ROMC FUND

2011

ANNUAL REPORT

For the twelve months ending December 31, 2011

About ROMC Fund

ROMC Fund (ROMC) is a Canadian non-reporting issuer unit trust founded in 2007.

ROMC's goal is to generate a positive return on investor capital, principally through ownership in common equity investments. At ROMC, we believe that a good business generates a high economic return on its own capital. A good investment results from acquiring a good business, in whole or in part, at a sensible price thereby producing an attractive economic return on investor capital. Economic returns typically take the form of earnings, dividends and interest income but can also derive from discounted asset values.

ROMC's manager encourages owners to focus on economic results, believing that attractive economic returns lead to positive market returns which help investors maintain their purchasing power over time. Given the detrimental effects of long-term inflation and taxes, maintaining purchasing power is easier said than done. The great fund manager John Templeton advised: "For all long-term investors, there is only one objective – maximum total real return after taxes." ROMC heeds this advice.

ROMC has concentrated positions, may use leverage, and has few constraints.

ROMC's fiscal year follows the calendar year. Valuation is performed on the last business day of each calendar quarter. Subscriptions and redemptions are effected following valuation.

Owners receive quarterly valuation statements, twice-yearly financial statements, and an annual letter from the fund manager.

ROMC's service providers are as follows:

Administrator	**Auditor**	**Fund manager**	**Legal counsellor**
Commonwealth Fund Services 130 Adelaide Street West Suite 3210 Toronto, Ontario M5H 3P5	KPMG 90 Allstate Parkway Suite 501 Markham, Ontario L3R 6H3	McLean Asset Management 131 Bloor Street West Unit 415 Toronto, Ontario M5S 1R1	Owens, Wright 20 Holly Street Suite 300 Toronto, Ontario M4S 3B1

For more information, including ROMC's Offering Memorandum, historical performance results, past annual letters, subscription forms and contact details, please visit ROMC's website at www.mamgmt.com or contact the fund manager directly by phone at 416-488-0547, or by email at davidmclean@mamgmt.com.

Investors have the right to cancel a subscription, have their money returned and/or claim damages if information provided to them by management misrepresents facts about ROMC. More details about investor rights can be found in the Securities Act of Ontario under section 130.1(1).

ROMC Fund Change in Market Value

Calendar year	Per-security change
2007 *	9.1%
2008	5.7%
2009	26.0%
2010	6.9%
2011	-5.5%

Average annual gain since inception	9.4%
Overall gain since inception	46.7%

* From October 1 to December 31, 2007

Results are in Canadian dollars, net of withholding taxes, expenses, and on a per-security (master series-equivalent) basis.

"Don't try to buy at the bottom and sell at the top.

It can't be done except by liars."

Bernard Baruch
1870-1965

American financier, statesman, and political consultant

Disclosure:

The letter you are about to read contains opinions of the author as well as estimates and unaudited figures. The author has attempted accuracy. Some comments could be considered forecasts. Terms in *italics* are described in the glossary at the end of this letter. Only owners receive audited financial statements.

To the Owners of ROMC Fund:

In 2011, ROMC's *per-security* net asset value declined $0.86, or 5.5%. Since inception, a little over four years ago, our net asset value per-security (our market value) has increased from $10.00 to $14.67, an annual growth rate of 9.4%.

For the year, our *after-tax return* did not exceed the rate of *inflation*. But since our start in October 2007, our after-tax results have more than kept pace, as Table 1 illustrates.

Table 1: ROMC Real Return, After-tax

	ROMC pre-tax return	After-tax return (1)	Inflation (2)	Real return, after-tax (1-2)
2011	-5.5%	-4.2%	2.3%	-6.5%
Since inception	46.7%	36.6%	7.4%	29.2%

Real return, after-tax, is vital. The purpose of saving and investing is to forego consumption today for more "tomorrow". But the road to tomorrow isn't free, taxes and inflation exact a toll along the way. ROMC owners have done well despite the payment of such tolls. If you invested in the fund more than four years ago, you can now consume 29% more of whatever tickles your fancy.

How does our result compare to *other investment categories*? Table 2 compares ROMC's market return with the main alternatives open to Canadian savers.

