ROMC FUND

2014

ANNUAL REPORT

For the twelve months ending December 31, 2014

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. ROMC's manager believes that a good business generates a high economic return on its own capital. A good investment results from acquiring an interest in a good business 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 rising 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 said, "For all long-term investors, there is only one objective: maximum total real return after taxes." This truism lies at the heart of what ROMC does.

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

ROMC's fiscal year follows the calendar year. Valuation is performed following the last business day of each calendar month with subscriptions and redemptions effected thereafter.

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

ROMC's service providers:

Administrator	**Auditor**	**Fund Manager**
Commonwealth Fund Services	Cooper & Company	McLean Asset Management
20 Queen Street West, Suite 2401	1120 Finch Avenue West, Suite 108	1 Richmond Street West, Suite 800
Toronto, Ontario M5H 3R3	Toronto, Ontario M3J 3H7	Toronto, Ontario M5H 3W4
Tel. 416-361-4651	Tel. 416-665-3383	Tel. 416-488-0547

For more information, including ROMC's Offering Memorandum, historical performance results, past annual reports, 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 Historical Net Asset Value per Security (NAVPS) vs. Inflation

Year	Change in: ROMC NAVPS (a)	Change in: *Inflation* (b)	Real return (a - b)
2007	9.1%	*0.1%*	9.0%
2008	5.7%	*1.2%*	4.6%
2009	26.0%	*1.3%*	24.6%
2010	6.9%	*2.4%*	4.5%
2011	-5.5%	*2.3%*	-7.8%
2012	26.8%	*0.8%*	26.0%
2013	34.3%	*1.2%*	33.1%
2014	21.5%	*1.5%*	20.1%
Annual gain since inception	16.6%	*1.5%*	15.1%
Overall gain since inception	203.8%	*11.3%*	192.5%

Notes: Data is presented in Canadian dollars, net of expenses and withholding taxes; and by calendar year with one exception: 2007 is from October 1 to December 31. ROMC NAVPS results are calculated on a class-weighted basis by using the weighted average of Salary class and Performance-fee class securities outstanding. Inflation is represented by the Canadian Consumer Price Index (Source: www.bankofcanada.ca).

"Some people automatically sell winners and hold on to losers, which is about as sensible as pulling out the flowers and watering the weeds."

Peter Lynch, Fund Manager & Author

Disclosure:

The report 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 that follows this letter. Only owners receive audited financial statements.

To the Owners of ROMC Fund:

In 2014, ROMC's net asset value increased by $10.5 million. On a class-weighted, per-security basis[1], the gain was 21.5 per cent. (Table 1 shows performance by security class.) Since inception just over seven years ago, our per-security net asset value has increased from $10.00 to $30.38, an annual growth rate of 16.6 per cent.

Table 1: Change in Net Asset Value per Security (NAVPS) by Class

ROMC security	2014 change in NAVPS		End NAVPS
Salary class	$5.49	22%	$30.59
Performance-fee class	$4.64	19%	$29.03

We've managed to stay atop the global equity-fund pile from the start. Table 2 shows our Morningstar rankings, with results from Salary class, to date our best performing securities. The data show that, over our history, we were temporarily outranked only nine times, and never twice by the same fund. Conspicuous in this is the decline in the number of funds as the years roll by. Fact is, about 10 per cent quit the race annually.

Table 2: Morningstar Global Equity Fund Ranking

To December 31, 2014	ROMC Fund rank	Total global equity funds
1-year	6	1,071
3-years	1	729
5-years	5	540
7-years	1	427

Source: Morningstar

ROMC's cumulative advantage over *other investment categories*—illustrated in Table 3—continued to widen in 2014. Of note: the relative difference between ROMC and the seeming safety of cash over the last seven-plus years. Back in 2007, stocks didn't offer much value. Pundits called for the avoidance of equities and the holding of cash. They were right: nine days after our launch, stock markets globally began a decline that ended 18 months later with losses of up to 35 per cent. Cash was king.

