

**ROMC FUND**

**OWNERS' MEETING**

May 4, 2015 at 11 am

1 Richmond Street West, Suite 800

Toronto, Ontario

## ROMC FUND PRINCIPLES

Our objective is to increase purchasing power

We use common sense: the market is there to serve, not to guide

We think in business terms: we acquire productive assets with attractive economics at prices that ensure enviable returns on our capital

We focus on economic results, they lead to market results

We are OWNERS, not speculators

We make money together

## ROMC Fund

Is our purchasing power increasing?

Results to March 31, 2015

(\$Cdn)	<b>2015 ytd</b>	<b>Since inception</b>	
Change in ROMC NAVPS (class-weighted)	6%	223%	
Estimated impact of personal tax accrual	-2%	-55%	----->
Change in ROMC NAVPS, net of tax accrual	5%	169%	Tax accrual since inception
Impact of inflation	-1%	-13%	Reported & paid    -4%
ROMC after-tax real return	3%	156%	Deferred            -50%
			Total            -55%

## ROMC Fund

Do we compare favourably with other investment categories?

	<u>Overall gain (Oct/07 - Mar/15)</u>	<u>Annual gain</u>
ROMC Fund: Salary class	226%	17%
ROMC Fund: Performance-fee class	206%	16%
U.S. Equities (S&P 500)	103%	10%
Global equities (MSCI World)	66%	7%
Canadian bonds	43%	5%
Canadian equities (S&P/TSX)	32%	4%
Canadian cash	9%	1%

Source: Morningstar, S&P Dow Jones Indices & Globe & Mail

## ROMC Fund

Do we compare favourably with our competitors?

### Year-by-year results

<b>History (31/03/2015)</b>	<b>2013</b>	<b>2014</b>	<b>YTD</b>
ROMC Salary Series	34.93	21.85	6.56
Category (Global Equity)	28.57	9.94	9.64
+/- Category (Global Equity)	6.36	11.91	-3.09
Rank in Category	16	1	82

<b>History (31/03/2015)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>YTD</b>
ROMC Performance fee Series	5.71	25.97	6.89	-5.51	26.82	31.08	19.01	5.41
Category (Global Equity)	-29.63	16.36	6.83	-6.72	11.96	28.57	9.94	9.64
+/- Category (Global Equity)	35.34	9.61	0.06	1.20	14.86	2.51	9.07	-4.23
Rank in Category	1	11	50	40	1	32	3	90

At March 31, 2015 there were 1,203 funds in Morningstar Canada's Global Equity category

Source: [www.morningstar.ca](http://www.morningstar.ca)

## ROMC Fund

Do we compare favourably with our competitors?

Period average results

<b>Total Return % (31/03/2015)</b>	<b>YTD</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>
ROMC Salary Series	6.56	22.14	23.20	16.11
Category (Global Equity)	9.64	15.70	16.74	11.81
+/- Category (Global Equity)	-3.09	6.44	6.46	4.30
Rank in Category	82	11	3	5

