ROMC FUND

2018
ANNUAL REPORT

For the year ending December 31, 2018

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 headwinds of long-term inflation and taxes, maintaining purchasing power is easier said than done. As the great fund manager John Templeton said: "For all long-term investors, there is only one objective: maximum total real return after taxes."

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**
Convexus Managed Services	Cooper & Company	McLean Asset Management
135 Commerce Valley Drive East, 2nd Fl	1120 Finch Avenue West, Ste 108	1 Richmond Street West, Ste 800
Thornhill, Ontario L3T 7T4	Toronto, Ontario M3J 3H7	Toronto, Ontario M5H 3W4
Tel. 905-707-5998	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%	*1.9%*	6.8%
2018 ………………………………………	-13.3%	*2.1%*	-15.3%
Annual gain since inception …………………	12.3%	*1.6%*	10.7%
Overall gain since inception …………………	269.1%	*19.3%*	249.8%

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).

"Success is not final, failure is not fatal: it is the courage to continue that counts."

Winston Churchill

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 2018, ROMC recorded a loss in market value of $8 million. On a class-weighted, per-security basis[1], our loss was 13.3 per cent. (Table 1 shows performance for each class.) Since inception just over eleven years ago, our per-security net asset value has increased from $10 to $36.91, an annual growth rate of 12.3 per cent.

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

ROMC security	2018 change in NAVPS		End NAVPS
Salary class	-$5.71	-13.3%	$37.08
Performance-fee class	-$4.96	-12.4%	$34.94

2018 was a disappointment and marked the second loss in our 11 ¼ year history. Disappointment has a habit of encouraging reflection. Success isn't much of a teacher, failure is, and 96th percentile amongst competitors is about as good a lesson as can be taught. In Table 2, you can see that our long-term advantage continues, but it does so at a diminished rate. With US equities catching up, ROMC needs to get cracking. It's not on for an active manager to underperform passive alternatives. Though lament may assuage the psyche, it isn't productive. Time is better spent on reason and analysis… and finding our feet.

Table 2: ROMC Fund vs. Other Investment Categories

Oct. 1, 2007 - Dec. 31, 2018	Overall gain	Annual gain
ROMC Fund: Salary class	271%	12.4%
ROMC Fund: Performance-fee class	249%	11.8%
U.S. Equities (S&P 500)	187%	9.8%
Global equities (MSCI World)	113%	7.0%
Canadian equities (S&P/TSX)	37%	2.9%

Source: Morningstar and S&P Dow Jones Indices

Looking back over the last ten years, equities (other than Canadian) have continually offered an economic advantage over bonds and cash equivalents. As a result, equities outperformed on a market basis. The outperformance was especially noticeable against inflation, one of our two purchasing-power hurdles. Consistent at almost two percent per annum, inflation outperformed cash on an absolute basis. While bonds seem like they fared better at four per cent per year, they did no better than inflation, after taxes. In short, had you invested in government fixed income securities over the last ten years, you'd most likely have lost purchasing power.

The reason equities delivered is twofold: they provided a better absolute yield and that yield grew. Look at it this way: at the end of 2008, the S&P 500 was trading for an ROMC-equivalent price of $7.48 per share (it had declined from $10, or 25 per cent since our launch on October 1, 2007). During 2008, the index earned $0.48 per share (a six-per-cent yield on the year-end price). Last year, it earned the equivalent of $1.21 per share. For the price of $7.48 you would now be enjoying a 16 per cent yield. I know of no bond that comes close. Economically, equities trounced fixed income, and where else would economics show up but in market value? During the last ten years, the S&P 500 rose from that $7.48 per share to a year-end value of $28.70. The right place to be was in equities.

Today, that picture doesn't look a whole lot different: inflation is still two per cent, cash and bonds continue to lose purchasing power and equities, based on 2018 S&P 500 earnings, yield close to six per cent.

