ROMC FUND

2016

ANNUAL REPORT

For the twelve months ending December 31, 2016

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

	Change in:		
	ROMC NAVPS	*Inflation*	Real return
Year	(a)	(b)	(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%*	33.0%
2014	21.5%	*1.5%*	20.0%
2015	18.8%	*1.6%*	17.2%
2016	8.6%	*1.5%*	7.1%
Annual gain since inception	15.9%	*1.5%*	14.4%
Overall gain since inception	291.6%	*14.7%*	276.9%

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).

"This is the third time that Warren and I have seen our holdings in Berkshire Hathaway go down, top tick to bottom tick, by 50%. In fact, you can argue that if you're not willing to react with equanimity to a market price decline of 50% two or three times a century you're not fit to be a common shareholder, and you deserve the mediocre result you're going to get."

Charlie Munger, Vice Chairman, Berkshire Hathaway Inc. in 2009

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 2016, ROMC's net asset value increased by $4.5 million. On a class-weighted, per-security basis[1], our gain was 8.6 per cent. (Table 1 shows performance by security class.) Since inception just over nine years ago, our per-security net asset value has increased from $10 to $39.16, an annual growth rate of 15.9 per cent.

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

ROMC security	2016 change in NAVPS		End NAVPS
Salary class	$3.12	8.6%	$39.35
Performance-fee class	$2.97	8.8%	$36.67

While we ended the year in the black, it was not a smooth ride. Our "stock" spent the first half of 2016 declining by almost 11 per cent. It spent the second half of the year gyrating upward, by some 21 per cent. At four pm on December 31, our market value was almost nine per cent higher than the prior year. Anyone believing that straight lines exist in investing should look to cash for a savings vehicle. In investing, we defer consumption today for more tomorrow and cash "investors" won't likely experience price volatility during a long deferral period. They will, however, almost certainly experience misery. The ravages of taxes and inflation are sure to exact a toll greater than any return they muster and with it, their future ability to consume. The investor who favours maintaining or even increasing purchasing power must accept volatility as the price for doing so.

Speaking of tolls, our record continues to hold its own. The table on page 3 shows that since inception, inflation has reduced ROMC's "real" value by approximately 15 per cent, producing an after-inflation return of 277 per cent. Taxes, whether payable today or not, await. And their accrual, assuming you inhabit the highest marginal bracket in Ontario, will take a further 75 per cent—eventually. (At year end, only about one-quarter of that 75 per cent figure had been reportable by taxable owners, leaving three-quarters compounding within ROMC—sunny ways, indeed.) Bottom line: initial ROMC owners can now afford more than three of whatever they had their eye on in the fall of 2007.

Competitively speaking in 2016, Salary class ranked in the top 16 per cent of all global equity funds followed by Morningstar Canada and Performance-fee class was in the top 14 per cent. Our cumulative advantage over *other investment categories*, illustrated in Table 2, continued to widen.

Table 2: ROMC Fund vs. Other Investment Categories

Oct. 1, 2007 - Dec. 31, 2016	Overall gain	Annual gain
ROMC Fund: Salary class	294%	16%
ROMC Fund: Performance-fee class	267%	15%
U.S. Equities (S&P 500)	142%	10%
Global equities (MSCI World)	85%	7%
Canadian equities (S&P/TSX)	43%	4%
Canadian bonds	42%	4%
Canadian cash	10%	1%

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

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

Economic Results[2]

In 2016, my calculation of our class-weighted per-security economic value increased by 18 per cent. In 2007, we started with an economic value of $10 (it was also our market value). By year-end 2016, that figure had reached about $27, an annual compound growth in per-security economic value for owners of more than 11 per cent.

The S&P 500, Table 3's best performing index, had a 2016 year-end-equivalent economic value of just over $15, six per cent higher than the prior year. Since 2007, it has shown an annual growth rate of less than five per cent.

