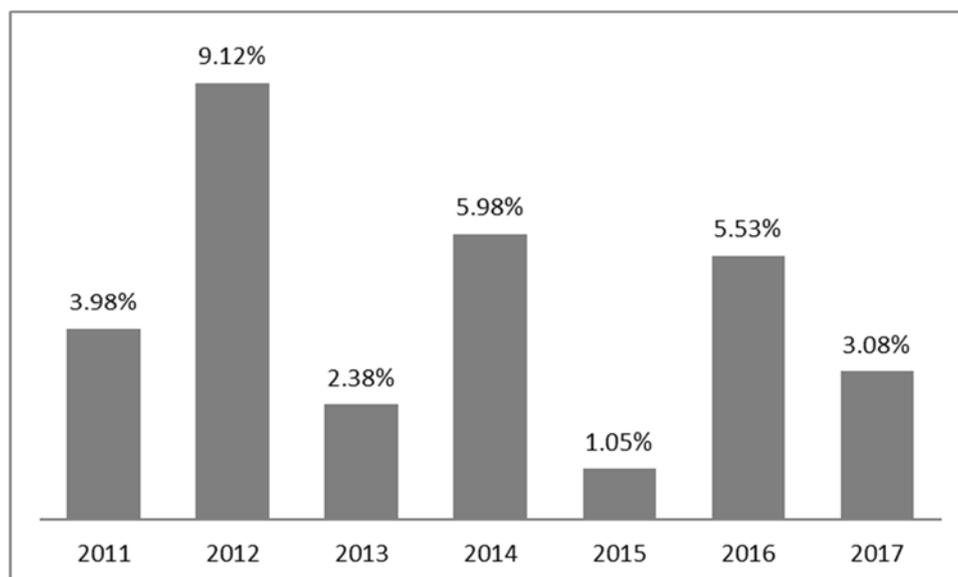
- * Class O units of the Fund were first offered by prospectus on March 18, 2013 and were offered on an exempt basis since June 19, 2011. For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.
- ** Class A, Class B and Class F units of the Fund are offered by prospectus, but as at December 31, 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. 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 iShares Core Canadian Universe Bond Index ETF.

	Since Inception (June, 2011)	1 Year	3 Year	5 Year
Davis-Rea Fixed Income Fund	4.77%	3.08%	3.20%	3.64%
iShares Core Canadian Universe Bond Index ETF	3.97%	2.58%	2.58%	3.01%

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 0.80% above the return of the iShares Core Canadian Universe Bond Index ETF.

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, 2017**	Dec. 31, 2016**	Dec. 31, 2015**	Dec. 31, 2014**	Dec. 31, 2013**
Net assets - beginning of period⁽¹⁾	\$7,603,969	\$6,853,033	\$5,962,044	\$4,951,634	\$3,224,328
<i>Increase (decrease) from operations:</i>					
Total revenue	\$275,197	\$255,989	\$315,600	\$272,631	\$191,703
Total expenses	\$15,398	\$14,932	\$12,187	\$15,520	\$7,665
Realized gains (losses) for the period	(\$16,370)	(\$103,619)	\$91,483	\$80,166	\$38,241
Unrealized gains (losses) for the period	(\$19,064)	\$238,498	\$383,668	(\$26,867)	(\$137,885)
Total increase (decrease) from operations⁽²⁾	\$224,363	\$375,936	\$40,990	\$310,410	\$84,395
<i>Distributions:</i>					
From net realized gain on investments	\$0	\$0	\$161,272	\$79,741	\$46,730
From net investment income	\$261,210	\$249,589	\$248,220	\$270,051	\$200,465
From return of capital	\$0	\$0	\$0	\$0	\$28,853
Total Annual Distributions	\$261,210	\$249,589	\$409,492	\$349,792	\$276,048
Net assets - end of period	\$6,705,832	\$7,603,969	\$6,853,033	\$5,962,044	\$4,951,634
<i>Ratios and Supplemental Data</i>					
Total net asset value ⁽¹⁾	\$6,705,832	\$7,603,969	\$6,853,033	\$5,962,044	\$4,951,634
Number of units outstanding ⁽¹⁾	685,401	709,144	709,144	587,393	486,886
Management expense ratio	0.21%	0.19%	0.18%	0.23%	0.18%
Management expense ratio before waivers or absorption (%) ⁽²⁾	0.21%	0.19%	0.18%	0.23%	0.18%
Trading expense ratio (%) ⁽³⁾	0.02%	0.02%	0.01%	0.04%	0.06%
Portfolio turnover rate (%) ⁽⁴⁾	80.05%	147.65%	142.82%	84.1%	180.8%
Net asset value per unit	\$9.78	\$9.85	\$9.66	\$10.15	\$10.17

- * 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 2017, 2016, 2015, and 2014 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, 2017