[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]

Let's make sense of ROMC's 2018 market underperformance. We do so, as always, using economic reasoning:

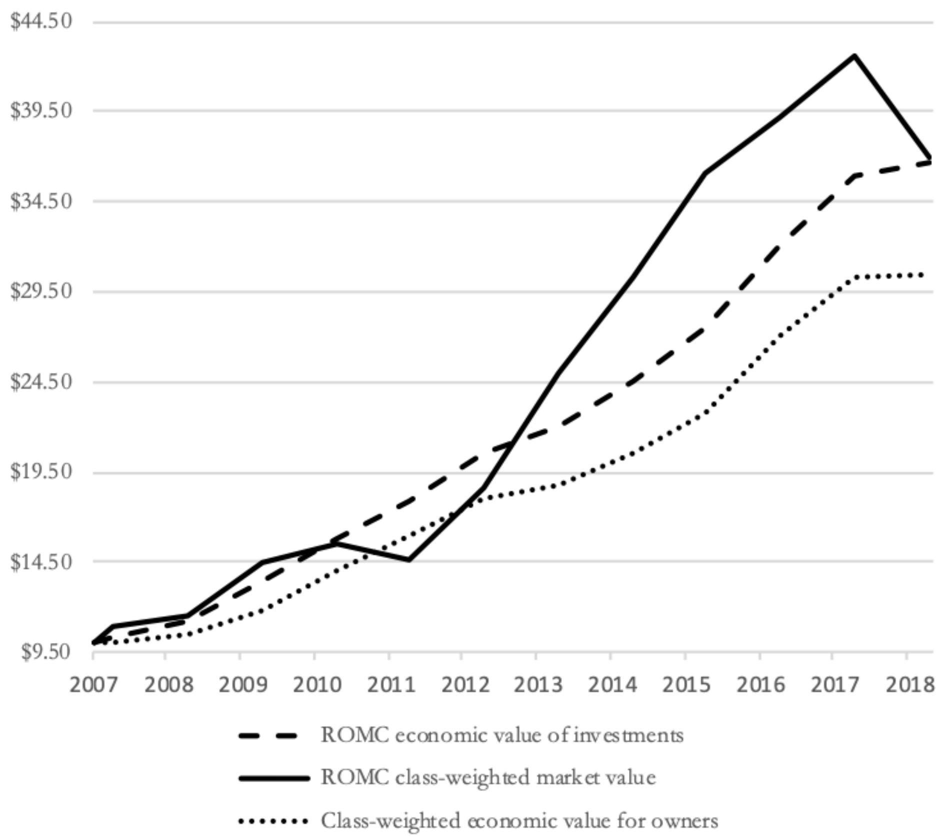
1) My annual calculation of our economic progress shows that on a class-weighted per-security basis, our economic value increased by a disappointing one per cent. By contrast, the S&P 500 showed a seven per cent increase. Passive investors: 1, ROMC: 0

2) Based on the same calculations, our earnings yield for 2018 was also one per cent. The S&P 500 earnings yield was five per cent. Passive investors: 2, ROMC: 0

3) Using the same figures, our economic profits (our "earnings") declined by 82 per cent over the year and the S&P 500's increased by a not-unattractive 21 per cent. Passive investors: 3, ROMC: 0

That's hard to take and clearly, our economics need to recover and grow. We also need to find value for money. Figure 1 shows where we are on that front by comparing ROMC's economic value to its market value.

Figure 1: A comparison of economic values[3] and market value



The last time our market value was near our economic value was 2011/12. During those years, our earnings yield exceeded 12 per cent. At that time, it was not unreasonable to suggest that ROMC was cheap and our subsequent market performance determined as much. Today, our earnings yield is about eight per cent. Given our long-term economic experience and the general level of equities today, we're not expensive, even if not historically cheap.

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[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.

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

Expenses

Administration and audit expenses for 2018 were a little over 0.15 per cent of average assets, declining by one basis point (0.01%) during a tough year.

The salary class management fee—totalling $500,000, plus HST—got cheaper for class owners, declining to less than 1.03 per cent of average class assets for the year (down from 1.06 per cent in 2017). Since offering the Salary class option to owners in 2013, the fee has dropped from 2.7 per cent of class assets to about one per cent.

