Davis-Rea Balanced Fund

Semi-Annual Management Report of Fund Performance

For the six months ended June 30, 2018

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

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Table of Contents **Page**

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 6.59% in the six months ended June 30, 2018, where the Canadian Balanced Growth Benchmark returned 0.52% over the same period. The Fund's asset mix did not change dramatically over the year, with between 68% and 70% exposure to equities (and correspondingly 32% and 30% exposure to fixed income and cash). The Fund holds Class N units of the Davis-Rea Equity Fund (the "**Equity Fund**") and the Davis-Rea Fixed Income Fund (the "**Fixed Income Fund**") exclusively.

The Equity Fund returned 9.37% for the six months ended June 30, 2018, compared to returns of 0.42% for the S&P/TSX Composite Index and 1.67% for the S&P 500 Index over the same period. We maintained a cautious stance throughout the first half of 2018, significantly increasing our cash position to both shield the portfolio and provide dry powder ready to deploy when the opportunity presents itself. Markets moved sideways and saw increased volatility, with little gained over the period, as global trade tensions and tighter U.S. and Canadian monetary policy gained momentum. We added some new positions in U.S. financials, and reduced our holdings in some of our technology and energy positions on price appreciation through the first half of 2018.

For the six months ended June 30, 2018, the Fixed Income Fund achieved a positive return of 0.94% compared to 0.59% for the iShares Core Canadian Universe Bond Index ETF over the same period. The Fixed Income Fund continued to focus on keeping its duration short for 2018, and maintained its focus on corporate bonds, which remained attractively valued for 2018, as we continue to position the portfolio for rising interest rates in both Canada and the U.S. Stronger global economic conditions have prompted many central banks to shift towards tighter monetary policy, with much of this tightening occurring in North America. Both the Bank of Canada (BoC) and the Federal Reserve (Fed) have begun to raise short term rates, with the Fed doing so more aggressively while also reducing the size of its balance sheet. Fears of U.S. trade actions with the potential to hurt Canadian exports have and will continue to keep the Bank of Canada on a slower trajectory of rate hikes than the Fed. Rising government bond yields caused fixed income returns to lag throughout the first half of 2018. The Fixed Income Fund produced positive relative performance as it was defensively positioned with respect to interest rates, and overweight corporate bonds.

Looking at the Fixed Income Fund's overall interest rate exposure, the amount of duration measured in years, remained unchanged at 4.30 years (as it was at the end of 2017), as we continue to remain defensive. The Fixed Income Fund's average credit rating also remained unchanged, however its exposure to government bonds was slightly reduced in favor of a slight increase in higher-yielding corporate bonds. As of June 30, 2018, the Fixed Income Fund's yield was 4.0% as compared to 3.83% on December 31, 2017.

Recent Developments

Equities

The Equity Fund showed strong performance over the second quarter, as our energy names gained strength at the hands of rising oil prices, confirming our long-term expectations on a stronger Canadian energy sector. We remain bullish on our energy positions and expect them to continue to perform well; however, we have been trimming the positions on upward momentum and continue to accumulate cash.

The technology sector continued to perform well in the second quarter, as our tech names, primarily Facebook, Apple, Alphabet, Activision Blizzard and Amazon (consumer discretionary) provided the Equity Fund's second largest positive contribution behind energy. These positions were subsequently trimmed, in order to maintain a conservative weighting of approximately 7.8% of the total fund value. The Equity Fund increased its weighting in U.S. financials, specifically PNC Financial, and J.P. Morgan Chase on weakness mid-way through the second quarter, as we believe these names have much to gain in the current environment of rising rates, a strong U.S. economy, and increased market volatility. Additional trimming of positions occurred in our healthcare (Stryker), industrials (Stanley Black & Decker), and utilities (Brookfield Infrastructure Partners) positions. In response to the currency headwinds experienced in 2017, we have entered into a CAD/USD forward contract in order to hedge our exposure to the U.S. dollar.