	% of NAV
CANADIAN BONDS	
Corporate Bonds	
AGT Food and Ingredients Inc., Callable, 5.88%, 2021/12/21	1.34%
Air Canada, Callable, 4.75%, 2023/10/06	5.50%
Alimentation Couche-Tard Inc., Callable, 3.06%, 2024/07/26	1.32%
Allied Properties REIT, Series 'C', Callable, 3.64%, 2025/04/21	2.58%
Artis REIT, Series 'A', 3.75%, 2019/03/27	2.67%
BMW Canada Inc., Series 'O', 1.83%, 2021/06/15	1.30%
Brookfield Asset Management Inc., Callable, 3.95%, 2019/04/09	1.35%
Brookfield Infrastructure Finance ULC, Callable, 3.45%, 2022/03/11	2.70%
Brookfield Infrastructure Finance ULC, Callable, 3.32%, 2024/02/22	1.32%
Brookfield Renewable Partners ULC, Series '10', Callable, 3.63%, 2027/01/15	1.98%
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 3.00%, 2024/10/28	1.34%
Canadian Natural Resources Ltd., Callable, 3.42%, 2026/12/01	0.65%
Canadian Natural Resources Ltd., 2.05%, 2020/06/01	1.05%
Crew Energy Inc., Callable, Restricted, 6.50%, 2024/03/14	3.90%
Dollarama Inc., Restricted, 2.34%, 2021/07/22	0.66%
Dollarama Inc., Restricted, Callable, 2.20%, 2022/11/10	0.45%
Emera Inc., 2.90%, 2023/06/16	1.32%
Fairfax Financial Holdings Ltd., Callable, 6.40%, 2021/05/25	2.93%
Fairfax Financial Holdings Ltd., 4.50%, 2023/03/22	2.77%
Fiera Capital Corp., Convertible, Restricted, Callable, 5.00%, 2023/06/30	1.08%
Kraft Canada Inc., Variable Rate, Restricted, 1.70%, 2018/07/06	1.33%
Lightstream Resources Ltd., Callable, 8.62%, 2020/02/01	0.17%
Liquor Stores NA Ltd., Convertible, Callable, 4.70%, 2022/01/31	1.39%
Mattamy Group Corp., Callable 6.50%, 2025/10/01	0.69%
Morguard Corp., Series 'B', 4.01%, 2020/11/18	4.03%
Osisko Gold Royalties Ltd., Convertible, 4.00%, 2022/12/31	1.39%
Parkland Fuel Corp., Callable, 5.75%, 2024/09/16	1.36%
Parkland Fuel Corp., Callable, Restricted, 5.63%, 2025/05/09	0.81%
Pembina Pipeline Corp., Callable, 2.99%, 2024/01/22	1.31%
Precision Drilling Corp., Restricted, Callable, 7.13%, 2026/01/15	1.69%
RioCan REIT, Series 'V', 3.75%, 2022/05/30	2.74%
Rogers Communications Inc., Callable, 3.00%, 2023/03/15	3.31%
Royal Bank of Canada, 1.40%, 2019/04/26	1.32%
Royal Bank of Canada, 1.58%, 2021/09/13	2.57%
Suncor Energy Inc., Series '5', Callable, 3.00%, 2026/09/14	0.65%
Suncor Energy Inc., Series '5', Callable, 4.34%, 2046/09/13	1.13%
Superior Plus L.P., Restricted, Callable, 5.25%, 2024/02/27	1.25%
TD Capital Trust III, Variable Rate, Perpetual, 7.24%, 2018/12/31	4.18%
Total Corporate Bonds	69.52%

Provincial and Municipal Bonds

Municipal Finance Authority of British Columbia, 2.95%, 2024/10/14	0.68%
Province of Alberta, 2.20%, 2026/06/01	1.28%
Province of British Columbia, 2.30%, 2026/06/18	0.65%
Province of Manitoba, 2.55%, 2026/06/02	2.64%
Province of Ontario, 1.35%, 2022/03/08	1.28%
Province of Quebec, 2.75%, 2025/09/01	2.70%
Total Provincial and Municipal Bonds	9.23%
Total Canadian Bonds	78.75%

Foreign Bonds

Apple Inc., Callable, 2.51%, 2024/08/19	2.63%
McDonald's Corp., Callable, 3.13%, 2025/03/04	1.34%
United States Treasury Inflation Indexed Bond, 0.75%, 2045/02/15	4.37%
Walt Disney Co. (The), 2.76%, 2024/10/07	1.33%
Total Foreign Bonds	9.66%
Total Bonds	88.41%

Canadian Equities**Energy**

AltaGas Ltd., Subscription Receipts	5.48%
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Real Estate

Automotive Properties REIT	3.55%
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Total Equities	9.03%
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Total Investments	97.44%
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Other Assets and Liabilities, Net	2.56%
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Net Assets	100.00%
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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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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.