In 2018, Performance-fee class owners paid nothing in management fees, though that's not what they want. Owners would not unhappily pay performance fees, if earned.

The "all-in" management expense ratio (MER) for 2018 came to 1.18 per cent for Salary class and 0.15 per cent for Performance-fee class.

Taxes [4]

Taxable owners recently received their T3s. Those slips showed income, not realized gains. The total to report came to a per-security figure of about $0.34 for Salary class owners and $0.97 for Performance-fee class owners.

At time of writing, our unrealized gain position is about $21 million. Deferred taxes, for marginal-tax Ontarians, are almost $6 million. If you think of a balance sheet, and in particular its right side, ROMC has three sources of funding: First and most obviously, equity which is our own contribution of capital. Second, debt which we typically eschew but can use if the economic case for doing so is attractive. Third, deferred taxes. Not many people think of this last one but it's worth spending some time on. Like it or not, the CRA is our life partner in all things financial. Whether we earn, spend or save money, Ottawa is there. We can't do much about earning and spending: deductions are automatic whether they be payroll tax, instalment deadlines or HST. When it comes to saving, however, there are ways in which we can use our partnership to advantage.

Imagine a business that earns an annual 10 per cent return on investor capital and keeps that capital. Imagine that it can do this year-in/year-out and that its share price increases in step with its earnings. Let's say we purchased an interest in this business at the level of investor capital—meaning, our shares increase by 10 per cent per annum. By now, you likely know that ROMC would be patient with something like this and allow our capital to compound and at the end of 10 years, our shares would be worth $29. If we then sold them, we would pay about five dollars in tax and be left with $24.

Now imagine that the CRA considered unrealized gains the same as other sources of income – i.e., current. We'd have to pay tax annually on the increase in value, realized or not. At the end of ten years, we wouldn't owe any tax but we'd also have less than $22.

It's not just us that does well with patience, Ottawa benefits too. Under the pay each year rule, taxes received over ten years would be 13 per cent less than under the deferred route.

The longer the deferral, the better the result. Compounding isn't linear, it accelerates. After 15 years, the after-tax difference is almost $6 in the patient investor's favour. Jesse Livermore, famous for short-term trading in the early twentieth-century, even came around: "After spending many years in Wall Street and after making and losing millions of dollars I want to tell you this: It was never my thinking that made the big money. It was my sitting."

Partnership

Of course, sitting has its pitfalls: last year's volatility comes to mind. No one likes to watch the value of their investments go down, even temporarily. It would be nice to think that experts could time their way in and out of stocks but that is a fool's errand. No one can tell you, with any consistency, what will happen in the market from

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

one week, month or year to the next. No one. At ROMC, this is understood: in our best relative-performance year (2008) when we outperformed the S&P 500 by 28%, we were fully invested.

I know that last year was trying, it felt as if nothing worked whether done or not. Things we would normally stay away from kept going up and things we typically like went down. Your manager, your partner, struggled to make sense of it.

Since our start, ROMC has been managed using what I feel are the best ideas that successful managers before us put to use:

1. ROMC's original pay-only-for-performance model, based on Benjamin Graham's work (and later Warren Buffett's), puts investors first;

2. ROMC's later use of a salary option for owners—where your manager is paid as an employee (at cost), rather than as a profiteer reaping gains on the growth in assets under management, despite performance—was taken from John Bogle's important work at Vanguard;

3. Our understanding of taxes—not as driver of our process, but as extra capital—was taken from simple, practical thinking by not a few; and

4. Our constant focus on economic profit, its growth and the return on our capital—borrowed from Phillip Fisher and Warren Buffett—despite last year, has allowed our top line market growth since inception to be defensible.

The process is solid. It is its productive application that makes for success and that requires vigilance and commitment, and your managing partner knows it.