Table 2: Comparative Returns

	Return (Oct/07 - Dec/11)	Relative to ROMC	Annual average
ROMC Fund	**46.7%**		**9.4%**
Global equities	-15.5%	-62.3%	-3.9%
Canadian equities	-7.7%	-54.4%	-1.9%
U.S. equities	-4.6%	-51.4%	-1.1%
Canadian cash	5.7%	-41.0%	1.3%
Canadian bonds	28.5%	-18.2%	6.1%

The returns in Table 2 don't tell the whole story. First, investors must factor in the different tax implications for each category listed. For example, ROMC investors in the highest tax bracket, as residents of Ontario, had a tax rate of less than 22% on their gain since inception. Taxes on cash held over the same period were more than 46%. Bonds weren't far off. To show their after-tax result, the returns on cash and bonds in Table 2 must be divided almost in half. Second, investors must deduct 7.4% from what is left in order to account for cumulative inflation. By the end of 2011, bonds purchased in October 2007 had left investors only 8% better off and cash had actually left them 4% worse off.

The future also matters. Today, investors can buy a 10-year Government of Canada bond for about 2% yield. Given taxes, the best an investor will do on such a bond over the next decade is little more than 1% annually. To ensure a positive real return, future inflation has to be less than 1%. Consider that in 2011, inflation was 2.3%. Chances are high that over the next decade, bondholders will lose purchasing power.

Even though Table 2 shows that the average investor in equities suffered over the last four-and-a-quarter years, at time of writing, equities offered an earnings yield of 8%. If all is steady over the next 10 years, Canadian equity-holders will pay taxes of less than 25% on that return. Meaning, they will keep 75% of the 8% total, or 6% annually. As long as inflation ticks along at less than 6%, equity investors will be better off. The difference between 6% (equities) and 1% (bonds) is not immaterial, especially at a time when inflation is averaging more than 2%.

The problem is that investors are afraid of equities. I wouldn't doubt that even ROMC owners had some healthy respect for recent market gyrations. Our own experience is pertinent. While our average annual increase in market value of 9% appears steady, our individual-year results are not. In 2009, ROMC's market value rose 26%. In 2011, just two years later, our market value declined more than 5%. With volatility of this nature, investing in equities – like investing in ROMC – requires patience and a long-term perspective. Despite this reality check, savers today should be more interested in equities, not less. To paraphrase Oscar Wilde: it is better to know the value of something than the price of everything.

Economic Results

ROMC's *economic progress* continued upward in 2011. We reached a record of $1.63 million in economic profit from investments: $851,174 in earnings associated with our common equity investments and $774,722 from our operations in Fixed Income & Other, as shown in Table 3.

Table 3: ROMC Economic Profits

($Cdn)	2011	2010	Since inception
Common equity investee earnings	851,174	954,682	3,173,928
Fixed income & other	774,722	502,500	1,430,205
Economic profit from investments	**1,625,896**	**1,457,183**	**4,604,133**
ROMC expenses (incl. brokerage)	(68,516)	(94,819)	(839,823)
Net economic profit to ROMC owners	1,557,380	1,362,364	3,764,311

Last year, I explained in detail how economic progress at ROMC is measured. To summarize: our economic profits come from two sources: (i) Common equity investments, and (ii) Fixed Income & Other. Economic results for (i) are the sum of each equity investee's earnings per-share multiplied by the quarterly-weighted shares held by ROMC for the year. Results for (ii) contain income and realized gains related to our operations outside of common equity investments. As your manager, I consider the presentation of economic results important in your understanding of ROMC's value.

Over the year, our capital increased. ROMC started 2011 with 725,531 securities outstanding (on a master series-equivalent basis). By year-end, we had 792,817 securities outstanding, a growth rate of 9%. To appreciate results in light of our growth, Table 4 presents economic results on a *per-ROMC-security* basis.