The Equity Fund also purchased a small position in Canntrust Holdings, a Canadian licensed producer of medicinal marijuana. Canntrust is one of Canada's lowest cost producers of medical marijuana, and was one of the few producers with positive cash-flows before a concrete recreational legalization date had been announced by the Trudeau government. The company is run by an experienced management team with decades of experience in the healthcare and pharmaceuticals industries, and is partnered with Canadian pharma-giant Apotex. Canntrust has exhibited impressive cost control discipline while still scaling its operations in anticipation of the legal recreational market coming online in October of 2018 - hence our interest in owning this name.

Negative performance for the second quarter came primarily from the financials sector over concerns of a flattening yield curve, and increased global trade and geopolitical tensions. However, we believe a lighter regulatory environment favored by the Trump administration paired with strong consumer and corporate balance sheets have created a steady environment fostering healthy loan demand, and rising rates should contribute to longer term strength in the sector. We will continue to hold a healthy cash balance as we look for opportunities to invest in well-managed companies with strong long-term growth prospects, but are proceeding with caution as we enter the later stages of the economic cycle.

Fixed Income

Rising government bond yields were once again a headwind for fixed income returns in the second quarter of 2018. Improving global economic conditions have caused many central banks to start shifting away from the extraordinary measures they took in response to the global financial crisis. So far, much of that action has occurred in North America with both the Bank of Canada (BoC) and the Federal Reserve (Fed) pushing short-term interest rates upward and the Fed shrinking the size of its balance sheet. The Fed has been more aggressive on this front than the BoC, and short-term U.S. rates have risen more than their Canadian counterparts. This continued trend continued in the second quarter and was reflected in U.S. Treasury yields rising by more than Government of Canada yields. The Fed increased the Fed funds rate target by 25 basis points to 1.75-2.00% and signaled more increases to come this year and next. In contrast, the Bank of Canada kept the overnight rate steady at 1.25%

during the quarter, but indicated that it was disposed to increasing it in July. Expectations of higher short-term interest rates caused two-year bond yields to rise more than ten-year yields. Fears of U.S. trade actions that will hurt Canadian exports will keep the Bank of Canada on a slower trajectory of interest rate increases than the Fed.

The favorable economic backdrop in the second quarter was positive for corporate earnings, which gave corporate bonds a lift and helped them outperform their government counterparts. This was an important factor helping the Fixed Income Fund in the second quarter, given its higher weighting in corporate bonds. The rise in bond yields also supported the Fixed Income Fund's heavier weight in shorter-term bonds. As a result, the Fixed Income Fund returned 1.56% in the quarter, versus the index return of 0.82%. The yield on the fund edged up to 4.00% from 3.86% on March 31, largely reflecting the general increase in yields through the quarter. There were no changes in the Fixed Income Fund's average credit rating or duration, but its allocation to government bonds was trimmed slightly in favour of a larger weight in higher-yielding corporate bonds.

The reduction in government bond holdings occurred in two provincial issues, an eight-year B.C. bond and a seven-year Quebec bond. The proceeds from the B.C. bond sale were used to buy a very short-dated, U.S. dollar Keycorp bond with the same yield, while the Quebec sale funded a purchase of a five-year TD Bank bond with a higher yield. Other sales during the quarter included bonds issued by Riocan, BMW, Superior Plus, Kraft, Sobeys, and Alimentation Couche Tard. We purchased a high-yield consumer staples name (Kruger), ten-year Keyera and Transcanada pipeline bonds, and a short-term SNC Lavalin floating rate note. We also continued to trim our position in Automotive Properties REIT.

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 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.

	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 six months ended June 30, 2018 as well as the past five years ended December 31**.