March 25, 2018 David McLean

Manager's discussion and analysis: Economic results[5]

2018 economic results derived from two groups:

(i) Common equity investments, where earnings attributable to our proportional interests were $3.4 million ($2.42 per ROMC security), an 18 per cent decrease over the year; and

(ii) Fixed income & Other, where last year we showed a loss of $2.4 million ($1.72 per ROMC security).

The total for both groups, at $964,753, came to $0.69 per security and showed a year-over-year decline of 82 per cent.

Table 3: Economic Profit, Book and Market Value

		Average for the year	
($Cdn)	**2018 economic profit**	**Book value**	**Market value**
Banking	2,319,560	11,786,597	26,008,473
Insurance	96,235	5,531,181	11,882,849
Retail	47,080	2,940,959	3,443,794
Communications, media & technology	537,171	7,772,862	7,364,395
Energy & transportation	374,223	2,085,725	2,671,625
Fixed income (incl. cash)	24,224	3,265,286	3,265,286
Other	(2,433,739)	-	-
Attributable to ROMC investments	**964,753**	**33,382,610**	**54,636,421**
ROMC expenses	(671,901)		
Attributable to ROMC owners	292,852		
On a per-security basis:			
ROMC investments	0.69	23.90	
Salary class	0.17		43.52
Performance-fee class	0.61		40.43
	2018		
Salary securities - average	1,283,439		
Performance-fee securities - average	113,527		
Average ROMC securities outstanding	1,396,966		

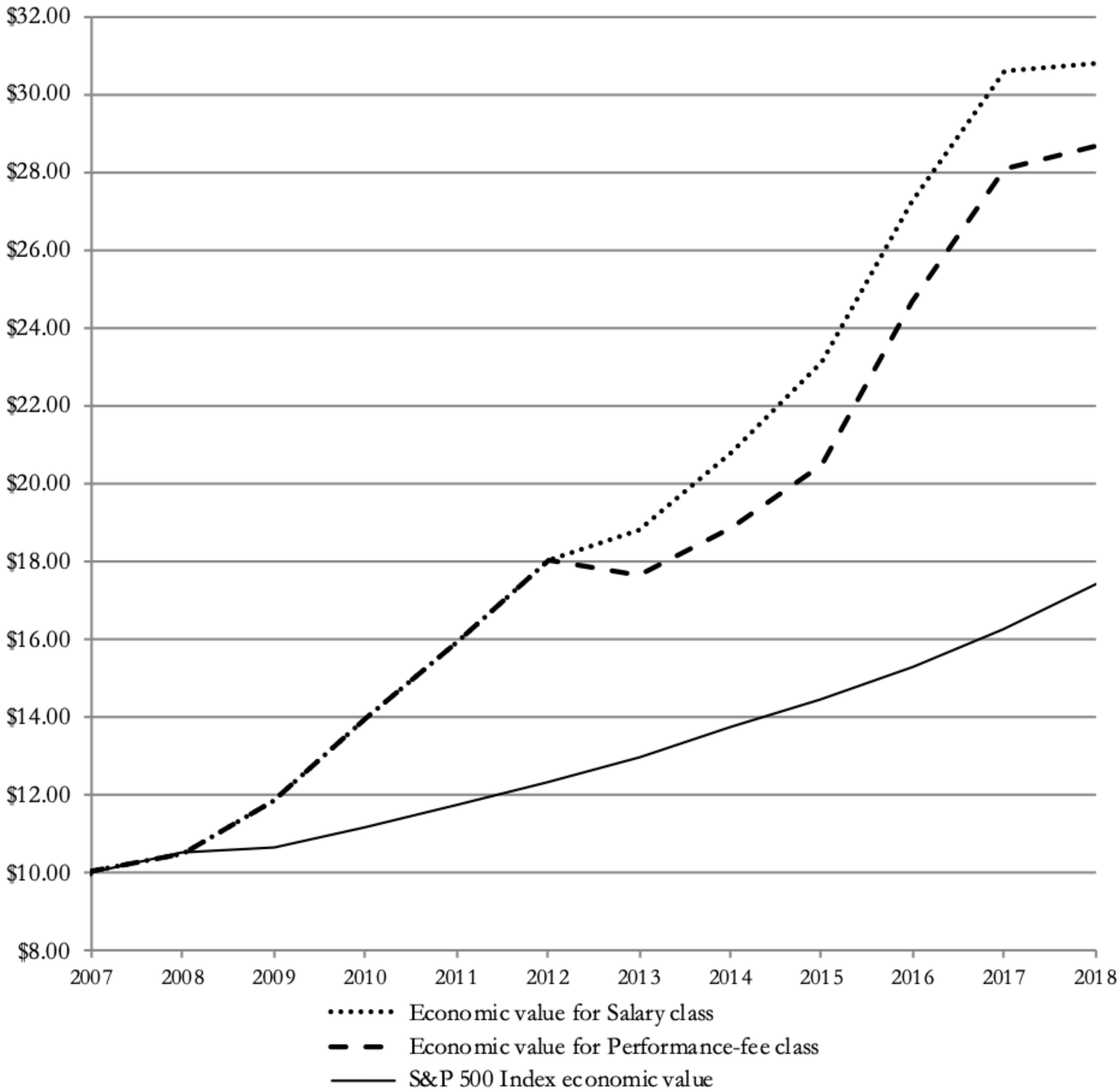
Last year's economic return on capital (economic profit ÷ book value) attributable to ROMC investments was three per cent, well below our historical average of 14 per cent. In 2018, Salary class paid per-security expenses of $0.52, down from $0.53 in 2017. Owners had a return on capital of less than one per cent, again well below average. Performance-fee-class owners paid expenses of $0.08 last year and earned a little less than three per cent return on capital. The S&P 500's 2018 return on equity was a historically high 16 per cent.