Table 3: ROMC Fund vs. Other Investment Categories

	Overall gain (Oct/07 - Dec/14)	Annual gain
ROMC Fund: Salary class	206%	17%
ROMC Fund: Performance-fee class	190%	16%
U.S. Equities (S&P 500)	85%	9%
Global equities (MSCI World)	48%	6%
Canadian bonds	40%	5%
Canadian equities (S&P/TSX)	27%	3%
Canadian cash	9%	1%

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

Or was it? If you had held an equity index fund throughout our history—no matter whether US, global, or even Canadian—you would have seen some spectacular volatility but you would also have ended 2014 in better shape than cash. To be sure, the line wasn't straight, but equities—as partnerships in business—did offer rewards. Earnings increased over the period, despite a deep recession, and eventually stock prices followed.

[1] Unless otherwise stated, per-security figures are a class-weighted average of Salary class and Performance-fee class securities outstanding.

The same could be said of ROMC. As an owner, you have seen your fair share of market-price volatility. However, over our seven-and-a-quarter years—because you have been a partner in the business assets we've owned—you have enjoyed economic results far in excess of what cash was able to deliver, and that has translated into superior gains in your net worth. It is that simple.

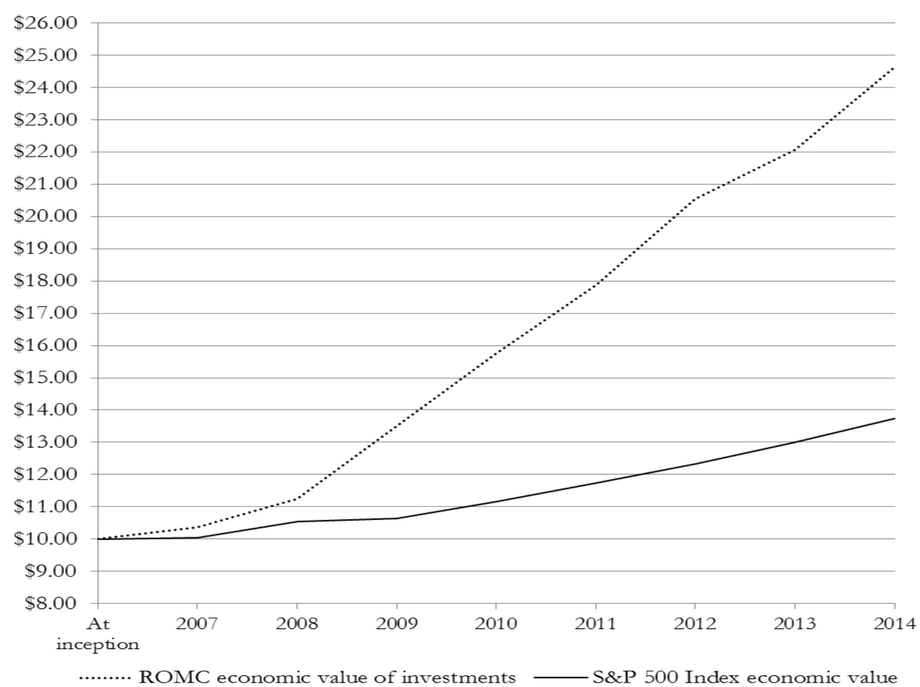
As well as some equity indexes have performed, they present little interest to ROMC. If index average returns were important to owners, they would be better off buying an index fund, tucking it away and pulling it out 25 years later to enjoy decent results. It is indecent results that we are after. And in order to achieve them over our history, we've followed some basic principles. Four of them stand out and I consider them, in the words of business-school students worldwide, "competitive advantages." They are worthy of discussion.

Economic Results[2]

The first and by far the most important of our advantages has been the selection of assets that offered both an attractive return on our capital and one that grew over time. In 2008, our first full year of operation, our investments produced a nine-per-cent earnings yield. Not too shabby considering that the S&P 500 (our market proxy) generated less than six per cent. Over the six years since, and on a per-ROMC-security basis, earnings attributable to our investments have grown an annual 19 per cent (from $0.89 in 2008 to $2.57 in 2014). During the same period, S&P 500 earnings grew less than eight per cent per year.

