ROMC FUND

2017

ANNUAL REPORT

For the year ending December 31, 2017

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**
SS&C Commonwealth	Cooper & Company	McLean Asset Management
200 Front Street West, Suite 2500	1120 Finch Avenue West, Suite 108	1 Richmond Street West, Suite 800
Toronto, Ontario M5V 3K2	Toronto, Ontario M3J 3H7	Toronto, Ontario M5H 3W4
Tel. 416-361-4561	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:		
Year	ROMC NAVPS (a)	*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%*	33.0%
2014	21.5%	*1.5%*	20.0%
2015	18.8%	*1.6%*	17.2%
2016	8.6%	*1.5%*	7.1%
2017	8.7%	*2.3%*	6.4%
Annual gain since inception	15.2%	*1.6%*	13.6%
Overall gain since inception	325.6%	*17.3%*	308.2%

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).

"We try to price, rather than time, purchases."

Warren Buffett, 1994 Chairman's letter, Berkshire Hathaway Inc.

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 2017, ROMC's gain was $4.8 million. On a class-weighted, per-security basis[1], our gain was 8.7 per cent. (Table 1 shows performance for each class.) Since inception just over ten years ago, our per-security net asset value has increased from $10 to $42.56, an annual growth rate of 15.2 per cent.

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

ROMC security	2017 change in NAVPS		End NAVPS
Salary class	$3.43	8.7%	$42.79
Performance-fee class	$3.23	8.8%	$39.90

According to Morningstar, we were close to the bottom of the global equity fund pile in 2017—nothing to write home about. Some of you may recall last year's report, in which was written:

> "Why bother with this letter? After all, page three's results speak more eloquently... 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."

I guess I meant it. It wasn't that our equity holdings didn't perform, it was currency and cash. Our large US dollar exposure hurt during a year of Canadian dollar strength and our cash level was historically high, forming an anchor that dragged down our results. That will change. In fact, since year end, it has changed. The US dollar is stronger and during the recent spate of "volatility," we lowered cash in favour of equities. Volatility is welcomed and owners should look upon it much the same as they do opportunity.

To illustrate: Say you love orange juice and your day is not complete without a morning glass. When you go to the store to pick up your favourite brand, do you recoil in fear if its price has dropped? More likely you rejoice—a little victory. The same can be said for the stock market. If you are going to be a net saver for the foreseeable future and add to your investments as you go, you should see the odd sale on stocks as a little victory. (Material corrections don't often come around and they don't tend to last a very long time.) The seller rightly wishes for consistently higher stock prices but for those who are investing for the long haul, the idea of acquiring productive assets at occasionally knocked-down prices should be celebrated.

Table 2: ROMC Fund vs. Other Investment Categories

Oct. 1, 2007 - Dec. 31, 2017	Overall gain	Annual gain
ROMC Fund: Salary class	328%	15.2%
ROMC Fund: Performance-fee class	299%	14.5%
U.S. Equities (S&P 500)	175%	10.4%
Global equities (MSCI World)	113%	7.6%
Canadian equities (S&P/TSX)	56%	4.4%
Canadian bonds	53%	4.2%
Inflation	17%	1.6%
Canadian cash	11%	1.0%

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 2017, my calculation of our class-weighted per-security economic value increased by 12 per cent. When we started in 2007, we had an economic value of $10 (it was also our market value). By year-end 2017, that figure had reached a little over $30, an annual compound growth rate of 12 per cent.

On an equivalent basis, the S&P 500—Table 2's best performing index, and what I refer to as "the market"—had a 2017 year-end economic value of just over $16, six per cent higher over the year. Since 2007, it has shown an annual growth rate of five per cent.

The difference between our economic growth rate and that of the market, measuring seven per cent annually, is a material advantage and wholly responsible for our outperformance in market value. But our outperformance in market value is less than five per cent per year. To me, that suggests ROMC has become relatively less expensive than the general experience in equities. The following table illustrates:

	2017		2008	
($Cdn)	**ROMC Fund ***	**S&P 500 Index**	**ROMC Fund ***	**S&P 500 Index**
Economic profit (a)	2.97	142.91	0.93	73.04
Average market value (b)	40.53	3,225.62	10.27	1,291.65
Earnings yield (a ÷ b)	7%	4%	9%	6%

* Excludes Other Comprehensive Income from insurance

In 2008, our first full year of operation, the S&P 500 enjoyed an earnings yield of six per cent while we managed nine. By 2017, after almost doubling earnings, the market's yield had declined to just over four per cent (a one-third decline). Our "earnings" yield went down about two per cent as well, to a little over seven per cent (a one-fifth decline), after more than tripling "earnings" during the period. This is no small beer. Allocating capital to economically advantaged assets at relatively attractive yields, like winning, isn't everything—it's the only thing.