Two things have helped make the difference between our respective economic fates: ROMC has held productive assets that have grown, on average, somewhat faster than the general economy and we paid less than market rates for them. There is not a lot more to it but as they say, investing is simple and not easy. A lot of noise can get in the way of progress. Today, politics appears to be the loudest contributor and it is hard to argue that the noise out of Washington hasn't been beneficial to ROMC—just ask our bank holdings. In reality, a number of US stocks were undervalued last year. The timing of their revaluation might be in question but not necessarily the fact that they deserved a revaluation.

Our discussion of the past could use some current perspective. When we began in 2007, we did not have trouble finding value. Securities purchased in the final months of that year provided ROMC with more than a 10-per-cent earnings yield, and while we have oscillated up and down over subsequent years, we've not been too far off that mark. Around that time, the S&P 500 averaged a six-per-cent earnings yield and it too hovered around that figure for years. Fast forward to today and things look a little different:

S&P 500 Index earnings yield *	4.0%
10-year treasury bond yield to maturity **	1.6%
91-day Treasury bill yield (annualized) **	0.5%

* Source: www.us.spindices.com & using 2016 earnings
** Source: www.bankofcanada.ca

Even ROMC's value has adjusted. At time of writing, our holdings, on a portfolio-weighted basis, showed a trailing earnings yield of seven per cent. While relatively attractive, our stocks are a-ways off the 10 per cent, or so, we would eagerly buy them at.

Expenses

Administration and audit expenses for 2016 were a little over 0.16 per cent of average assets, decreasing ever so slightly from 2015.

The salary class management fee—totalling $500,000, plus HST—got cheaper for class owners, declining to 1.2 per cent on average assets for the year (down from 1.33 per cent in 2015). Since offering the Salary class option to owners at the end of 2013, the per-security fee has dropped from $0.65 to $0.42. During the same time, Salary class' per-security market value increased from $24.03 to $39.35. When taken together, the two forces have reduced management fees from 2.7 per cent of class assets to just over one per cent at year end. Yes, material economies of scale do exist in fund ownership, even if seemingly only in ROMC Salary class.

[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.

Not so fast: in 2016 and for the first time, Performance-fee class owners paid less in management fees than did Salary class owners. Per-security performance fees were $0.37, or 1.11 per cent of average class assets for the year.

The 2016 "all-in" management expense ratio—what's known in financial circles as MER, and includes all the above-mentioned expenses—came to 1.36 per cent for Salary class and 1.27 per cent for Performance-fee class.

Taxes [3]

This marks the second year in a row that taxable owners received a T3 from ROMC, a trend you no doubt hope to be short-lived. We recorded both income and capital gains, though mostly capital gains. The total, which you will report to the CRA this year, amounts to a per-security figure of about $2.26, or about 70 per cent of last year's gain in net asset value. The maximum potential tax for Ontarians comes to about $0.67, or 30 per cent of the T3 total.

In a perfect world, ROMC would have almost no reportable taxes. By deferring tax, we effectively borrow money from Ottawa at zero interest, allowing us to use the Bank of Receiver General to grow economic value. Assuming our economic value grows at a reasonable clip, the more leverage of this type we employ, the better. The key is to invest wisely, focusing on businesses that offer a bargain purchase and that can grow over long periods of time. In 2009, that was easy. Lately, not so much. Last year, a good deal of our taxable income came from non-business economic profits in the form of currency hedges. Long term, that is not how we want to make money but without bargains in good businesses, we'll take what we can get.

Just to give you some perspective on where we stand: since inception to the end of 2016, ROMC's internally generated gain in net asset value has been $31 million. The total personal-tax accrual associated with that gain is about $8 million. But the amount that has been payable by marginal-rate owners over our history is less than $2 million. Meaning that inside ROMC, there resides some $6 million of "borrowed" capital. We would like to "borrow" more.

Partnership

Why bother with this letter? After all, page three's results speak more eloquently. Apart from indulging my fantasy as seasonal author, I think there are important reasons why you should read these contents. The most important of which is that on occasion, the numbers on page three are not going to be anything to write home about. On those occasions, it is hoped that you (and I) will reflect on these reports, understand how it is that we go about this business and act productively—I dare say patiently—to take advantage.