To give you an idea of how the two experiences compare, we'll chart the growth in economic value for both ROMC and the S&P 500 over our history. Giving each a starting value of $10 in October 2007 and adding to that figure all earnings generated by each investment's constituents since, you can see in Figure 1 how the combined advantage of a higher earnings yield and a better growth rate add up even over a short period like seven-and-a-quarter years. At year end, ROMC's economic value of investments was close to $25 while the S&P 500 was less than $14.

Figure 1: Economic Value



[2] *Economic results* are calculated by ROMC's manager using methods described in our glossary. The figures are non-GAAP/IFRS and our auditor does not offer an opinion on them.

And where else would economic value show up but in market value? Over time, market results will merely reflect economic progress: the better the progress, the higher the market value. In our experience, that has proved to be true. With a year-end market value of more than $30, ROMC has outpaced the S&P 500 total return equivalent of just over $18.

Expenses

Our second advantage is management remuneration. At inception, ROMC focused on pay-for-performance. The formula is simple: if you, as an owner, don't make at least six per cent annually, I go without pay. This policy puts the risk of underperformance where it should be: squarely on the shoulders of management.

As time passed and our economic progress—and hence, market experience—proved reasonable and our assets grew, another remuneration option was offered, that of a salary. The idea here is to pay a fixed sum of money ($500,000 plus applicable taxes) in order to gain economies of scale that, over time, lower ROMC's expenses to a fraction of the industry standard. As John Bogle of Vanguard Funds fame advocates, "In investing, you get what you don't pay for." Though only two years old, 86 per cent of our securities are Salary class. They have proved of some use to their owners: Salary-class expenses, on a per-security basis, have been about one-third those of Performance-fee class. The difference has translated into a cumulative return advantage for Salary-class owners of 16 per cent.

It is hard to imagine another fund manager offering investors the same choice in remuneration plans. Until such time, it is an advantage that we will exploit.

Taxes [3]

Third on our list is taxes, or the lack thereof.

At ROMC, we take Peter Lynch's advice to heart about flowers and weeds: we hold our winners. By doing so, we enter into a productive relationship with taxes. By deferring the sale of rising security values, we also defer the payment of capital gains tax. This, over time, becomes a meaningful value creator of its own.

Table 4: After-tax Real Return

	2014	Since inception			
ROMC return (class-weighted)	22%	204%			
Estimated accrual of personal taxes	-5%	-50%	------>	Tax accrual since inception	
ROMC after-tax return	16%	154%		Reported & paid	-4%
Impact of inflation	-1%	-11%		Deferred	-46%
ROMC after-tax real return	15%	143%		Total	-50%

In Table 4, in the right-hand column, you'll see an estimated accrual of personal taxes allocated between those that have been reported by owners (and, I assume, paid) and those that continue to be deferred because of unrealized gains within ROMC. To illustrate how deferred taxes work to create value, imagine that, instead of deferrals, all tax accruals listed were reported and paid by owners each year. Meaning, instead of just $0.40 per security of taxes paid over our history, you had paid a whole $5. Had you taken the money to pay for the taxes out of ROMC, you would have reduced your holdings by an extra $4.60 and that, over time, would have reduced our per-security net asset value by $6.75. Why? Because we wouldn't have had an extra $4.60 of assets in ROMC on which to compound over our seven-and-a-quarter years. The extra value created by keeping the $4.60 over that time was $1.75.

[3] Tax figures are an estimate, done for illustrative purposes, using the highest marginal tax rates for Ontarians.

Over a brief period, value created by growing deferred taxes through unrealized gains appears small. After all, $1.75 of our year-end net asset value of $30.38 is but six per cent. With time and a reasonable rate of growth, however, value can amount to something truly worthwhile. For example, if over the next 18 years we were able to grow ROMC at our historic rate as well as continue our present rate of tax deferral (two big "ifs"), by the end of our 25th year of operation, our per-security net asset value would approach $455. The annual payer of tax accruals, by contrast, would have about $195 (57 per cent less) as he would have paid about $110 of cumulative extra taxes over the 25 years and lost the ability to compound on them. The value created by 25 years of compounding on $110 of deferred taxes? About $150 per security.