Worth a mention is the impact that Salary class has had on our growth in economic value. In 2013, when our per-security pre-expense economic profit was $1.51, all-in expenses were $1.90. Because performance fees were so high that year, owners were set to suffer an economic loss of $0.39. Peter, your independent trustee, and I felt that was unfair and so Salary class was born. Because most owners switched over on the offering date of December 30, 2013, per-security expenses for the average owner declined from $1.90 to $0.81 and our economic value that year went from a loss to a not-unreasonable gain. It gets better. Since then, our pre-expense economic profit has grown handsomely and for 2017 it was $3.86 per security (155 per cent higher than in 2013). Expenses? They were $0.52 (36 per cent less than in 2013). My kind of math.

Expenses

Administration and audit expenses for 2017 were a little under 0.16 per cent of average assets, declining by seven basis points during the year. That's seven-one-hundredths of one per cent. At ROMC, we sweat the small stuff.

The salary class management fee—totalling $500,000, plus HST—got cheaper for class owners, declining to 1.06 per cent of average class assets for the year (down from 1.20 per cent in 2016). Since offering the Salary class option to owners at the end of 2013, the per-security fee has dropped from $0.65 to $0.44.

[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.

During the same time, Salary class' per-security market value has increased from $24.03 to $42.79. Together, these two forces have reduced management fees from 2.7 per cent of class assets to about one per cent.

In 2017, Performance-fee class owners, on average, paid $0.40 per security in management fees, equating to 0.95 per cent of average assets for the year. Not every class owner paid that fee. Some paid nothing at all. Last year, we had new owners join us and a few of them chose the performance-fee route. Some purchased their securities at prices that, by year end, hadn't increased enough to meet the minimum performance hurdle and so they weren't charged. That's not what they want though. Performance-fee class owners would not unhappily pay fees—if earned.

The "all-in" management expense ratio (MER) for 2017 came to 1.22 per cent for Salary class and 1.11 per cent for Performance-fee class.

Taxes [3]

Taxable owners received their T3s recently showing both income and gains, though almost entirely gains. The total to report came to a per-security figure of about $1.70 which is around 50 per cent of last year's increase in net asset value. The maximum potential tax for Ontarians comes to about $0.53, or 28 per cent of the T3 total.

We continued to build unrealized gains in 2017. At year end, they amounted to almost $26 million. Associated tax on that kind of gain—at marginal rates, and payable only when realized—is close to $7 million. Think of the $7 million as capital invested in ROMC, borrowed from Ottawa at zero interest for as long as we hold.

Partnership

ROMC is ten years old. When we started, we had one objective: create an environment in which it is better to be an investor than the manager. To most of you, that probably sounds obvious but the fiduciary of today is likely more interested in investment management as a business rather than simply as a steward of trust. John Bogle, of Vanguard fame, explained it well in a Globe and Mail interview with David Parkinson in 2012:

> "The culture of the mutual fund industry, when I came into it in 1951, was pretty much a culture of fiduciary duty and investment, with funds run by investment professionals. The firm I worked with, Wellington Management Co., they had one fund. That was very typical in the industry … investment professionals focused on long-term investing.
>
> Today, that profession with elements of a business [has become] a business with elements of a profession – and not so many elements. The typical large manager today runs around 225 different mutual funds. … That's the traditional definition of marketing – find out what people want and give it to them. Well what a stupid way to invest! Because people always want the wrong thing at the wrong time – usually, when it's hot …."

Maybe ROMC is old fashioned. We manage our capital with little constraint: any asset class, capitalization, industry or geographic region will do. No hierarchy to worry about job security and no marketing responsibilities (of any kind). Of course, there is a cost to freedom; it makes excuses hard. That's okay, they wouldn't get me far anyway. As Aristotle suggested: "The guest will judge better of a feast than the cook."