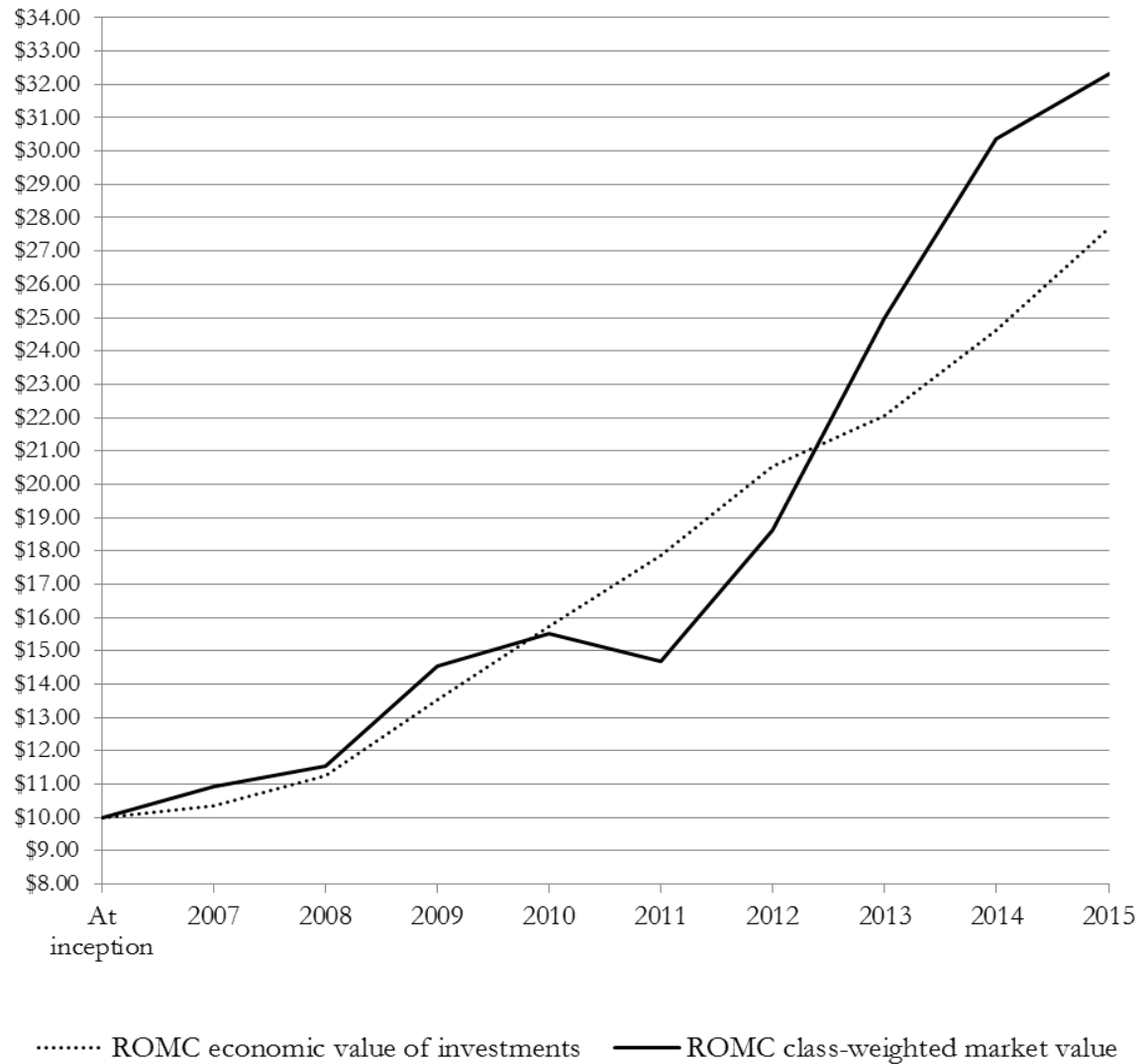
<b>Total Return % (31/03/2015)</b>	<b>YTD</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>
ROMC Performance fee Series	5.41	19.09	20.63	14.65
Category (Global Equity)	9.64	15.70	16.74	11.81
+/- Category (Global Equity)	-4.23	3.40	3.89	2.84
Rank in Category	90	32	14	13

Source: [www.morningstar.ca](http://www.morningstar.ca)

# ROMC Fund

Is our market value keeping pace with our economic value?

(Economic value includes 2015 earnings estimates with market value at March 31, 2015)



## DISCUSSION

### **1. How are the estimates for ROMC's economic profits calculated?**

For common equity investments: first quarter earnings (if reported by meeting time) are multiplied by four to get an annual estimate. If earnings haven't been reported by meeting time, prior year earnings are used. In fixed income & other: income and gains for the year to meeting date period are used.

### **2. The market value vs. economic value graph shows our market value outperforming our economic progress; is that a concern?**

When our market value exceeds the economic value of our investments, it should tell you that our "stock" is not cheap. But that doesn't necessarily make it expensive. Based on estimates as described above, our 2015 earnings yield is around 8%. (remember, this is just a guess). That may not be very exciting, but it's better than the S&P 500, which currently offers about 5% on 2015 earnings estimates. 10-year government bonds yield around 2% and cash is below 1%.

### **3. Please describe last year's derivatives operations.**

Last year's derivative transactions were both sales of put options on stocks that appeared undervalued. When selling equity put options, we are paid cash in return for a promise that we will acquire a certain amount of stock at a specific price within a finite period. We enter into arrangements of this sort when we like the business, and the price promised is attractive and also reasonably below the then-current market price. Outcomes from this type of operation are generally positive. Should we not be put the stock, we get to keep the cash; if we do get put the stock, the cash previously received effectively lowers an already attractive cost. Last year's puts were both exercised, and we acquired common stock in two businesses. We sold one of the holdings as it was of temporary interest and became acceptably profitable. The other, which we hold, is thought to be of longer-term interest.

### **4. Will there be reportable income for taxable accounts in 2015?**

We have had some income and gains in our "other" category this year. The income, which is marginal, has come from writing more put contracts. The gains, which are more material, have come from re-allocating capital,



principally from insurance where we have capital gains, to communications, media & technology. The capital gains realized will likely create some reportable income for taxable accounts.

**5. Why do we have so little invested in Europe?**

An inability on my part to find value for high quality productive assets. The US, and more recently the UK have been easier places to find value for quality.

**6. General comments on value.**

Equity markets are well priced and fixed income markets are expensive. Yields, be they earnings or income, are low. There are still opportunities: we have been buying in communications, media & technology. But they are fewer and farther between. We have been writing puts in order to generate some income, but it adds up to little. We must content ourselves with the odd base hit, home runs are not realistic at present.

**7. Would ROMC look at private business acquisitions?**

Yes, but they would have to be small (no bigger than my own investment in ROMC) due to redemption risk and they would have to meet our “value for high quality productive assets” criteria.