Incidentally, if over the next 18 years we do accomplish the compounding and tax deferral feat described above (something tells me the hill will be steep) and given today's rates, a top-earning Ontarian who sells his ROMC securities in 2032 would pay about the same $110 of tax cited. But not until 2032, after which he would be left with $345. That's 77 per cent more after-tax dollars than the yearly payer of tax accruals, all because of the extra $150 of value created. This is material.

Nowadays, the average holding period in common stocks is less than three months. That means four different people own the same stock certificate each year. Investment funds, together with other institutional investors such as pension funds, hedge funds, etc., control the vast majority of common stocks in the market, so it is they who lack an understanding of the detrimental impact of high turnover on long-term investor performance, another advantage for ROMC that should only grow with time.

Of course, we'll have to be lucky to find good-quality business assets that generate growing economic returns over long periods, and whose returns are fully reflected in compounding market values. But the advantage in finding them and holding on should be clear: we would only do harm by selling them. Returning to Peter Lynch, the objective is to have a thriving garden, and that means nurturing our flowers and being quick about the weeds.

Partnership

The last (but certainly not least) of our competitive advantages is us. We have enjoyed good fortune over ROMC's lifetime, only some of which is due to management. Our results would not have been what they were without the rational kindness of owners who increased their holdings during the 2008 market slump, did so again during the 2011 manager slump, and voted for Salary class in 2013. Along the way we evolved into a partnership of trust that didn't have to look too hard for good luck—it found us. Our interactions seem to benefit from an adherence to Benjamin Franklin's advice, usefully edited, on dealing with people: "Would you persuade, speak ~~of interest, not~~ of reason."

With rational owners, ROMC's use of market dislocations and inefficient securities prices—all due to the irrational behaviour of others—has been an important part of past results. I can only believe that this advantage will be present when opportunities avail themselves in the future.

Closing Comments

The four competitive advantages developed over our history have created an environment where we don't have to be smarter than everyone else in order to do better. As long as we remain focused, our advantages will continue, and even grow, long into the future. (As sensible as they may seem to you, they are likely never to be copied.)

Whilst on my soapbox, I'll add that ROMC is my only investment (my wife's too). At year end, Peter and I—your trustees—together with our families, owned more than three-quarters of outstanding securities. (We don't just talk the talk, you know.)

Some readers may have noticed a change in the name of our auditor on page 2. Last year, Duncan Scott—partner in charge of ROMC's file at KPMG, and prior to that at Burns Hubley—moved to a new firm. We moved with him.

When first organizing ROMC in 2007, a fund-manager friend referred me to Duncan, whom I grew to understand did first-rate work for a reasonable fee. After Duncan left for Cooper & Company, KPMG concluded that our fee was, in fact, unreasonable (it must be a matter of perspective). I sent a note to owners requesting feedback on the idea of following Duncan. The response was unanimous that we should move, so we did.

This year's letter contains fewer figures than usual. Some owners suggested that previous efforts have been too enumerative. To our hard-core owners: rest assured, nothing is missing. The next few pages contain all the charts, numbers and tables you need to value your fund. And, to quote Warren Buffett, "I hope both of you enjoy it."

This year's Owners' Meeting will be held at 1 Richmond Street West, Suite 800 in downtown Toronto at 11 a.m. on Monday, May 4, 2015. All owners are welcome. Lunch to follow, just like last year.

March 23, 2015 David McLean

Manager's Discussion: Economic Results[4]

Our 2014 economic results derived from two groups:

(i) Common equity investments, where earnings attributable to our proportional interests exceeded $3.1 million ($2.41 per ROMC security), and

(ii) Fixed income & Other, where last year we earned $220,996 ($0.17 per ROMC security).

The total for both groups, at $3.4 million, came to $2.57 per security and showed a year-over-year increase of 70 per cent. That growth figure should be looked at with the understanding that 2013's per-security economic profit attributable to investments, at $1.51, was our worst since 2008, ROMC's first full year of operation. A more sensible measure would be the annual growth in our per-security earnings since 2008, to which the answer is 19 per cent. Over the same six-year period, earnings for the S&P 500 increased an annual eight per cent.