March 26, 2018 David McLean

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

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

2017 economic results derived from two groups:

(i) Common equity investments, where earnings attributable to our proportional interests were $4.1 million ($2.94 per ROMC security), and

(ii) Fixed income & Other, where last year we earned $1.3 million ($0.93 per ROMC security).

The total for both groups, at $5.4 million, came to $3.87 per security and showed a year-over-year decline of 17 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 18 per cent. Over the same nine years, earnings for the S&P 500 increased by an annual eight per cent.

Table 3: Economic Profit, Book and Market Value

		Average for the year	
($Cdn)	**2017 economic profit**	**Book value**	**Market value**
Banking	1,900,898	11,477,917	26,398,291
Insurance	1,570,914	5,531,181	10,533,540
Retail	321,250	3,779,231	5,411,294
Communications, media & technology	325,070	5,670,815	6,663,679
Fixed income (incl. cash)	63,804	6,846,914	6,846,914
Other	1,229,708	-	-
Attributable to ROMC investments	**5,411,643**	**33,306,058**	**55,853,718**
ROMC expenses (incl. brokerage)	(734,629)		
Attributable to ROMC owners	4,677,014		
On a per-security basis:			
ROMC investments	3.87	23.79	
Salary class	3.34		40.15
Performance-fee class	3.36		37.29
	2017		
Salary securities - average	1,292,296		
Performance-fee securities - average	107,566		
Average ROMC securities outstanding	1,399,862		

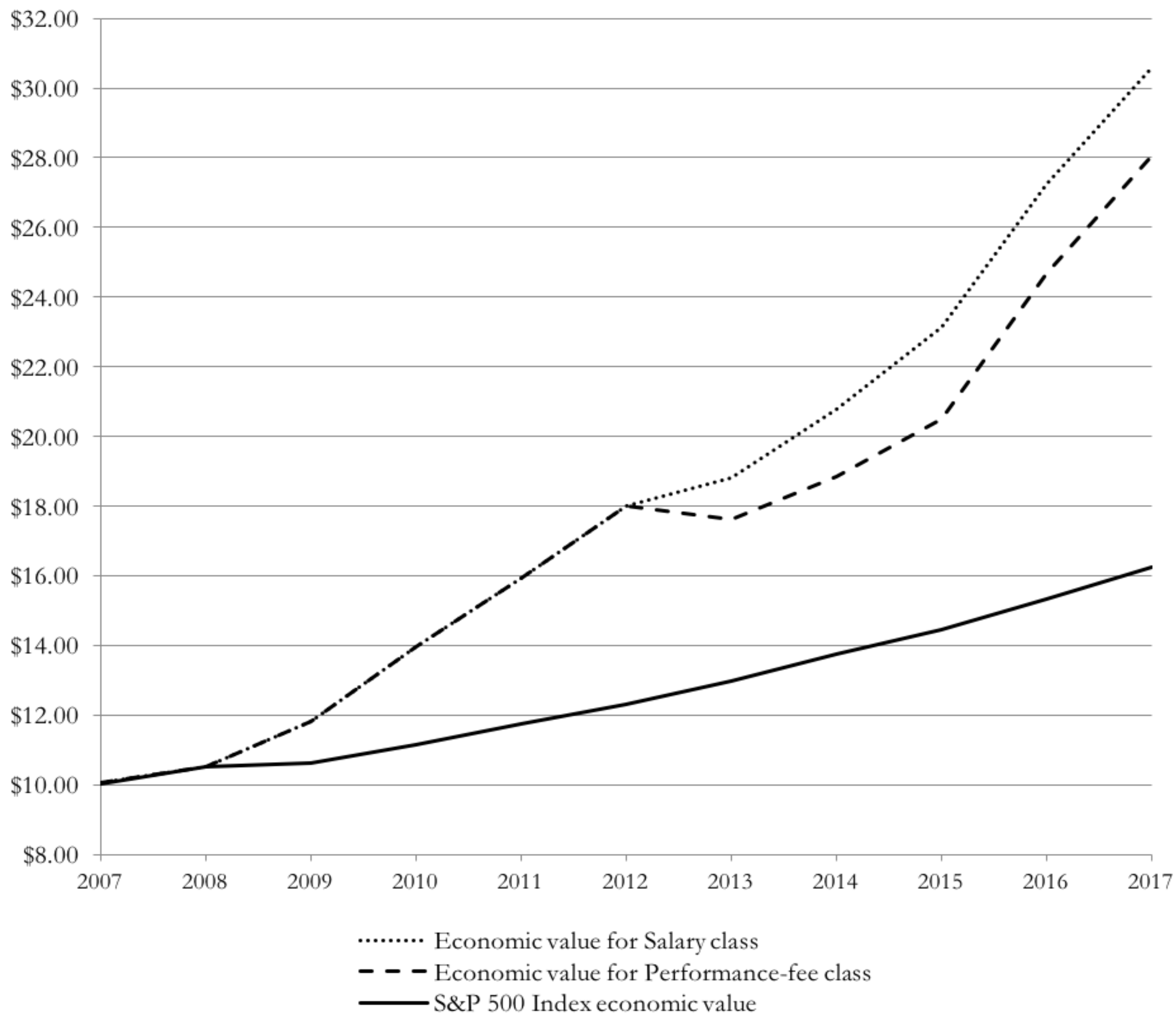
Last year's economic return on capital (economic profit ÷ book value) attributable to ROMC investments was 16 per cent, an above average result. In 2017, Salary class paid per-security expenses of $0.53, down from $0.54 in 2016. Owners had a return on capital of 14 per cent, again an above average result. Performance-fee-class owners paid expenses of $0.50 last year and also earned 14 per cent return on capital. The S&P 500's 2016 return on equity was… yes, 14 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 2017 economic profits to average market value in Table 3, owners can see that last year's earnings yield for Salary class was eight per cent and for Performance-fee class it was nine per cent. The earnings yield for the S&P 500 was a little over four 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 2017 and by my calculation, Salary class had an economic value of almost $31 per ROMC security and Performance-fee class was about $28. By comparison, the S&P 500 was a little over $16. If we continue to grow ROMC's economic value by more than the index, our market value should do likewise.