The Fund's Net Assets per Unit	Jun. 30, 2018***	Dec. 31, 2017***	Dec. 31, 2016***	Dec. 31, 2015***	Dec. 31, 2014***	Dec. 31, 2013***
Net assets - beginning of period(1)	21,714,478	$24,341,310	$22,578,372	$19,786,017	$17,297,693	$9,368,267
Increase (decrease) from operations:						
Total income/revenue	$25,157	$427,171	$489,382	$1,022,257	$303,377	$275,811
Total expenses	$31,093	$68,567	$86,110	$73,018	$78,011	$60,136
Realized gains (losses) for the period	$94,416	$8,759	($221,128)	$565,892	$1,206,919	$862,961
Unrealized gains (losses) for the period	$1,182,439	($319,127)	$1,361,348	($1,022,257)	($224,134)	$436,842
Total increase (decrease) from operations(2)	$1,270,918	$48,237	$1,543,493	$492,874	$1,208,150	$1,515,478
Distributions:						
From net realized gain on investments	$0	$357,876	$131,329	$1,150,039	$1,098,651	$811,960
From net investment income	$192,211	$242,416	$240,025	$365,092	$314,705	$260,387
Total Annual Distributions	$192,211	$600,292	$371,354	$1,515,131	$1,413,356	$1,072,347
Net assets - end of period	$20,202,586	$21,714,478	$24,341,310	$22,578,372	$19,786,017	$17,297,693
Ratios and Supplemental Data						
Total net asset value(1)	$20,202,586	$21,714,478	$24,341,310	$22,578,372	$19,786,017	$17,297,693
Number of units outstanding(1)	1,502,459	1,704,518	1,868,611	1,825,459	1,542,168	1,344,032
Management expense ratio	0.31%	0.30%	0.39%	0.33%	0.39%	0.42%
Management expense ratio ^ before waivers or absorption (%)(2)	0.31%	0.30%	0.39%	0.33%	0.39%	0.42%
Trading expense ratio (%)(3)	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Portfolio turnover rate (%)(4)	**2.17%**	**3.01%**	**8.53%**	**3.8%**	**4.0%**	**0.4%**
Net asset value per unit	**$13.45**	**$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 June 30, 2018, no units of any of these classes had yet been issued to the public.

*** Financial Highlights for the first half of 2018 and for the years 2017, 2016, 2015, and 2014 have been prepared under IFRS standards. Prior years were prepared under Canadian GAAP standards.

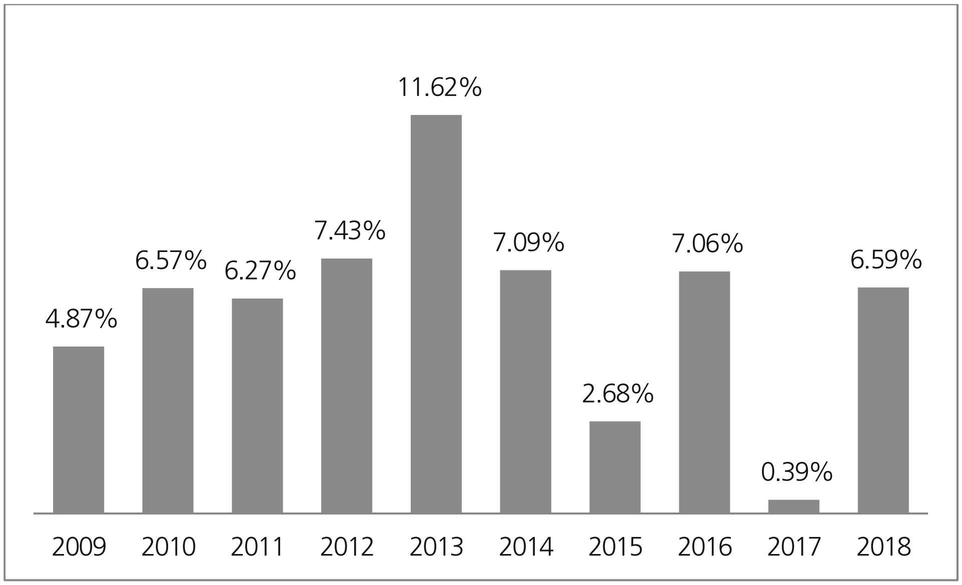
^ Each investor enters into a Class O investment management agreement with the Manager and pays a management fee to the Manager directly, beginning January 1, 2013. In previous years (2012 and prior), an annual management fee of 1.25% was paid to the Manager by the Fund and was included in the management 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. The return shown for 2018 is for the six months ended June 30, 2018.



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 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 June 30, 2018

	% of NAV
Mutual Funds	
Davis-Rea Investments	
Davis-Rea Ltd. Equity Fund, Class 'N'	70.59%
Davis-Rea Ltd. Fixed Income Fund, Class 'N'	29.19%
Total Mutual Funds	**99.78%**
Total Investments	**99.78%**
Other Assets and Liabilities, Net	**0.22%**
Net Assets Attributable to Holders of Redeemable 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

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