Table 5: Economic Earnings, Book Value & Market Value

		Average for the year	
($Cdn)	**2014 earnings**	**Book value**	**Market value**
Banking	1,038,000	8,446,348	16,232,525
Insurance	1,906,731	12,152,379	16,528,224
Retail	194,175	2,728,634	4,178,366
Fixed income & other	220,996	85,666	82,728
Attributable to ROMC investments	**3,359,902**	**23,413,027**	**37,021,843**
ROMC expenses	(906,476)		
Attributable to ROMC owners	2,453,426		
On a per-security basis:			
ROMC investments	2.57	17.94	28.37
Salary class	1.99		
Performance-fee class	1.23		
	2014		
Salary securities - average	1,116,226		
Performance-fee securities - average	188,784		
Average ROMC securities outstanding	1,305,009		

Last year's economic return on capital (earnings ÷ book value) attributable to ROMC investments was 14 per cent, about average for us. Salary class paid per-security expenses in 2014 of $0.58 (22 per cent less than in 2013) which gave owners a return on capital of 11 per cent, an above average result. Performance-fee class owners paid expenses of $1.34 per security last year and so earned seven per cent on capital. The S&P 500's return on equity for 2014 was 14 per cent.

Table 5 shows 2014's per-security cost of investment was $17.94. But the cost for some owners is far less. In fact, there are those who paid below $10 for their ROMC securities. Last year, most of them earned Salary class' $1.99, a return on their capital of more than 20 per cent.

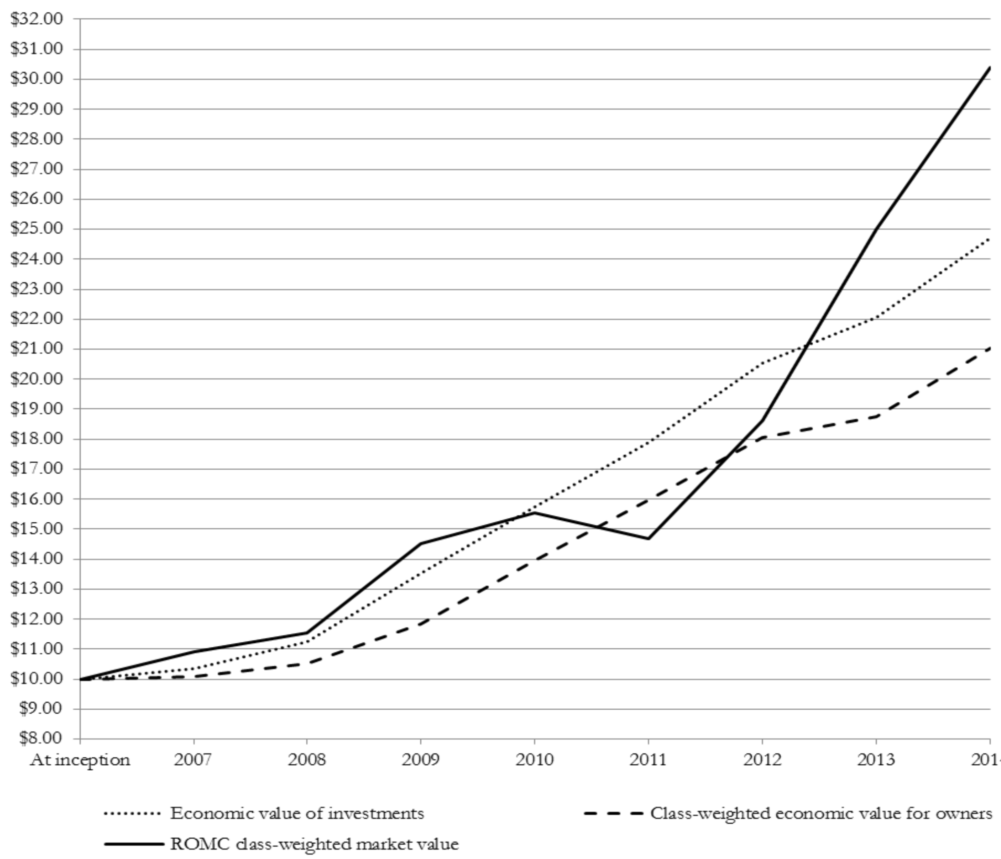
[4] *Economic results* are calculated by ROMC's manager using methods described in our glossary. The figures are non-GAAP/IFRS and our auditor does not offer an opinion on them.