Figure 1: A comparison of economic values[5]



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

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[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 $1.9 million of *reported earnings* attributable to our ownership ($1.34 per ROMC security), equating to a return on our capital of 17 per cent.

Table 4: Economic Results (Banking)

($Cdn)	2017	2016	2015
Reported earnings attrib. to ROMC (a)	1,900,898	2,115,777	1,423,681
Average capital invested (b)	11,477,917	11,760,236	7,612,565
Return on ROMC capital (a ÷ b)	17%	18%	19%

The decline in our return on capital, measured as our proportional interest in the reported earnings of our investments over the average cost of those investments, is due mainly to asset mix. We sold one-third of a long-held banking interest that last year, earned 16 per cent on our capital and added to our interest in a fairly new position that generated a little over 11 per cent.

You rightly ask: why sell a perfectly good earner?

(1) The sale generated a capital gain of $1.6 million vs. proportional earnings of $215,000;

(2) That gain represented almost eight years of current earnings; and

(3) We re-allocated the proceeds into other areas in an attempt to lower our dependence on this industry as the economic cycle ages and before rising interest rates begin to impact on borrowing behaviour.

($Cdn)	2017	2016	2015	2014	2013	2012	Total
Reported earnings attrib. to ROMC (a)	-	216,734	175,596	39,918	96,909	-	529,156
Average capital invested (b)	-	1,367,318	1,212,776	1,212,776	1,172,327	-	
Return on ROMC capital (a ÷ b)		16%	14%	3%	8%		
Dividends received [c]	425	28,181	21,881	11,307	2,538	505	64,837
Capital gain on disposal (d)	1,644,066	-	-	-	-	-	1,644,066
Other profit (c+d-a)							1,179,747

At year end, 40 per cent of ROMC's capital (at cost) was invested in three banks.

Table 5: Capital Invested (Banking)

	2017	2016	2015
$Cdn yearend cost of investment	11,647,263	12,583,992	7,612,565
% of ROMC capital invested (at book value)	40%	40%	27%

Insurance

In 2017, *comprehensive earnings* attributed to our interest in insurance amounted to $1.6 million ($1.12 per ROMC security), which earned us 28 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)	**2017**	**2016**	**2015**
Reported earnings	1,066,209	688,163	870,790
Other comprehensive income	504,705	84,953	(825,504)
Comprehensive earnings attrib. to ROMC (a)	1,570,914	773,116	45,286
Average capital invested (b)	5,531,181	6,605,452	9,514,365
Return on ROMC capital (a ÷ b)	28%	12%	0%

Last year, insurance delivered the highest economic return on our capital in our history—from any industry. It did so in a year when natural disasters wreaked havoc causing most insurers to show underwriting losses and mediocre economics. Our experience was little different. The exceptional year that we enjoyed had nothing to do with insurance itself, it was due to our insurer's own investments… and taxes.

