

## **Conflict of Interest Disclosure**

Davis Rea Ltd. (“**Davis Rea**”, the “**Firm**”, “**we**”, “**our**”, “**us**”) is providing you with this Conflict of Interest Disclosure in accordance with new laws that come into force on June 30, 2021. This document describes existing or reasonably foreseeable material conflicts that may affect your interests as our client, including how we address those conflicts in your best interest.

You should refer to Davis Rea’s Relationship Disclosure Information document for other information that you may find important about your relationship with us including but not limited to, the services we offer, the fees and expenses we charge you and the risks that you should consider when making investments.

A conflict of interest can include any circumstance where:

- (a) the interests of different parties, such as the interests of the Firm and those of a client, are inconsistent or divergent;
- (b) the Firm or one of its registered representatives may be influenced to put their interests ahead of a client’s interests; or
- (c) monetary or non-monetary benefits or disadvantages accruing to Davis Rea or its registered representatives that might compromise the trust that a reasonable client has in the firm or any of its registered representatives.

Whether a conflict is “material” or not depends on the circumstances. In determining whether a conflict is material, we will typically consider whether the conflict may be reasonably expected to affect the decisions of our clients in the circumstances, and/or the recommendations or decisions of the Firm or its registered representatives in the circumstances.

What follows below are details regarding the specific material conflicts of interest that we have identified to date. In case other material conflicts of interest arise, which may happen from time to time, we will inform you of the nature and extent of any such other conflicts of interest prior to any of your subsequent transactions with us or our advice to you.

### **1. Proprietary Products and Connected Issuers**

For the purposes of this summary, (i) the word “connected” is intended to involve a state of indebtedness to, or other relationship with, the registrant or those “related” to the registrant that, in connection with a distribution of securities, would be material to a purchaser of the securities; and (ii) the word “related” is intended to involve positions permitting, through ownership or otherwise, a controlling influence, and would include all companies under a common controlling influence.

Davis Rea’s business model includes managing certain proprietary funds including the Davis Rea Equity Fund, the Davis Rea Fixed Income Fund and the Davis Rea Enhanced Income Fund (the “**Davis Rea Funds**”). The Davis Rea Funds are connected/related to Davis Rea because the Firm established the Davis Rea Funds and acts as their portfolio manager and investment fund manager.

Regulators have noted that where a registered firm distributes securities of connected/related issuers, a material conflict of interest exists because Davis Rea may have an incentive to recommend the Davis Rea Funds to its clients over other third party funds that do not provide similar incentives. Davis Rea may also be incented to fail to disclose or provide inadequate disclosure to investors about the Davis Rea Funds in cases where there is negative information (for example, where a company owned by one of the Davis Rea Funds is experiencing financial difficulty), resulting in investors taking on more risk than they could, or wish to, bear. Furthermore, certain products, like the Davis Rea Enhanced Income Fund may carry a higher management fee as compared to other similar funds. The Davis Rea Enhanced Income Fund may charge a higher fee to account for the increased time and resources deployed by Davis Rea to work to realize the strategy of the fund. Davis Rea weighs the cost of this and any fund against the benefits

of being invested in a recommended fund.

Davis Rea takes the following steps to mitigate the actual and potential conflicts of interest described above:

- Davis Rea representatives are not directly incentivized for accepting a client into the Davis Rea Funds. Specifically, no Davis Rea representative is subject to sales or revenue targets or earns commission based on Davis Rea Funds recommended or sold.
- On an annual basis, Davis Rea conducts an analysis of similar funds available to a similar client base. Davis Rea is comfortable that the Davis Rea Funds compare favorably to these similar funds.
- Davis Rea has policies and procedures in place to ensure that its representatives conduct a suitability analysis for each client accepted into the Davis Rea Funds. This suitability analysis ensures that the Davis Rea Funds are appropriate for that client.
- Management fees are specifically highlighted to clients prior to investing in the Davis Rea Enhanced Income Fund.
- In conducting its suitability analysis for a client, each representative of Davis Rea will have a thorough understanding of: (i) the structure and features of the Davis Rea funds; and (ii) amongst other client information, the personal and financial circumstances of that relevant client.
- Davis Rea has retained independent legal and regulatory counsel to provide ongoing advice as to the effectiveness of Davis Rea's policies and procedures, including policies and procedures surrounding Davis Rea's approach to suitability evaluations.

## **2. Conflicts at the Supervisory Level**

Generally speaking, dealers and advisers of Davis Rea are not directly compensated for recommending any specific product or service at Davis Rea. However, John O'Connell and Zachary Curry may be perceived as being conflicted in that they are both advisers with Davis Rea and owners of the Firm. Specifically, the management fees collected by the Davis Rea Funds may create a perception that the above two individuals would be pre-disposed to recommend a Davis Rea Fund over a third-party product.