By comparing 2014 earnings to market value in Table 5, owners can see that last year's earnings yield from investments was nine per cent. After deducting expenses, Salary class had an earnings yield of seven per cent and Performance-fee class was four per cent. The earnings yield for the S&P 500 was five per cent.

If I were contemplating a purchase of ROMC, three questions would need satisfactory answers: i) Has ROMC's historical return on capital been attractive, ii) is ROMC's current earnings yield reasonable, and iii) is it higher than that of the market?

Figure 2 shows that we ended 2014 with a per-security economic value of investments of almost $25. Economic value is calculated on a per-security basis by adding to our October 2007 value of $10 all of the economic profits attributed to our investments since (much like book value for a company that retains all of its earnings). The difference between our year-end value and initial value over seven-and-a-quarter years represents a compounded annual gain of 13 per cent. Netting out expenses, the class-weighted economic value for owners, at about $21 has risen almost 11 per cent per year. Our market value has increased 17 per cent annually, an advantage over our economic progress that will prove a challenge to sustain.

Figure 2: Per-ROMC-Security Economic Value & Market Value



I like to perform the same exercise for the S&P 500. After all, it is our proxy for business as well as the stock market and we should be beating it. Using the same start value of $10 in October 2007 and adding in all subsequent earnings generated by S&P 500 companies, by 2014 year end its economic value had reached $13.75, an average annual increase of only four per cent. Repeating the procedure for market returns—adding together dividends and price appreciation—by December 31, the index had climbed to $18.40, a growth rate of nine per cent per year. The differential between the two rates, at more than 2:1, is unlikely to be maintained.

Next, you will find a discussion of ROMC's economic results and asset allocation by sector.

Banking

Last year, our common equity investments in banking generated $1,038,000 of *reported earnings* attributable to our ownership ($0.80 per ROMC security), equating to a return on our capital of 12 per cent.

Table 6: Economic Results (Banking)

($Cdn)	2014	2013	2012
Reported earnings attrib. to ROMC (a)	1,038,000	987,486	702,015
Average capital invested (b)	8,446,348	7,267,894	5,612,491
Return on ROMC capital (a ÷ b)	12%	14%	13%

We had what one might call a bump in the road in banking last year. Our latest and still recovering investee is taking longer than expected to get back to business as usual. Its 2014 return on assets was a poor 0.2 per cent, down from 0.5 per cent in 2013. This well-below-standard outcome continues to be thought of as temporary, and so we hold. Fortunately, our original bank investee—accounting for more than 60% of our capital invested in this area—earned 1.4 per cent on assets that grew 19 per cent during the year.

Table 7: Capital Invested (Banking)

	2014	2013	2012
$Cdn yearend cost of investment	8,522,147	8,117,831	6,037,969
% of ROMC capital invested	35%	39%	48%

Insurance

In 2014, *comprehensive earnings* attributed to our interests in insurance amounted to $1,906,731 ($1.46 per ROMC security) which earned us 16 per cent on invested capital. (See our glossary for a definition of *comprehensive earnings* and why comprehensive rather than reported earnings are used for insurance.)

Table 8: Economic Results (Insurance)

($Cdn)	2014	2013	2012
Reported earnings	1,483,575	957,928	234,237
Other comprehensive income	423,156	(373,624)	246,443
Comprehensive earnings attrib. to ROMC (a)	1,906,731	584,304	480,680
Average capital invested (b)	12,152,379	6,962,209	3,110,890
Return on ROMC capital (a ÷ b)	16%	8%	15%

Last year, we continued to add to our insurance holdings, buying more shares in each of our three investees. On a per-ROMC-security basis, 2014 reported earnings of $1.14 increased 12 per cent over the year. Other comprehensive income (OCI), a volatile figure, added $0.32 to 2014 per-security economic results, up from a loss of $0.40 in 2013. Our insurers hold large quantities of bonds and even some equities, which mainly increased in value last year, reversing unrealized losses witnessed in the prior year. Since inception, cumulative OCI attributable to our insurance investments has added $670,543, or $0.70 per security to our economic value. That equates to 16 per cent of cumulative insurance results. As Tesco says: "Every little helps."