Table 4: ROMC Economic Profits per-ROMC-security

($Cdn per-ROMC-security)	2011	2010	Since inception
Common equity investee earnings	1.10	1.44	5.72
Fixed income & other	1.01	0.76	2.04
Economic profit from investments	**2.11**	**2.20**	**7.76**
ROMC expenses (incl. brokerage)	(0.09)	(0.14)	(1.87)
Net economic profit to ROMC owners	2.02	2.06	5.89

When ROMC started in 2007, both its per-security economic and market values were $10. In the four-and-a-quarter years since, we've added $7.76 of economic profit from investments (see Table 4), an annual increase in per-security economic value of 15%. Not half-bad considering the Great Recession. After deducting ROMC expenses, owners have gained $5.89 of net economic value. In contrast, our market value has increased only $4.67. Table 5 compares ROMC's economic progress with its change in market value.

Table 5: ROMC Economic Progress vs. Change in Market Value

($Cdn per-ROMC-security)	Economic value	Market value	Difference
ROMC at inception (October 1, 2007)	10.00	10.00	-
Common equity investee earnings	5.72		
Fixed income & other	2.04		
ROMC expenses (incl. brokerage)	(1.87)		
ROMC at year-end (December 31, 2011)	15.89	14.67	1.22

Today, investors can buy and sell a vast array of securities, including businesses, as quickly as they can click a mouse. There is no lack of choice, nor lack of advisers to help the process along. Some choose a horizon measured in minutes and only rent security certificates. Their hope is that a greater fool will find their paper even more appealing (sometimes ably assisted by a "story" or two). The skills required for success in this type of operation, widely known as speculation, cannot be described in business terms.

Others, like ROMC, look years down the road and take care to choose investments using common sense and reasonable expectations. These true owners of business can look forward to participating fully in the monetary fruits of production derived directly from business, and they should expect nothing less. Any swings in market-quoted prices produced by fear and greed, fuelled by the forces of speculation, offer such owners an opportunity to increase their holdings, if undervalued, or to reduce them (I add hesitantly) should expectations get well-ahead of themselves.

Table 5 shows that our market value has lagged behind our economic progress, a situation that may frustrate ROMC owners. But such is the nature of investing in public markets. We can control neither market prices nor the emotions of other market participants. We only control what we buy and the prices we pay. We must continually focus on the economics and trust that the market will one day catch up.

No one can predict the arrival of catch-up day, but that should not concern owners. The only ones who benefit from market results that exceed underlying economics are those wishing to sell their securities.

Those wishing to hold would like ROMC's economic and market results to move in tandem and, indeed, this alignment is the best outcome for all. Rational buyers, however, would want market results to trail economic progress so that they could acquire more at increasingly attractive value. Given ROMC's youth, I expect there to be more buyers than sellers and I would expect them to be rational.

Return on Capital & Earnings Yield

ROMC's economic *return on capital* continued at a defensible rate in 2011. Table 6 sets out our returns, by sector, and shows an overall economic return on our capital of 15%. Such a result is nothing to scoff at, especially when the alternative is a government bond at 2% or cash at little more than 0%.

Table 6: ROMC Return on Capital (2011)

($Cdn)	**Economic profit**	**Capital invested**	**Return on capital**
Banking	525,230	4,733,150	11%
Insurance	42,317	3,251,790	1%
Retail	107,459	1,409,717	8%
Communications, media & technology	176,167	1,534,933	11%
Fixed income & other	845,552	2,445,786	35%
Borrowings	(70,830)	(2,858,817)	-2%
Attributable to ROMC investments	1,625,896	10,516,558	15%
ROMC expenses (incl. brokerage)	(68,516)		
Attributable to ROMC owners	1,557,380	10,516,558	15%

A comparison of the economic profits generated on ROMC capital invested provides an understanding of management's competency in asset allocation. It tells you whether past decisions made sense and to what extent. But such a comparison doesn't help owners (existing & prospective) decide whether ROMC represents value-for-purchase today. Our capital invested equates to our cost of investment, a material portion of which dates back to October 2007.

The answer to the question of current value requires another table, and I just happen to have it handy. In Table 7, you'll find our 2011 per-security economic results compared to last year's average market value. I have included the *S&P 500 Index* for comparison.