By comparing economic profits to average market value in Table 3, owners can see that last year's earnings yield for Salary class was less than one per cent and for Performance-fee class it was a less than two per cent. The earnings yield for the S&P 500 was five per cent.

[5] *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.

On October 1, 2007, ROMC started operations with a per-security value of $10. That starting 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 2, you can see how our respective journeys have evolved. At the end of 2018 and by my calculation, Salary class had an economic value of almost $31 per ROMC security and Performance-fee class was close to $29. By comparison, the S&P 500 was less than $18. Despite last year's stumble, we continue to show a material advantage in economic experience.

Figure 2: A comparison of economic values[6]



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

[6] 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 $2.3 million of *reported earnings* attributable to our ownership ($1.66 per ROMC security), equating to a return on our capital of 20 per cent.

Table 4: Economic Results (Banking)

($Cdn)	**2018**	**2017**	**2016**
Reported earnings attrib. to ROMC (a)	2,319,560	1,900,898	2,115,777
Average capital invested (b)	11,786,597	11,477,917	11,760,236
Return on ROMC capital (a ÷ b)	20%	17%	18%

We hold three banks, two of which are long held and continue to generate good economic returns. In 2018, profits reported to you on our proportional interests in the two were more than $1.8 million, up from $1.5 million in 2017, a 23 per cent rise. Together, these two earned 23 per cent on our capital invested (at cost). Their market values have risen handsomely since we bought them but even at last year's prices, that same economic profit earned a not-unattractive nine per cent on market value.

We made some adjustments last year, we sold down our third bank. The economics, while reasonable, didn't increase over our three-year holding period. We received good dividends over that time and even realized a small capital gain at sale, but they weren't enough to cover the economic profits that I reported to you over the years and so we corrected that by recording a small "other" loss on the position for this year, as illustrated below.

($Cdn)	**2018**	**2017**	**2016**
Reported earnings attrib. to ROMC (a)	172,287	195,199	193,410
Average capital invested (b)	1,749,909	1,749,909	1,702,429
Return on ROMC capital (a ÷ b)	10%	11%	11%
Dividends received [c]	82,886	71,623	46,636
Capital gain on disposal (d)	106,796	-	-
Other profit (c+d-a)	(252,956)		

With the sale proceeds, we added another bank whose potential economics should more resemble our two long-held positions. You might ask what we are doing by investing in a bank this late in the interest-rate cycle. Think of the new investment more as a restructuring than business as usual. Even though the financial crisis was more than ten years ago, some banks have yet to properly address their problems from that time. This one is now doing so, and is the first in its market to make the move. It has gathered strong strategic and investment partners, it's political and economic environment is improving and, as a result, the bank is able to make important changes that should return it to a business-as-usual operation. Our cost was well below the value of its own equity and gives us a margin of safety as the restructuring progresses.