While our jobs are different, one is not less important than the other. To succeed, a manager needs the right investors (and, of course, vice versa). Knowing each of you, I can say that you are the right stuff and part of the reason is because you are reading this letter.

Owners' Meeting

This year, Peter and I—your trustees—will host the Owners' meeting on the second Tuesday in May. As usual, we will have a short discussion about the start of this new year. We will then move on to the "beef" and answer your questions about ROMC. The meeting is your opportunity to get to know your fund.

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

ROMC Annual Owners' Meeting

Tuesday, May 9, 2017

11 a.m.

1 Richmond Street West, Suite 800, Toronto, Ontario

Following the meeting, we will retire to a restaurant nearby for an informal lunch where you can get to know other owners—rational and admirable all.

March 29, 2017 David McLean

Manager's discussion and analysis: Economic results[4]

2016 economic results derived from two groups:

(i) Common equity investments, where earnings attributable to our proportional interests were $4.2 million ($2.92 per ROMC security), and

(ii) Fixed income & Other, where last year we earned $2.5 million ($1.76 per ROMC security).

The total for both groups, at $6.7 million, came to $4.68 per security and showed a year-over-year increase of 64 per cent. In 2008, our first full year of operation, economic profits amounted to $0.89 per security. The average annual growth rate in per-security economic profits attributable to ROMC investments since then has been 23 per cent. Over the same eight years, earnings for the S&P 500 increased by an annual seven per cent.

Table 3: Economic Profit, Book and Market Value

		Average for the year	
($Cdn)	**2016 economic profit**	**Book value**	**Market value**
Banking	2,115,769	11,760,236	26,237,927
Insurance	773,116	6,605,452	10,234,760
Retail	365,583	3,796,243	7,161,530
Communications, media & technology	944,723	10,710,591	11,797,350
Fixed income (incl. cash)	(6,913)	283,545	283,545
Other	2,535,129	-	-
Attributable to ROMC investments	**6,727,405**	**33,156,066**	**55,715,112**
ROMC expenses (incl. brokerage)	(783,004)		
Attributable to ROMC owners	5,944,401		
On a per-security basis:			
ROMC investments	4.68	23.08	
Salary class	4.14		34.23
Performance-fee class	4.19		31.88
	2016		
Salary securities - average	1,338,219		
Performance-fee securities - average	98,081		
Average ROMC securities outstanding	1,436,300		