Table 7: ROMC Earnings Yield (2011)

($Cdn)	ROMC Fund	S&P 500 Index
Economic profit per-security (a)	2.02	87.65
Average market value (b)	14.87	1,261.66
Earnings yield (a ÷ b)	14%	7%

With an earnings yield of 14%, investors could have purchased ROMC during 2011 on what I would describe as attractive terms. Some did. And when you compare it to the general experience in equities, using the S&P 500 Index' earnings yield of 7%, ROMC could have been purchased on relatively attractive terms to boot.

Banking

Last year, our common equity investments in banking generated $525,230 of *reported earnings* attributable to our ownership, which equated to an 11% return on our capital.

Table 8: ROMC Economic Results (Banking)

($Cdn)	2011	2010	Since inception
Reported earnings attributable to ROMC (a)	525,230	432,076	1,087,505
Average capital invested (b)	4,733,150	4,767,827	3,744,191
Return on ROMC capital (a ÷ b)	11%	9%	29%

ROMC strives for double-digit returns. That means we buy when I think our investees' normal reported earnings are equal to at least 10% of market value. Normal earnings are those estimated to occur during a "normal" operating environment, the likes of which we've yet to see. When we first started acquiring banking interests in January 2009, in a depressed economy, our investments generated reported earnings equal to 8% of capital invested. In 2010, after doubling our bank holdings, we earned 9%. Finally, in 2011, still short of a normal operating environment, we earned 11%.

Insurance

Insurance was very weak in 2011. *Comprehensive earnings* attributable to our interests amounted to $42,317, which earned ROMC only 1% on invested capital. (See page 14 for a definition of comprehensive earnings and why comprehensive rather than reported earnings are used for insurance.)

Table 9: ROMC Economic Results (Insurance)

($Cdn)	2011	2010	Since inception
Comprehensive earnings attributable to ROMC (a)	42,317	448,477	1,260,088
Average capital invested (b)	3,251,790	3,672,642	2,460,591
Return on ROMC capital (a ÷ b)	1%	12%	51%

In 2008, 2009, 2010, and 2011, our annual returns on capital invested from insurance were 8%, 27%, 12%, and 1%, respectively. The average for the period, an enviable 12%, came at a cost: inconsistent yearly results. But as many a respected investor would tell you: better a lumpy 12% than a smooth 7%.

A poor annual result was not totally unexpected. Past letters have mentioned that yields on cash and bonds, which form large portions of our insurers' investment holdings, are too low to produce even modest returns. To make up for a shortfall in investments, underwriting need be successful. But underwriting success cannot be easily foreseen. Disasters do not strike expectantly. So our interest in this area has somewhat diminished over the last few years, along with our invested capital, as Table 10 shows.

Table 10: Percentage of ROMC Assets Invested in Insurance

	2011	2010	2009
% ROMC assets invested at year-end (at cost)	22%	26%	46%

Retail

In 2011, our retail investments produced $107,459 of *reported earnings* attributable to ROMC, equating to a return on our capital of 8%. Results were mixed for our three retailers. Two of them had solid performances of close to 10% return on our capital, while the third, with only 3%, lowered sector results.

Table 11: ROMC Economic Results (Retail)

($Cdn)	2011	2010	Since inception
Reported earnings attributable to ROMC (a)	107,459	74,130	228,902
Average capital invested (b)	1,409,717	782,360	529,531
Return on ROMC capital (a ÷ b)	8%	9%	43%

An economic return of 8% is close to typical for the general experience in equities. Had you bought an S&P 500 Index fund at the start of 2011, you would have earned a 7% economic return for the year. It is not, however, typical of ROMC. Since inception, our economic return on total invested capital has averaged 14%. So it should not surprise you to read that I am less than pleased with my choice last year of a retailer that produced 3% and, in the process, lowered our group results to little more than average. The situation has been remedied. Still, I offer an excuse: I'm not young enough to know everything.

Communications, Media & Technology

We re-entered this area in 2011 with an investment that produced $176,167 of *reported earnings* attributable to ROMC, generating an economic return on our capital of 11%.

Table 12: ROMC Economic Results (Communications, Media & Technology)

($Cdn)	2011	2010	Since inception
Reported earnings attributable to ROMC (a)	176,167	-	343,752
Average capital invested (b)	1,534,933	-	1,021,189
Return on ROMC capital (a ÷ b)	11%		34%

Evidence suggests that our latest investee is healthy and run for owners. Over the last ten years, its reported earnings, in local currency, grew an average of 16% per-year. Over that period, management reduced shares outstanding by 22%. As a result, per-share earnings increased an annual 19%. Today, shareholders receive a dividend equal to 28% of earnings, up from 11% ten years ago.