At year end, 37 per cent of ROMC's capital (at cost) was invested in banking.

Table 5: Capital Invested (Banking)

	2018	**2017**	**2016**
$Cdn yearend cost of investment	12,204,599	11,647,263	12,583,992
% of ROMC capital invested (at book value)	37%	45%	40%

Insurance

In 2018, *reported earnings* attributed to our interest in insurance amounted to $96,235 ($0.07 per ROMC security), which earned us a little under two per cent on invested capital. (See our glossary for a definition of *comprehensive earnings* and why comprehensive rather than reported earnings were used prior to 2018.)

Table 6: Economic Results (Insurance)

($Cdn)	**2018**	**2017**	**2016**
Reported earnings	96,235	1,066,209	688,163
Other comprehensive income		504,705	84,953
Comprehensive earnings attrib. to ROMC (a)	96,235	1,570,914	773,116
Average capital invested (b)	5,531,181	5,531,181	6,605,452
Return on ROMC capital (a ÷ b)	2%	28%	12%

Looking back over our more than 11 years of investment in insurance, last year was not our worst, economically speaking. The $96,235 we earned on $5.5 million invested (at cost) in 2018 was actually higher than our returns in both 2015 and 2011. That won't make it easier to take for owners but perhaps some perspective will. Since October 1, 2007 (when we first began operations) to the end of 2018, ROMC has recorded an average annual return on capital of 12 per cent from insurance. During that time, we have seen returns on our capital that have ranged from under one per cent to more than 28 per cent. In only two of those 11 ¼ years were our returns anywhere close to average. Because of the particular nature of the insurance business, that won't change.

Two factors affect our economic returns here: underwriting and investment performance. Since we started investing in this area, underwriting results from our insurers have produced losses. Not major ones but even a breakeven result, on its own, would have kept us far away. The secret sauce has been investment returns. There, we have enjoyed the fruits of interest, dividends, capital gains (both realized and unrealized) and even profits from wholly-owned businesses acquired for investment outside of insurance. All told, we have recorded $6.7 million in economic profits from our holdings in insurance, more than $7 million of which have come from investment performance.

Of course, there is a cost to holding even great insurers and it is volatility. Most insurers hold huge amounts of publicly-traded securities. The more successful insurers will not just hold bonds (used to match liabilities from claims) but also equities. In fact, the more successful the insurer is, the more equities it will typically hold. Starting last year, any changes in the prices of stock & bond holdings must be recorded on income statements (eliminating the need to include *other comprehensive income*, where they were previously recoded). When prices rise, they're considered a profit and when they fall a loss. Last year, the stock market struggled and our insurer's own holdings of marketable securities showed a decline in value of $25 billion. That had a material impact on a business that otherwise recorded $29 billion in pre-tax "cash" profit. Reported profits were 86 per cent below cash profits. In business, it's always best to follow the cash so while our results look poor, they really aren't. (An FYI on how temporary these fluctuations can be: since year end, most of the $25 billion in market value declines have reversed).

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

Table 7: Capital Invested (Insurance)

	2018	**2017**	**2016**
$Cdn yearend cost of investment	5,531,181	5,531,181	5,531,181
% of ROMC capital invested (at book value)	17%	21%	18%

Retail

Our retail investments produced $47,080 of *reported earnings* attributable to ROMC in 2018 ($0.03 per ROMC security), which equated to a return on our capital of two per cent.