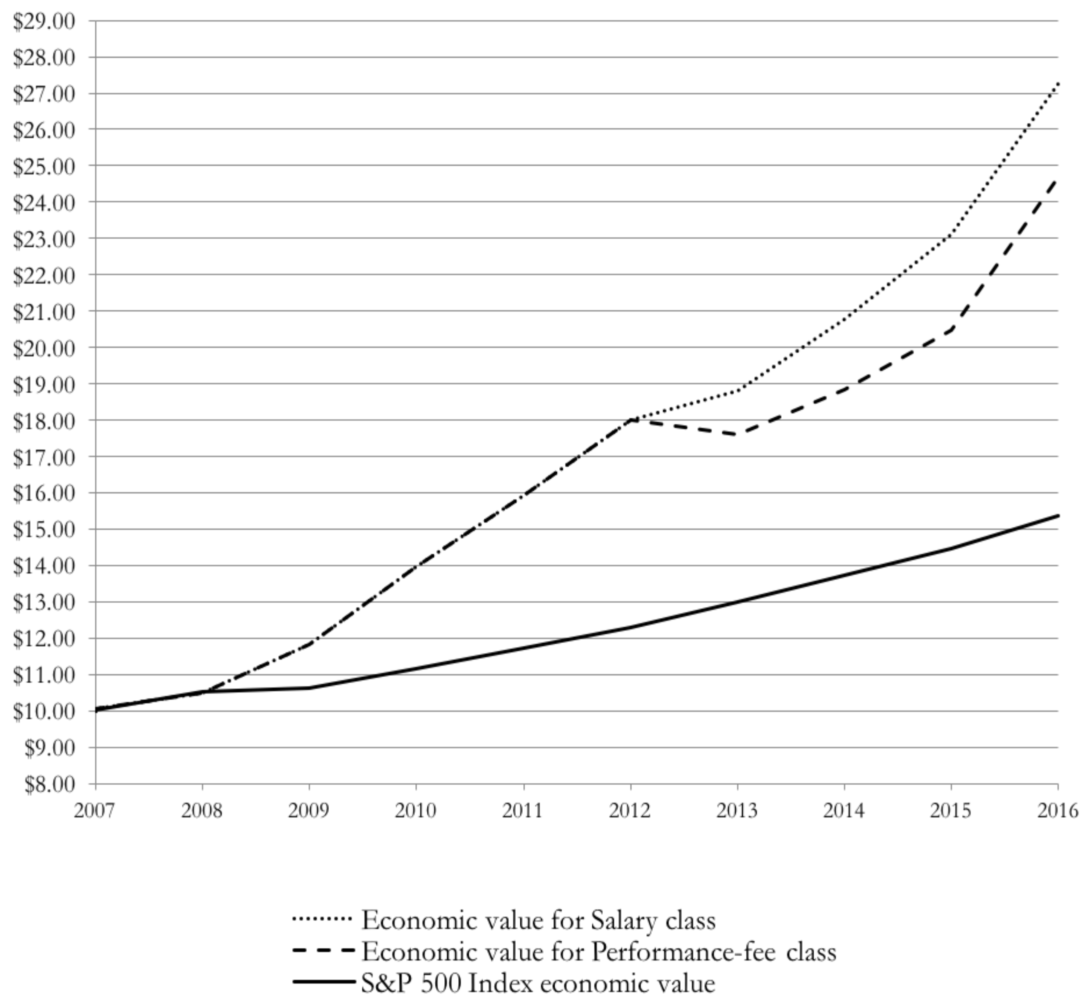
Last year's economic return on capital (economic profit ÷ book value) attributable to ROMC investments was 20 per cent, an above average result. In 2016, Salary class paid per-security expenses of $0.54, up from $0.52 in 2015 (due to higher brokerage commissions: management fees were $0.42 vs. $0.45, respectively). Owners had a return on capital of almost 18 per cent, again an above average result. Performance-fee-class owners paid expenses of $0.49 last year and earned 18 per cent return on capital. The S&P 500's 2016 return on equity was 13 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 2016 economic profits to average market value in Table 3, owners can see that last year's earnings yield for Salary class was 12 per cent and for Performance-fee class was 13 per cent. The earnings yield for the S&P 500 was five per cent.

On October 1, 2007, ROMC started operations with a per-security value of $10. That figure was the same for both economic and market value. From that point on, we have allocated our capital mainly to equities that have generated earnings, but also to securities that have provided interest, preferred dividends and even capital appreciation. We've kept track of it all and done the same for the S&P 500. We've also kept tabs on expenses because, in investing, you get what you don't pay for. In Figure 1, you can see how our respective journeys have evolved. At the end of 2016 and by my calculation, Salary class had an economic value of over $27 per ROMC security and Performance-fee class had almost hit $25. By comparison, the S&P 500 was a little over $15. If we continue to grow ROMC's economic value by more than that index, our market value should follow suit.

Figure 1: A comparison of economic values[5]



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

[5] Calculations are performed by ROMC's manager and are non-GAPP/IFRS. Our auditor does not offer an opinion of them.

Banking

Last year, our common equity investments in banking generated $2,115,769 of *reported earnings* attributable to our ownership ($1.47 per ROMC security), equating to a return on our capital of 18 per cent.

