

ROMC FUND

OWNERS' MEETING

May 10, 2016 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, 2016

(\$Cdn)	2016 (ytd)	Since inception			
Change in ROMC NAVPS (class-weighted)	-7%	259%			
Estimated impact of personal tax accrual	2%	-66%	----->	<u>Tax accrual since inception</u>	
Change in ROMC NAVPS, net of tax accrual	-5%	192%		Reported & paid	-10%
Impact of inflation	-1%	-14%		Deferred	-56%
ROMC after-tax real return	-6%	178%		Total	-66%

ROMC Fund

Do we compare favourably with other investment categories?

	<u>Overall gain (Oct/07 - Mar/16)</u>	<u>Annual gain</u>
ROMC Fund: Salary class	239%	15%
ROMC Fund: Performance-fee class	216%	14%
U.S. Equities (S&P 500)	111%	9%
Global equities (MSCI World)	65%	6%
Canadian bonds	42%	4%
Canadian equities (S&P/TSX)	23%	2%
Canadian cash	10%	1%

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

ROMC Fund

Do we compare favourably with our competitors?

Year-by-year results

History (31/03/2016)	2013	2014	2015	YTD
ROMC Salary Series	34.93	21.85	18.46	-6.56
Category (Global Equity)	28.57	9.94	11.85	-4.60
+/- Category (Global Equity)	6.36	11.91	6.60	-1.96

History (31/03/2016)	2008	2009	2010	2011	2012	2013	2014	2015	YTD
ROMC Performance fee Series	5.71	25.97	6.89	-5.51	26.82	31.08	19.01	16.10	-6.26
Category (Global Equity)	-29.63	16.36	6.83	-6.72	11.96	28.57	9.94	11.85	-4.60
+/- Category (Global Equity)	35.34	9.61	0.06	1.20	14.86	2.51	9.07	4.24	-1.66

At March 31, 2016 there were 1,385 funds in Morningstar Canada's Global Equity category

Source: www.morningstar.ca

ROMC Fund

Do we compare favourably with our competitors?

Period average results

Total Return % (31/03/2016)	YTD	1-Year	3-Year	5-Year
ROMC Salary Series	-6.56	3.88	18.64	16.42
Category (Global Equity)	-4.60	-2.71	11.49	9.01
+/- Category (Global Equity)	-1.96	6.59	7.15	7.41
Rank in Category	70	12	2	1

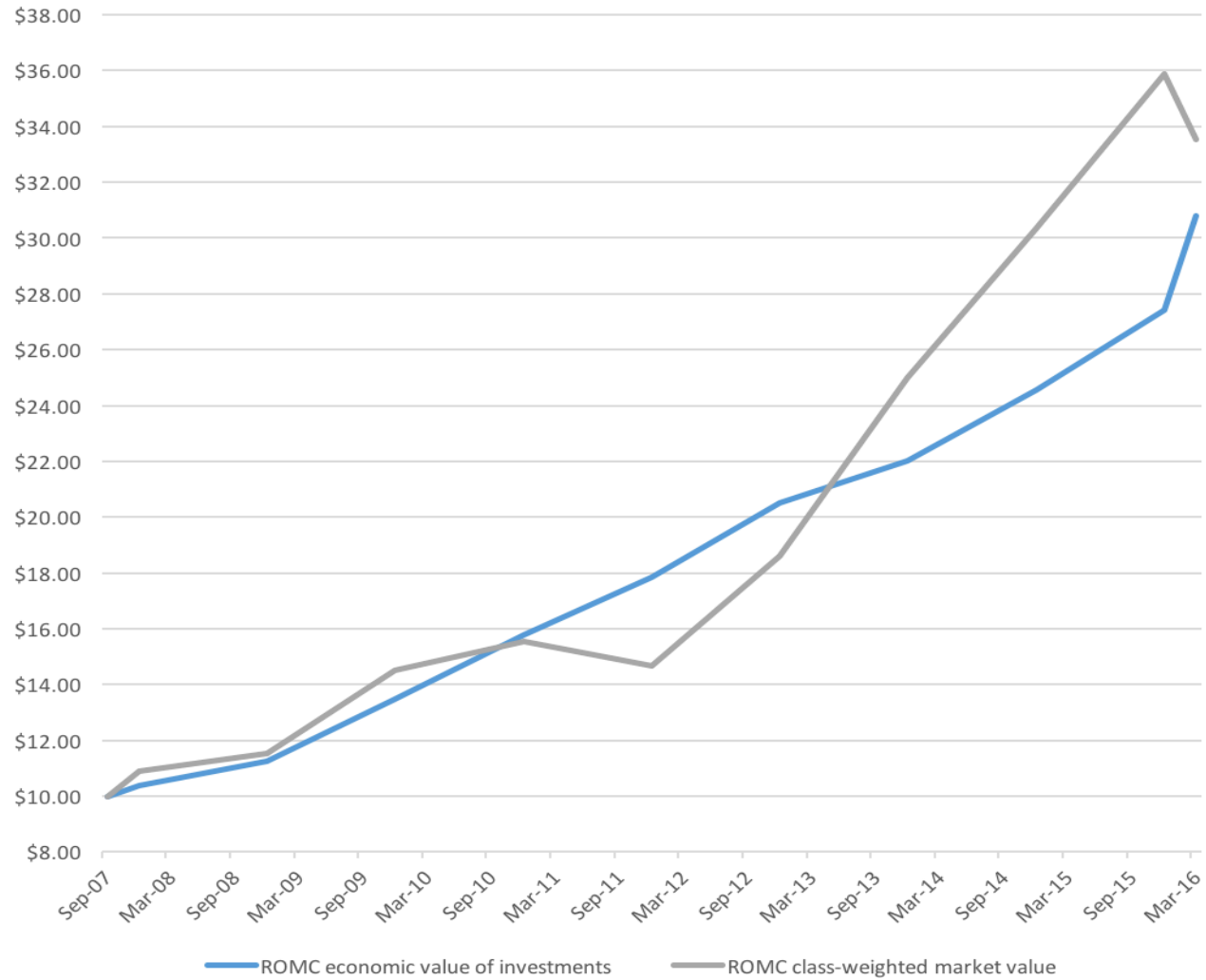
Total Return % (31/03/2016)	YTD	1-Year	3-Year	5-Year
ROMC Performance fee Series	-6.26	3.24	15.92	14.81
Category (Global Equity)	-4.60	-2.71	11.49	9.01
+/- Category (Global Equity)	-1.66	5.95	4.43	5.81
Rank in Category	67	15	11	3