To address this conflict, Davis Rea has developed strong and robust policies and procedures around conducting and documenting the suitability of each recommendation made in respect of their clients. Furthermore, where Mr. O'Connell and/or Mr. Curry could be perceived as conflicted in their recommendation, their suitability analysis will be reviewed by another individual at the firm. Finally, Davis Rea has a policy such that all trading instructions for any client account are sent to all portfolio managers at the firm, this transparency enables ongoing third party oversight by the entire team at Davis Rea.

## **3. Referral Arrangements**

Davis Rea does not actively seek out referral arrangements. However, from time to time, Davis Rea may enter into referral arrangements where another party refers clients to us or where we refer clients to a third party for a fee.

When referring a client to a third party, or accepting a referred client, Davis Rea must ensure that such a relationship is in the best interest of the client. Davis Rea should not enter into a referral arrangement solely because of the referral fee that they will receive from that party. Furthermore, if a client pays more for the same, or substantially similar, products or services as a result of a referral arrangement, Davis Rea would not be seen as appropriately discharging its obligations to its clients.

In order to mitigate any actual or potential conflicts, Davis Rea will bring the referral relationship and the terms of that referral relationship to the attention of the referred client. In addition to client disclosure, Davis Rea has

adopted several procedures to ensure it determines that accepting a referral is in a referred client's best interest. These procedures include: (i) requiring Chief Compliance Officer approval of any referral arrangement; (ii) conducting due diligence on potential third-party referrers; (iii) ensuring that the referred client does not pay additional fees or compensation for the same service or product provided to other Davis Rea clients as a result of the referral arrangement; and (iv) keeping a record of all payments related to Davis Rea's referral arrangements.

#### **4. Full Authority Over Client Financial Affairs**

When Davis Rea exercises full authority (e.g. executor in a client's estate or power of attorney) over a client's financial affairs, Davis Rea may be put into a position where it is both providing and receiving instructions in respect of the client's managed account.

Davis Rea generally does not exercise full authority over a client's financial affairs. In the limited circumstances where it does, the Davis Rea employee who holds any power of attorney or executor role will only take on this role if they are at least one of two individuals to hold the position. Accordingly, the Davis Rea employee will only take on an executor role where they can be outvoted on or be able to recuse themselves on matters related to the Davis Rea account.

#### **5. Outside Activities**

Davis Rea's registered individuals may become involved in other activities outside of their employment with Davis Rea (e.g., sitting on boards of directors or providing volunteer services for a charity). These outside activities could: (i) impact the amount of time a Davis Rea registered individual spends on Davis Rea employment or registration obligation; and (ii) create a conflicting interest as to how a Davis Rea registered individual discharges its obligations to Davis Rea or its clients.

Davis Rea has policies and procedures to ensure that all outside activities are reported to and considered by its Chief Compliance Officer. The Chief Compliance Officer will only approve such outside activities that do not conflict with Davis Rea operations or obligations.

#### **6. Best Execution**

Davis Rea may hire a brokerage firm to execute trades on behalf of the Davis Rea Funds based on a pre-existing relationship, rather than objective qualitative or quantitative considerations. This is considered a best execution conflict of interest.

Davis Rea has policies and procedures to ensure that when Davis Rea directs brokerage transactions to brokers, the service is comparable to that which Davis Rea may obtain from other brokers and the commission rates are equivalent to or better than those that would have been normally charged by the broker. Davis Rea monitors the level of service provided by any broker retained on behalf of the Davis Rea Funds with respect to the cost and execution of trades.

#### **7. Fair Allocation of Investment Opportunities**

Davis Rea owes its clients a duty to treat each client fairly. Davis Rea may be incentivized to provide certain trade opportunities to one client account over another. This is considered a fair allocation conflict of interest.

All clients will be treated as fairly as possible in the allocation of securities which we are adding to clients' accounts. Similarly, the sale of securities will be handled in an even-handed manner. In the event that we purchase new or secondary issues in securities for our clients, such issues will only be allocated to accounts which reflect the appropriate risk profile.

Accounts purchasing or selling the same security will be aggregated and allocations are determined pre-trade. All bunched or blocked accounts will participate at the same average price and commission per share. Employees will not participate until all client trades have been satisfied and at least one night has passed (one trading day). This policy will apply to secondary offerings and block trades. In the event of a partial fill, shares will be allocated on a

pro-rata basis, subject to a minimum amount per account. Those amounts less than the minimum amount will be allocated on a pro-rata basis with those accounts already allocated.

Desired allocations of IPO's are determined pre-trade and partial fills on IPO's will be made according to the risk profile of each individual client account.

#### **8. Gifts and Entertainment**

While it is recognized that conducting business may involve some modest exchange of gifts and business-related entertainment, the value of such gifts and entertainment must not create a real or perceived conflict of interest and must not impair the independence or objectivity of the recipient.

Davis Rea has policies and procedures in place with respect to the receipt or giving of gifts and/or entertainment. These policies and procedures require employees to contact the Chief Compliance Officer with any concerns about the receipt or giving of a gift or entertainment and whether that may create a conflict of interest. Further, employees are required to notify the Chief Compliance Officer upon receipt of a gift or entertainment in excess of \$250 (on an individual basis).