Table 4: Economic Results (Banking)

($Cdn)	**2016**	**2015**	**2014**
Reported earnings attrib. to ROMC (a)	2,115,769	1,423,681	1,038,000
Average capital invested (b)	11,760,236	7,612,565	8,446,348
Return on ROMC capital (a ÷ b)	18%	19%	12%

In the middle of last year, an opportunity developed for us to increase our investments in banking. We added to a long-held position at a decent price and brought a new holding into the group. Our new position is based in Europe but has global operations, many of which are still recovering from the financial crisis. Yes, 2008 is still felt in parts of Europe, especially southern parts. Our new bank is making headway in its recovery and we got it at what appeared to be a relative bargain: on an annualized basis, the earnings attributable to ROMC on this position amounted to over 11 per cent of our purchase price. Not a bad start.

To put some perspective on how a recovering business can be a good investment, let's review our original bank holding. We first invested in banking in 2009, acquiring an interest in a US bank with a troubled near-term outlook. In that year, its earnings amounted to 7.5 per cent of our acquisition cost. Last year, after seven years (and some opportunistic additions to our position along the way), its earnings amounted to 23 per cent of our cumulative cost of investment.

Will we enjoy similar treatment with our new investment? Maybe not: 2009 was a unique opportunity and our new holding likely has less upside economic leverage. But in a world where average earnings yields are five per cent (or worse), 11 per cent is nothing to sneeze at, especially if future earnings benefit from specific business recovery and general economic growth.

At year end and because of our purchases, 40 per cent of ROMC's capital (at cost) was invested in three banks. A closet indexer ROMC is not.

Table 5: Capital Invested (Banking)

	2016	**2015**	**2014**
$Cdn yearend cost of investment	12,583,992	7,612,565	8,522,147
% of ROMC capital invested	40%	27%	35%

Insurance

In 2016, *comprehensive earnings* attributed to our interest in insurance amounted to $773,116 ($0.54 per ROMC security), which earned us 12 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 6: Economic Results (Insurance)

($Cdn)	**2016**	**2015**	**2014**
Reported earnings	688,163	870,790	1,483,575
Other comprehensive income	84,953	(825,504)	423,782
Comprehensive earnings attrib. to ROMC (a)	773,116	45,286	1,907,356
Average capital invested (b)	6,605,452	9,514,365	12,152,379
Return on ROMC capital (a ÷ b)	12%	0%	16%

It was a decent year in insurance. In past letters, it has been emphasized that insurance economics are volatile because a great deal of how we measure economic returns comes from changes in the value of our insurers' own investments. Last year, the market value of our insurers' investments increased modestly. In Table 6, you can see how a reasonable "reported" earnings line can be enhanced or negated by other comprehensive income, which is where our insurers record their own investments' market value gains (or losses).

Two of our three insurance holdings went last year. One of the sales was detailed in last year's letter where it was suggested that the investment was a case of a mediocre company acquired at a bargain price. That bargain price evaporated but the underlying business' reputation remained intact. We took advantage of the price.

Our most recent cull was a good company, but one that I purchased at a mediocre price. I paid a little too much for it and in the four years that we held, we never quite got to double digit returns on our capital. Attractive economic returns require two things: good economics and a good acquisition price. Even the best of businesses paid for at too high a price will result in an unfulfilling economic and investment experience.

($Cdn)	**2016**	**2015**	**2014**	**2013**	**Total**
Comprehensive earnings attrib. to ROMC (a)	90,906	(115,575)	904,915	124,221	1,004,467
Average capital invested (b)	1,074,271	5,481,973	5,321,634	2,964,176	
Return on ROMC capital (a ÷ b)	8%	-2%	17%	4%	
Dividends received [c]	31,796	542,015	336,073	67,092	976,975
Capital gain on disposal (d)	1,572,366				1,572,366
Other profit (c+d-a)					1,544,875

With the sales, we generated excess profits, not included in Table 6, of about $1.5 million. This we add to our Other profits which on a per-ROMC-security basis, were boosted by more than $1. At year end, our exposure to insurance was about 18 per cent of our capital (at cost).

Table 7: Capital Invested (Insurance)

	2016	**2015**	**2014**
$Cdn yearend cost of investment	5,531,181	8,859,502	12,312,718
% of ROMC capital invested	18%	31%	51%

Retail

Our retail investments produced $365,583 of *reported earnings* attributable to ROMC in 2016 ($0.25 per ROMC security), which equated to a return on our capital of 10 per cent.