Source: www.morningstar.ca

ROMC Fund

Is our market value keeping pace with our economic value?

(Economic value and market value as at March 31, 2016)



ROMC Fund

Where is our economic value coming from?

(Sources of economic value for the period January 1 to March 31, 2016)

(\$Cdn)	Economic profit	Book value 2016	Book value 2015	Return on Capital
	2016 ytd			2016 ytd
Banking	405,851	11,040,245	7,612,565	4%
Insurance	114,077	7,246,808	9,514,365	2%
Retail	-	2,829,467	3,265,672	0%
Communications, media & technology	187,133	11,763,829	5,956,772	2%
Fixed income (incl. cash)	(3,461)	399,219	996,462	-1%
Other	4,131,007	-	-	n/a
Attributable to ROMC investments	4,834,606	33,279,568	27,345,836	15%
ROMC expenses (incl. brokerage)	(247,483)			
Attributable to ROMC owners	4,587,123			
On a per-security basis:				
ROMC investments	3.38	23.27		15%
Salary class	3.20			14%
Performance-fee class	3.34			14%
	2016 ytd			
Salary securities - average	1,334,308			
Performance-fee securities - average	96,104			
Average ROMC securities outstanding	1,430,412			

ROMC Fund

Where is our economic value coming from?

(Sources of economic value in “Other”)

Other profits (\$Cdn):	2016	2015	2014
Capital gains in excess of reported earnings	2,034,771	1,791,358	87,661
Currency hedges	2,096,237	-	-
Activities related to options	-	(122,060)	132,192
	<hr/> 4,131,007	<hr/> 1,669,298	<hr/> 219,854

DISCUSSION

1. Are year-to-date results mostly due to a weakening US dollar?

The falling US dollar has had a negative impact. In January, we hedged half of the fund out of US dollars and into Canadian dollars at C\$1.42 per U\$1. As the Canadian dollar strengthened, we reduced our hedge, exiting completely in April at a rate of C\$1.26 per U\$1. Our holdings in banking, where we have a material percentage of fund assets, have also had a negative impact on our market value as US bank stock prices have declined since year end.

2. Have there been any significant changes in holdings since year-end 2015? How high is turnover?

Since year end, we further reduced our holdings in insurance in favour of banking and communications, media & technology. Insurance is in a difficult spot: with low interest rates, investment returns are poor. If interest rates should rise, insurers with large concentrations in bonds (almost all insurers) will likely see negative investment returns. Underwriting pricing is under pressure due to: (i) several years of low catastrophe claims, and (ii) an increase in non-insurance capital looking for investment areas that have low correlation to stock markets. As we reduced insurance, we added to our holdings in banking as well as communications, media & technology.

Historically, turnover has been quite low, averaging well less than 20%. This year's turnover, if you include our activities in currency hedging, will be higher than average.

3. Are this year's "Other" profits taxable?

Yes, profits that accrue to our "Other" category are typically realized gains and will be reportable by taxable owners. It is management's preference to maximize unrealized gains over time but on occasion we will incur profits that are immediately taxable. Our most recent example being our profits from currency hedging.

4. How much cash is in ROMC?

We have received some new subscriptions that have not been immediately invested and our currency hedge profits will not be delivered to us until contract expiry in July. In total, the two add to almost \$3 million that we can allocate when opportunity presents itself.

5. What is the probability that we will see more volatility in the market?

In the near future, no idea. Over time, 100 per cent certainty. But we do our best work when there is general market anxiety. For example, in February, we were able to invest almost \$3 million of new subscriptions at more than 10 per cent earnings yield. In today's low interest rate environment, 10+ per cent is enticing. But to get those opportunities, a general market correction—meaning volatility—is helpful.