Fixed Income & Other

During 2011, we produced income and realized gains of $845,552 from our operations in Fixed Income & Other on an asset base of $2.4 million, equating to a return on assets of 35%.

Table 13: ROMC Gross Economic Results (Fixed Income & Other)

($Cdn)	2011	2010	Since inception
Income & realized gains	845,552	586,299	1,686,421
Average cost of assets	2,445,786	3,365,472	2,680,555
Return on assets	35%	17%	63%

Table 13 shows how our Fixed Income & Other group has performed on a gross basis over time, but that is not the complete picture. In this area, we have used leverage. In order to show owners net results, after deducting borrowings and their associated costs, I present Table 14, below.

Table 14: ROMC Net Economic Results (Fixed Income & Other)

($Cdn)	2011	2010	Since inception
Net income & gains (a)	774,722	502,500	1,449,950
Average ROMC capital invested (b)	(413,031)	47,837	25,262
Return on ROMC capital (a ÷ b)	n/a	1050%	5740%

In 2011, we paid $70,830 in interest on our borrowings, a cost rate of just over 2%. After deducting such interest, our net income and gains for the year were $774,722, with none of our own capital invested.

Since February 2009, when we initiated activities in this area, we've enjoyed a total of $1.7 million in income and realized gains, and paid interest of $221,450. When netted out, we earned $1.4 million using an average of only $25,262 of ROMC's own capital. That works out to a return of 5,740% over 3 years.

Leverage cuts both ways. When things are good, they're very good. When things are not good, leverage makes them worse. In 2009, when the financial crisis peaked, our allocation to fixed income was 22% of assets. By the end of 2011, as things returned to normal, our holdings declined to 10% of assets. It may sound perverse that panic should be considered good and stability otherwise, but as the saying goes: "You pay a high price for a rosy outlook." ROMC does not like high prices.

Now for the safe harbour statement you've no doubt been looking forward to. Our economic results are calculated by ROMC's manager, using methods described above and in our glossary. The figures are non-GAAP/IFRS and our auditor does not offer an opinion on them. ROMC's past results – economic and market – may not represent its future performance.

Operating Expenses

If we were to add back management and administration expenses, ROMC's 2011 gross change in market value was a per-security decline of $0.81, or 5.2%.

Table 15: ROMC Operating Expenses as a Percentage of Average Assets

($Cdn)	Amount	% average assets
Administration (incl. audit)	34,009	0.30%
Management	3,303	0.03%
	37,312	0.33%

Owners may have heard the term "management expense ratio (MER)", which measures the cost of operating a fund. MER consists of management and administration fees and it is expressed as a percentage of average fund assets. It is a useful measure for comparing cost structures between funds. As Table 13 illustrates, ROMC's MER for 2011 was 0.33%, which was lower than most index funds.

Taxes (for taxable accounts only)

During 2011, reportable dividend and interest income amounted to $238,921 ($0.38 per-security). Withholding taxes of $62,280 were paid at source, so owner tax payable is diminished.

ROMC continues to enjoy a level of tax deferral. Of the market value gain since inception, about 57% has been reportable by owners with taxable accounts, leaving 43% of our overall gain tax-deferred.

Closing comments

To mark our upcoming 5th birthday, ROMC will host its first owners' meeting at our new headquarters. Please join me on May 14, 2012 at 11 am in the boardroom at 1 Richmond Street West, Suite 800 in downtown Toronto.

There will be plenty of time for discussion after a short presentation, and I do mean short. Robert Benchley once said: "Drawing on my fine command of the English language, I'll say nothing." Your manager is not so eloquent. Instead, I'll say something about our economic progress, including a review of the first quarter of 2012. I do hope that you will attend. It will give you a chance to meet others just like you, rational and admirable all.

March 22, 2012 David McLean

Glossary

Unless otherwise stated, figures in this report are in Canadian dollars. Foreign exchange rates are sourced from ROMC's administrator: Commonwealth Fund Services.