Table 8: Economic Results (Retail)

($Cdn)	2016	2015	2014
Reported earnings attrib. to ROMC (a)	365,583	258,199	178,916
Average capital invested (b)	3,796,243	3,265,672	2,728,634
Return on ROMC capital (a ÷ b)	10%	8%	7%

Here, we disposed of one retailer and picked up another. Our disposal was in a long-held position who competes directly with online juggernaut Amazon. That's hard work. When a large direct competitor with ample capital is willing to sacrifice profits for market share, industry-wide margins suffer. That is pretty much what has happened with our long-held position. Sales were growing, the company was buying back stock but underlying earnings per share were going nowhere (and even down). The fact that our return on capital remained at 10 per cent over the last few years was due to currency differences benefiting our holding's earnings when translated into Canadian dollars.

($Cdn)	2016	2015	2014	2013	2010 - 2012	Total
Reported earnings attrib. to ROMC (a)	44,903	117,005	112,639	83,948	193,473	551,969
Average capital invested (b)	436,205	1,163,213	1,163,213	1,163,213		
Return on ROMC capital (a ÷ b)	10%	10%	10%	7%		
Dividends received	2,815	21,373	18,056	16,544	30,901	89,689
Capital gain on disposal	661,374					661,374
						199,094

Our replacement retailer was purchased at what I believe was a bargain price—on a normalized earnings basis, it was much cheaper than our sold position. But a caveat is necessary. It too is suffering from margin pressure. From what I can tell, that pressure is not entirely consistent with an Amazon-like impact and the hope is that our price paid will eventually be rewarded, at least in part, when the business fixes some of its problems.

Table 9: Capital Invested (Retail)

	2016	2015	2014
$Cdn yearend cost of investment	3,779,231	3,265,672	3,265,672
% of ROMC capital invested	12%	11%	14%

Communications, media and technology

Last year, our holdings in this area generated $944,723 of *reported earnings* attributable to our ownership ($0.66 per ROMC security) on almost $11 million invested, equating to a return on our capital of nine per cent.

Table 10: Economic Results (Communications, media and technology)

($Cdn)	**2016**	**2015**
Reported earnings attrib. to ROMC (a)	944,723	526,014
Average capital invested (b)	10,710,591	5,956,772
Return on ROMC capital (a ÷ b)	9%	9%

A nine per cent return on our capital is okay but not what we aspire to. We want double digits and to get them, we either need to buy—at minimum—a 10 per cent earnings yield and hope that earnings don't decline, or buy at a less attractive yield and hope that earnings increase. Today, when an average earnings yield in the stock market is close to four per cent and with earnings slow to rise, we are hard pressed to find either.

In a world of two per cent bond yields, anything offering investors more is considered attractive, even if that yield is variable. Something had to give and your manager, ever hopeful that earnings growth would pick up the slack, allocated more capital to something close to double digits—all the while chiming nine per cent is the new 10 per cent.

Then last summer, when certain banking stocks declined to offer earnings yields of more than 10 per cent, we sold some of our exposure here. We lost a little money in the process but it was quickly recouped, and then some, on the reallocation to banking.

($Cdn)	**2016**	**2015**	**Total**
Reported earnings attrib. to ROMC (a)	119,563	109,575	229,139
Average capital invested (b)	1,415,049	1,288,993	
Return on ROMC capital (a ÷ b)	8%	9%	
Dividends received [c]	27,741	19,572	47,313
Capital gain on disposal (d)	(132,575)		(132,575)
Other profit (c+d-a)			(314,401)

At year end, we had about the same per-cent allocation to this area as the previous year.

Table 11: Capital Invested (Communications, media and technology)

	2016	**2015**
$Cdn yearend cost of investment	9,483,902	8,906,653
% of ROMC capital invested	30%	31%

Fixed income and Other

In 2016 and despite having an average cash balance for the year, we posted a net interest expense of $6,913. Last summer, we temporarily put more money to work than we had in cash and borrowed the difference until equity investment sales were executed to eliminate the debt. Other profits were $2.5 million.