Some background: Over many years of successful underwriting, our insurer has built a large surplus (an insurance term for equity) that it has been productively invested—much of it in the stock market, where long-held positions have enjoyed growing capital gains. Because unrealized gains form part of comprehensive earnings, they must be shown in financial statements with an associated tax charge against them. These taxes are not payable until securities are disposed of. Until such time, they sit on balance sheets as liabilities. With a competent manager, deferred taxes can grow to material size and act as capital, borrowed from governments at zero interest, potentially for ever. When tax rates change, an adjustment must be made to reflect the new tax that would be paid if the investments were sold. When the tax code changed in the US last year and corporate rates declined, businesses with deferred taxes lowered their liabilities. In our insurer's case, the adjustment was a favourable $38 billion, worth about $690,000 to ROMC.

There were no changes to our allocation in insurance last year.

Table 7: Capital Invested (Insurance)

	2017	**2016**	**2015**
$Cdn yearend cost of investment	5,531,181	5,531,181	8,859,502
% of ROMC capital invested (at book value)	19%	18%	31%

<u>Retail</u>

Our retail investments produced $321,250 of *reported earnings* attributable to ROMC in 2017 ($0.23 per ROMC security), which equated to a return on our capital of nine per cent.

Table 8: Economic Results (Retail)

($Cdn)	**2017**	**2016**	**2015**
Reported earnings attrib. to ROMC (a)	321,250	365,512	258,199
Average capital invested (b)	3,779,231	3,796,243	3,265,672
Return on ROMC capital (a ÷ b)	9%	10%	8%

There were no changes to our investments in retail last year. The decline we suffered in earnings was two-fold: weaker earnings in one of our holdings and currency. Canadian dollar strength created a headwind when translating foreign proportional earnings back into it. None of our holdings report in Canadian dollars. Also, our latest retail investment, which earned almost 13 per cent on our capital in 2016, earned about 9 per cent last year. The company continues to deal with a reorganization of its operations (the reason we bought it in the first place). Since 2015, the period of operational turmoil, sales have grown but margins have halved. It remains to be seen whether it can restore margins AND grow sales.

About $2 million of ROMC's unrealized capital gain is due to our current investments in retail. That represents about six years of current retail economic profits. Unless earnings increase, at least some of that gain might best be used elsewhere.

At yearend, about 13 per cent of ROMC's capital (at cost) was invested in this industry.

Table 9: Capital Invested (Retail)

	2017	**2016**	**2015**
$Cdn yearend cost of investment	3,779,231	3,779,231	3,265,672
% of ROMC capital invested (at book value)	13%	12%	11%

Communications, media and technology

Last year, our holdings in this area generated $325,070 of *reported earnings* attributable to our ownership ($0.23 per ROMC security) on almost $5.7 million invested, equating to a return on our capital of six per cent.

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

($Cdn)	**2017**	**2016**	**2015**
Reported earnings attrib. to ROMC (a)	325,070	944,723	526,014
Average capital invested (b)	5,670,815	10,710,591	5,956,772
Return on ROMC capital (a ÷ b)	6%	9%	9%

While in insurance, US tax reform gaveth to ROMC in 2017, in technology, the changes tooketh away. The new code caused a tax adjustment that was responsible for poor economic performance here.

Again, some history: Prior to this year, US companies with profits generated outside of the US didn't have to pay much attention to corporate tax rates at home, as long as they kept international profits away. Effectively, they could amass offshore cash balances by retaining international profits and concern themselves only with local taxes (sometimes organized in very advantageous jurisdictions). US taxes would be assessed if and when internationally-retained profits were repatriated.

That changed in 2017 and companies had to play catch up via a one-time "repatriation" tax adjustment on international profits, both past and present. As a result, past profits were assessed at a rate that deemed them repatriated and one of our holdings showed a tax charge that reduced its pre-adjustment earnings by about half.