After-tax return

After-tax return refers to management's estimate of the return to ROMC owners after paying personal income tax on income and gains (including unrealized gains). For its calculation, management assumes that owners reside in Ontario, that they pay the highest marginal rates, and that all outstanding ROMC securities are taxable. The analysis attempts to take into account the effect of withholding taxes paid at source on income from some of ROMC's investments, and it is only meant as a guide. Investors should seek a tax expert to understand their own circumstances. Source of income tax rates: TaxTips (www.taxtips.ca).

Comprehensive earnings

Comprehensive earnings refer to reported earnings plus "other comprehensive income" (after corporate taxes). Other comprehensive income measures the unrealized gains/losses in assets/liabilities (after corporate taxes) of a corporation's balance sheet. Since these gains are unrealized (meaning they have not been sold), they usually do not appear in a company's income statement. Comprehensive earnings are useful in determining economic progress for companies that hold large quantities of marketable securities (stocks, bonds, derivatives, etc.) and whose values fluctuate from one year to the next. For example, insurance companies carry large holdings of marketable securities and therefore potentially meaningful changes in other comprehensive income. Therefore, ROMC reports insurance results on a comprehensive earnings basis.

Economic progress/results/profits/return

Economic progress (results, profits, return) is calculated by ROMC's manager to provide owners a behind-the-scenes look at how ROMC's investments perform on a business-like basis. The figures are organized according to asset class:

(i) Common equity investments: ROMC, as mainly an equity fund, holds a large percentage of its assets in common equity investments. These usually pay little in the way of dividends (which appear in our financial statements) compared to the earnings they generate (which do not appear). Management calculates economic results using earnings generated from such investments, as follows:

> ROMC owns a quarterly-weighted 1,000 common shares of ABC Company for the year. ABC Company generated earnings of $2 per share in the year. Therefore, ROMC's economic profit from ABC Co. for the year equals 1,000 * $2, or $2,000.

This math is performed for all of ROMC's common equity investments and can be shown separately or in aggregate on a fund-wide basis. In the event that ROMC holds a common equity investment for less than the calendar year, associated earnings are not included in (i) and the gain/loss associated with its disposal is included in (ii).

(ii) Fixed Income & Other: the addition of net interest earned, plus preferred dividends, plus realized gains & minus realized losses not associated with common equity investments.

ROMC's economic results do not conform to generally accepted accounting principles (GAAP) or IFRS. Our auditors offer no opinion on management's calculations. But since management uses this same process to assess investments for ROMC, it is considered an important disclosure. Without it, management believes owners would have little idea as to ROMC's real value – an omission that could lead owners, both existing and prospective, to make ill-informed decisions about ROMC and their investment savings.

Inflation

Change in the Canadian consumer price index. Source of data: Bank of Canada (www.bankofcanada.ca).

Other investment categories

Global equities = MSCI World ($Cdn)
US equities = S&P 500 Composite Total Return Index ($Cdn)
Canadian equities = S&P/TSX Total Return
Canadian cash = 91 Day Treasury Bill Index
Canadian bonds = Globe Canadian Fixed Income Peer Index
Source of data: Globe and Mail – Globe Investor (www.theglobeandmail.com).

Reported earnings

Reported earnings are a company's GAAP/IFRS net income (after corporate taxes).

Return on capital

Return on capital is described as ROMC's economic results divided by the cost of investment for the year, net of borrowings.

Securities, per-security or *per-ROMC-security*

ROMC's securities are the same thing as ROMC's units. Data for ROMC is calculated on a master series-equivalent basis and on an average of the outstanding securities for a given year. Source of security count: Commonwealth Fund Services.

S&P 500 Index

The S&P 500 Index is comprised of 500 large-capitalized public companies which do business around the world but which report in the United States. In this report, the index represents the general experience in equities as well as the general experience in business. Data on index-wide, industry-specific and individual company sales, earnings, dividends, and equity (book value) make it one of the only sources for comprehensive understanding of the overall economic climate for business. Data source: Standard & Poor's (www.standardandpoors.com). Unless otherwise stated, S&P 500 Index data is presented in Canadian dollars.