6. What is management's biggest concern for ROMC?

It is stagnation, or worse, a decline in the earnings of our common equity investments. Since 2011, the S&P 500 has shown no growth in earnings. For almost 5 years, American business profits have stagnated. Sales have increased a little, but margins on those sales have declined. So far, 2016 is not looking like a profit growth year for the market as a whole. In ROMC's case, economic profits from investments increased 40% from 2011 to 2015, and 2016 is looking pretty healthy too. But it is increasingly difficult to fight the economy as a whole. For example, our holdings in banking are especially sensitive to general economic trends and zero profit growth places pressure on lending. We continue to look for ways to grow our economic profits and have been active in our "Other" category.

7. What are the main characteristics of a typical investment in ROMC?

First, find a stable, if not growing, productive asset. Second, pay a price for that asset that will allow our capital to earn a 10% economic return. In common equity investments, we favour businesses with pricing power, that are leaders in their field with superior margins on sales and assets and that we don't have to make a lot of

assumptions about. We avoid price takers, typical in resource-type or extractive industries. We also prefer businesses that have unrestricted earnings (those that are freely distributable to owners). Capital intensive businesses, that require depreciable equipment, tend to have earnings that are restricted from distribution as they are required for reinvestment. ROMC's common equity investments, on average, produce cash earnings that are 10 per cent higher than reported earnings and they are almost all freely distributable.

8. What is ROMC's current earnings yield?

We haven't received first quarter earnings reports from our retailers, but I'd say we are probably in the 7 to 8 per cent earnings yield area in our common equity investments. Banking is close to 8 per cent earnings yield, insurance is lower and communications, media & technology looks higher. Our earnings yield figure does not include our "Other" profits since they are not predictable, even if they are a material source of economic value.

9. What is management's opinion on banking, including Canadian banks?

We do not own any Canadian banks. US banks have assets to equity ratios of approximately 10 to 1. That is to say, \$10 of assets for every \$1 of equity. Canadian banks have more than \$15 of assets per \$1 of equity. It takes a 10 per cent loss of assets to wipe out US bank owners and less than 7 per cent loss of assets to do the same to Canadian bank owners. Net interest margins, a bank profitability ratio, for the more well-managed US banks is around 3%. The same for Canada's banks is around 2%. And loan provisions at US banks are higher than in Canada. We've seen an uptick in loan provisions related to oil & gas in Canada and it has had an impact on banking profitability. If it continues, or we begin to see an increase in loan provisions from a weakening real estate market, Canadian bank profitability could be materially impacted.

At present, Canadian household debt is more than \$1.60 per \$1 of household disposable income. At its peak in 2007, US household debt was \$1.35 per \$1 of disposable income. As long as money is free through low interest loans, Canadians can afford such debt levels. But if interest rates should rise, Canadian household affordability will decline, putting downward pressure on real estate prices and on Canadian bank stocks.

Europe is overbanked, they have low interest rates and they haven't sorted out their loan problems from 2008 yet. In the US, bank deposits are about 110 per cent of loans outstanding. The ratio is usually less than 100 per cent, so US banks can lend more at almost no cost (a nice position to be in). In Europe, the deposit to loan ratio is less than 90 per cent, so banks have to find external financing for their existing loans and that can be expensive. To fill the gap cheaply, banks try to grow deposits by acquiring new customers. But because there are so many banks and they all want to fill their deposit to loan gap, they have to offer competitive deposit rates to attract new customers. With low lending rates and high deposit rates, profitability is affected. Of course, there are European banks that are doing better than others, but it is usually because they have significant operations outside of Europe.

10. Any interest in other areas within Canada?

If you look at Canada's stock market return over the history of ROMC in the table on page 4, you'll see that it has underperformed almost every other investment category. That is mostly because of its exposure to extractive industries. It is full of boom/bust price takers. Of course, there are also businesses that interest us, but they are not presently on sale.

11. How are North America and the rest of the developed world operating differently?

The main differences between North America and the rest of the developed world is that our population base is growing. Not quickly, but by 1% or so. That growth creates a natural increase in demand. Japan's population is shrinking and Europe's is stagnant to shrinking. The US has also been reasonably successful in stimulating its economy since 2008. The US central bank lowered interest rates quickly and transferred debt from private balance sheets to its own (through quantitative easing). Relieved of some of its burden, business has been able to responsibly borrow and invest, grow sales, and now begin to pay higher wages. All good things. Europe was late in recognizing its troubles and has the added difficulty of its continuing adaptation to a currency union that forces weaker labour markets toward a lower standard of living. China's industrial revolution has so far masked its own population problems, stemming from a one-child policy. Eventually it will be felt. (Japan once masked its own demographic decline with a large export economy.)

It is hard to believe that interest rates in some parts of the world are now negative. Citizens in some developed countries are better to have their money under their mattress than in a bank. Deflation promotes deferral of consumption. If you believe prices will be lower next week, month or year, you may wish to wait before spending your money. It feeds on itself and it could accelerate, forcing central banks to lower already negative interest rates in an attempt to incentivize spending of bank balances. Meanwhile, paper money in a household safe will actually appreciate. It is bewildering.