Table 12: Economic Results (Fixed income and other)

($Cdn)	2016	2015	2014
Fixed income & gains (losses) (a)	-	-	-
Cash interest income (expense)	(6,913)	3,887	1,142
Net fixed income & cash (b)	(6,913)	3,887	1,142
Assets invested in fixed income (c)	-	-	-
Cash (borrowings)	283,545	998,771	(51,617)
Average capital invested (d)	283,545	998,771	(51,617)
Return on assets (a ÷ c)	n/m	n/m	n/m
Return on ROMC capital (b ÷ d)	n/m	0%	n/m
Other profits (losses)	2,535,129	1,669,298	219,854

More than half of last year's Other profits were in the form of capital gains in excess of reported economic earnings and have already been detailed. We earned the rest through hedging activity, with mixed results. Our currency hedges were successful in protecting us from a depreciating US dollar but our equity index hedges showed losses, again.

Table 13: Other profits (Fixed income and other)

($Cdn)	2016	2015	2014
Capital gains in excess of reported economic profits	1,432,375	1,791,358	87,661
Equity index hedging	(993,483)	(122,060)	132,192
Currency hedging	2,096,237	-	-
Other profits (losses)	2,535,129	1,669,298	219,854

Bruce Berkowitz, a celebrated fund manager, says that there are only two hedges: knowledge and cash. Maybe it's time to focus on the free teachings of others and stop paying real money in tuition trying to be clever—at year end, we had no exposure to equity index hedges and a four per cent cash position.

Table 14: Capital Invested (Fixed income and other)

	2016	2015	2014
$Cdn yearend assets (incl. cash)	1,160,973	253,307	-
% of ROMC capital invested	4%	1%	0%

You may think four per cent inconsequential but throughout ROMC's history, we have held very little cash, frequently ending the year in negative territory. To earn attractive economic returns, ROMC must employ capital in attractively valued productive assets. It just can't sit there collecting dust at less than one per cent. Lately, however, finding the attractively-valued part of the equation has proved difficult. Instead of "chasing" the market, ROMC will likely opt to at least partially sit out with some cash—until value reappears. This part of investing isn't easy (and it sure isn't fun) but in stewarding your capital, doing nothing is sometimes the right thing to do.

Manager's discussion and analysis: Expenses

We've previously discussed ROMC's management-expense ratios—costs that are expressed as a percentage of ROMC's average assets for the year. While important, the figures do not fully describe the impact that expenses have on market returns. In Table 14, you can see how the various expenses associated with our operation impacted returns last year and since inception.

Table 15: Administration and Management Expenses

(Any differences are due to rounding)	2016		
	Salary class	**Performance-fee class**	**Avg. since inception ***
ROMC gross return	9.9%	9.9%	18.5%
Administration & audit expense	-0.16%	-0.16%	-0.3%
ROMC operating return	9.8%	9.8%	18.2%
Management expense	-1.2%	-0.9%	-2.3%
ROMC owner return	8.6%	8.8%	15.9%

* On a class-weighted basis

Manager's discussion and analysis: Taxes [6]

2016 reportable income for taxable owners was $2.9 million: $2.6 million in realized capital gains and $372,949 in net investment income. In 2016, reportable income represented more than two-thirds of our total gain in market value. Since inception, the reportable figure is about one-quarter of our total gain, meaning three-quarters of such gain remains deferred. On a per-ROMC-security basis, the deferred portion—our interest-free loan from Ottawa—is more than $5.

Table 16: After-tax Real Return

($Cdn)	**2016**	**Since inception**			
Change in ROMC NAVPS (class-weighted)	9%	292%			
Estimated impact of personal tax accrual	-2%	-75%	------>	Tax accrual since inception	
Change in ROMC NAVPS, net of tax accrual	6%	217%		Reported & paid	-18%
Impact of inflation	-2%	-15%		Deferred	-57%
ROMC after-tax real return	5%	202%		Total	-75%

[6] 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 and 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 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: www.taxtips.ca.