Table 9: Capital Invested (Insurance)

	2014	2013	2012
$Cdn yearend cost of investment	12,312,718	10,516,212	4,285,586
% of ROMC capital invested	51%	50%	34%

Retail

Our retail investments produced $194,175 of *reported earnings* attributable to ROMC in 2014 ($0.15 per ROMC security), which equated to a return on our capital of 7 per cent.

Table 10: Economic Results (Retail)

($Cdn)	2014	2013	2012
Reported earnings attrib. to ROMC (a)	194,175	139,202	109,484
Average capital invested (b)	2,728,634	2,089,489	1,846,657
Return on ROMC capital (a ÷ b)	7%	7%	6%

Retail saw turnover in 2014: we sold one of our holdings and added another. Some of you may remember the last time we disposed of an equity investment, it was in 2012 (in communications, media & technology). In that year's letter, I presented a table that compared our economic experience during our period of investment with what we received in market returns (dividends and capital gain). Let's do it again:

($Cdn)	2014	2013	2012
Reported earnings attrib. to ROMC (a)	258	39,484	751
Average capital invested (b)	495,915	991,830	801,094
Return on ROMC capital (a ÷ b)	0%	4%	0%
Dividends received	36,361	44,237	28,169
Capital gain on disposal	19,387		

This is a case of the turnaround that didn't turn around. We bought when earnings were depressed by asset write-down charges due to failed prior years' investments. Unfortunately, what looked like a temporary accounting issue turned out to be the start of habitual economic malaise. In our almost three years of ownership, the business never produced anything close to an acceptable rate of economic return.

But management continued to pay out healthy dividends, well in excess of earnings. And because the market (much like your manager) continued to believe better times were just around the corner, we even secured a modest capital gain on disposal. All told, we took home $87,661 more than was reported to you in our economic results. The difference was added to our "Other" profits, just as a negative result would have reduced them.

Now, a tale from the "better-lucky-than-good" realm of stock trading. Our disposition took place in July last year at a price of $15.60. Less than two months later, it was trading around $11. The sale proceeds were immediately used to acquire an interest in another retailer at a per-share cost of $3.60, which, less than two months later, traded at $4.80. The difference between the two outcomes—stay put and go elsewhere—comes to a compounded rate of almost 90 per cent.

Table 11: Capital Invested (Retail)

	2014	2013	2012
$Cdn yearend cost of investment	3,265,672	2,281,419	1,906,017
% of ROMC capital invested	14%	11%	15%

Fixed income & Other

In 2014, Fixed income & Other (FI&O) showed a net gain of $220,996.

Table 12: Economic Results (Fixed Income & Other)

($Cdn)	**2014**	**2013**	**2012**
Income & gains (losses) (a)	219,854	(292,168)	781,253
Interest income (expense)	1,142	69	(25,575)
Net income & gains (b)	220,996	(292,099)	755,678
Assets invested at cost (c)	137,283	396,863	869,554
Cash (borrowings)	(51,617)	11,574	(1,291,615)
Average capital invested (d)	85,666	408,437	(422,061)
Return on assets (a ÷ c)	160%	-74%	90%
Return on ROMC capital (b ÷ d)	258%	-72%	n/m

None of 2014's FI&O gain was earned in fixed income. The modest amount of interest listed in Table 12 was earned on temporary cash balances. Our "Other" profits, at $219,854, came from two derivative contracts, one short-term equity position and the previously mentioned excess market gain over reported economic results from our disposal in retail. Four transactions—that's quite a year.

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.

Table 13: Capital Invested (Fixed Income & Other)

	2014	**2013**	**2012**
$Cdn yearend cost of investment	-	-	266,991
% of ROMC capital invested	0%	0%	2%

Manager's Discussion: Expenses

Table 14 shows the variation between gross, operating and net market results with differences apportioned to either administrative or management expenses.