On a tax-adjusted basis, our 2017 return on capital here would have been nine per cent. Meaning, stagnation. We cannot seem to get to the double digits that ROMC craves and that notion was the cause of some commotion; we sold a material portion of one of our holdings. While we managed to enjoy a capital gain with the sale (and even a modest "other" profit), we've held this position for three years and it has been a comparative dud.

($Cdn)	**2017**	**2016**	**2015**	**Total**
Reported earnings attrib. to ROMC (a)	9,961	304,661	309,109	623,731
Average capital invested (b)	235,449	3,390,473	3,464,743	
Return on ROMC capital (a ÷ b)	4%	9%	9%	
Dividends received [c]	-	111,991	91,709	203,699
Capital gain on disposal (d)	750,532			750,532
Other profit (c+d-a)				330,500

With a late-year purchase of a new holding, our allocation here did not decline by as much as our average capital invested would have you think (as reported in Table 10).

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

	2017	**2016**	**2015**
$Cdn yearend cost of investment	6,286,567	9,483,902	8,906,653
% of ROMC capital invested (at book value)	22%	30%	31%

Fixed income and Other

In 2017 and due to high average cash balances throughout the year, we earned interest of $63,804. Other profits were $1.2 million.

Table 12: Economic Results (Fixed income and other)

($Cdn)	2017	2016	2015
Fixed income & gains (losses) (a)	-	-	-
Cash interest income (expense)	63,804	(6,913)	3,887
Net fixed income & cash (b)	63,804	(6,913)	3,887
Assets invested in fixed income (c)	-	-	-
Cash (borrowings)	6,846,914	283,545	998,771
Average capital invested (d)	6,846,914	283,545	998,771
Return on assets (a ÷ c)	n/a	n/a	n/a
Return on ROMC capital (b ÷ d)	1%	n/m	0%
Other profits (losses)	1,229,708	2,535,129	1,669,298

More than 100 per cent 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 showed losses through: (i) a tax-loss sale in healthcare which was recently repurchased at lower prices; and (ii) a late-year equity-index hedge.

Table 13: Other profits (Fixed income and other)

($Cdn)	2017	2016	2015
Capital gains in excess of reported economic profits	1,298,466	1,432,375	1,791,358
Equity-index hedging	(68,758)	(993,483)	(122,060)
Currency hedging	-	2,096,237	-
Other profits (losses)	1,229,708	2,535,129	1,669,298

Looking at our year-end cash balance in Table 14, owners may be somewhat alarmed to see an allocation of 23 per cent of capital. That figure is based on our book value, or cost basis. On a market value basis, the year-end level was about 11 per cent, but even that is high. In 2008, when all hell broke loose, we were fully invested. What gives?

To earn attractive economic returns, ROMC must employ capital in attractively valued productive assets. Lately, finding the attractively-valued part of the equation has proved difficult. Instead of "chasing" the market, ROMC opted to 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.

Table 14: Capital Invested (Fixed income and other)

	2017	2016	2015
$Cdn yearend assets (incl. cash)	6,560,181	1,160,973	253,307
% of ROMC capital invested (at book value)	23%	4%	1%

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 15, you can see how the various expenses associated with our operation impacted returns last year as well as the average since inception.

Table 15: Administration and Management Expenses

(Any differences are due to rounding)	2017		
	Salary class	**Performance-fee class**	**Avg. since inception ***
ROMC gross return	10.0%	10.0%	17.7%
Administration & audit expense	-0.17%	-0.17%	-0.27%
ROMC operating return	9.8%	9.8%	17.4%
Management expense	-1.1%	-1.0%	-2.2%
ROMC owner return	8.7%	8.8%	15.2%

* On a class-weighted basis

Manager's discussion and analysis: Taxes [6]

2017 reportable income for taxable owners was $2.1 million: $2 million in realized capital gains and $124,605 in net investment income. In 2017 and for taxable owners only, reportable income represented about half 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, or 12% of net asset value.

Table 16: After-tax Real Return

($Cdn)	**2017**	**Since inception**			
Change in ROMC NAVPS (class-weighted)	9%	326%			
Estimated impact of personal tax accrual	-2%	-88%	------>	Tax accrual since inception	
Change in ROMC NAVPS, net of tax accrual	6%	238%		Reported & paid	-20%
Impact of inflation	-2%	-17%		Deferred	-67%
ROMC after-tax real return	4%	220%		Total	-88%

[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.