Table 14: Administration and Management Expenses

	2014		
	Salary class	**Performance-fee class**	**Since inception ***
ROMC gross return	24.4%	24.4%	265.0%
Administration & audit expense	-0.3%**	-0.2%	-7.8%
ROMC operating return	24.1%	24.1%	257.2%
Management expense	-2.3%	-5.4%	-53.4%
ROMC owner return	21.8%	18.7%	203.8%

* On a class-weighted basis
** Includes a one-time charge of $2,486 related to the initial issuance of Salary class securities

In 2014, economies of scale worked to get more of our gross return into owners' wallets: administration and audit expense declined by 0.04 per cent to 0.2 per cent of average net assets, and the Salary class management fee declined from 2.9 per cent to 1.8 per cent of average net assets. (At time of writing, the Salary class management fee accounted for less than 1.5 per cent of net assets.)

Because the Performance-fee class management expense is derived from our market return, and last year's return was decent, the performance fee—at $238,245, or 4.5 per cent of average net assets—was higher than usual. Of course, it will be lower during periods of poor market returns, and possibly even non-existent.

Over the last two years (since the start of our two-class fee structure), per-security management expense for Salary class has been one-third that of Performance-fee class. Stay tuned: the score will be updated annually.

Manager's Discussion: Taxes [5]

In 2014, there was no reportable income for taxable owners. For the second year in a row, you have had nothing to declare to the tax authorities, at least as far as ROMC is concerned. Our batting average is now .500: only four out of eight tax years have required filing an ROMC T3. At year end, our per-security deferred-tax "interest-free loan" from "The Bank of CRA" was $4.60, or 15 per cent of our market value.

Table 15: After-tax Real Return

	2014	**Since inception**			
ROMC return (class-weighted)	22%	204%			
Estimated accrual of personal taxes	-5%	-50%	------>	Tax accrual since inception	
ROMC after-tax return	16%	154%		Reported & paid	-4%
Impact of inflation	-1%	-11%		Deferred	-46%
ROMC after-tax real return	15%	143%		Total	-50%

Table 15 shows that on an accrual basis, last year's after-tax real return was 15 per cent. But since no taxes fell due last year, the result was more like 20 per cent, which takes our cumulative reported record to 190 per cent. If you've held ROMC since inception, you can now buy close to three "widgets" for the price of one in late 2007.

[5] Tax figures are an estimate, done for illustrative purposes, using the highest marginal tax rates for Ontarians.

Glossary

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

Comprehensive earnings/other comprehensive income

Comprehensive earnings refer to reported earnings plus "other comprehensive income". "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 have potentially meaningful changes in "other comprehensive income." ROMC reports insurance economic 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 basis. The figures are organized according to asset class:

(i) Common equity investments: ROMC, as largely an equity fund, typically holds a significant 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.

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

This math is performed for all of ROMC's 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 is included in (ii).

ROMC's economic results do not conform to IFRS. Our auditors offer no opinion on management's calculations. But management uses the economic process described above to assess investments for ROMC and considers it 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 savings.

Inflation, real return

Change in the Canadian consumer price index. Source of data: Bank of Canada (www.bankofcanada.ca). Real return is described as nominal return minus the rate of inflation.

Net asset value and net asset value per security

The net asset value of ROMC is its market value, net of liabilities, at a point in time. It is generally described on a per-security basis, which reflects its market value on an individual security or unit basis, much like a stock would.

Other Investment categories

Global equities = MSCI World Equity Index ($Cdn)
US equities = S&P 500 Composite Total Return Index ($Cdn)
Canadian equities = S&P/TSX Total Return Index
Canadian cash = 91 Day Treasury Bill Index
Canadian bonds = Globe Canadian Fixed Income Peer Index

Source of data: Morningstar (www.morningstar.ca), S&P Dow Jones Indices (www.spindices.com) & Globe and Mail – Globe Investor (www.theglobeandmail.com).

Per-security or per-ROMC-security, and securities

ROMC's securities are the same thing as ROMC's units. Data for ROMC is calculated on a Performance-fee class basis, a Salary class basis, and even on a weighted average of both classes outstanding for a given year. Source of security count: Commonwealth Fund Services.

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 result(s) divided by the cost of investment for the year, net of borrowings.

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.

Taxes and 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 individual circumstances. Source of income tax rates: EY Personal Tax Calculator (www.ey.com).