Table 8: Economic Results (Retail)

($Cdn)	2018	2017	2016
Reported earnings attrib. to ROMC (a)	47,080	322,694	365,512
Average capital invested (b)	2,940,959	3,779,231	3,796,243
Return on ROMC capital (a ÷ b)	2%	9%	10%

This is where we had the most difficulty last year, our biggest of which did not come from a disposal, but a write down. In 2018 and after several years of success, one of our retailers was caught out with accounting irregularities and saw its publicly-traded shares suspended. During the suspension of trading, the company managed to raise capital but at a value lower than our cost and so we lowered the position to reflect an impaired value. At the start of this year, the company agreed a sale of its assets at an even lower value and so we reduced it further. While the situation continues to evolve, prudence dictates that we prepare and so we have removed the company's most recent reported earnings from our results and in the table below recorded a loss from the write down. All told, "other profits" in retail showed a $1.8 million loss.

($Cdn)	2018	2017	2016	2014-2015
Reported earnings attrib. to ROMC (a)	21,598	298,985	298,417	169,783
Average capital invested (b)	2,814,583	3,652,855	3,233,662	2,919,214
Return on ROMC capital (a ÷ b)	1%	8%	9%	6%
Dividends received [c]	144,982	29,073	29,490	
Capital gain/(loss) on disposal/writedown (d)	(1,231,848)			
Other profit (c+d-a)	(1,817,085)			

We've been investing in retail since 2007 and our overall results have been less than desirable. In previous letters I have mentioned our economic struggles but let's look at the numbers. Including last year's trouble, we have averaged an annual return on our capital of less than eight per cent. Excluding 2018, we have averaged a little over eight per cent return on capital. With or without 2018, that's too low and so we made some wholesale changes last year that resulted in the disposal of all but one of our other retail holdings.

The remaining retailer has been with us since 2009 and last year generated profits of over 20 per cent on our capital (at cost), up from less than eight per cent at time of purchase. It may be a small position but it fits our model: benefit ROMC with both an attractive economic return and one that grows.

Table 9: Capital Invested (Retail)

	2018	2017	2016
$Cdn yearend cost of investment	608,409	3,779,231	3,779,231
% of ROMC capital invested (at book value)	2%	14%	12%

Communications, media and technology

Last year, our holdings in this area generated $537,171 of *reported earnings* attributable to our ownership ($0.37 per ROMC security) on almost $7.8 million invested, equating to a return on our capital of seven per cent.

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

($Cdn)	2018	2017	2016
Reported earnings attrib. to ROMC (a)	537,171	326,680	961,648
Average capital invested (b)	7,772,862	5,670,815	10,898,951
Return on ROMC capital (a ÷ b)	7%	6%	9%

Like our story in retail, we haven't really got to a comfortable pace of economic return in this industry. Unlike retail, that may not last. We invested into two new positions last year and we now hold interests in four businesses that, on average, have shown growth in revenues and earnings that exceed the general experience in business and we acquired them at lower valuations than the general level of equities. Our job now is to wait for what we hope will be attractive economic growth and hence, enviable returns on our capital.

As part of our further push into this area last year, we did a little tidying up, the results of which are described below. All told, the changes added a small loss to our "other" category.

($Cdn)	2018	2017	2016	2015
Reported earnings attrib. to ROMC (a)	15,624	159,369	423,141	107,330
Average capital invested (b)	235,449	3,767,192	4,708,990	1,203,036
Return on ROMC capital (a ÷ b)	7%	4%	9%	9%
Dividends received [c]	18,904	173,395	195,340	47,827
Capital gain on disposal (d)	149,896			
Other profit (c+d-a)	(120,100)			

At year end, 40 per cent of ROMC's capital (at cost) was invested in four businesses, making this industry our biggest concentration of invested capital.

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

	2018	2017	2016
$Cdn yearend cost of investment	13,102,432	6,286,567	9,483,902
% of ROMC capital invested (at book value)	40%	24%	30%

Energy and transportation

Last year, holdings in this new area generated $374,223 of *reported earnings* attributable to our ownership ($0.27 per ROMC security) on an average of $2.1 million invested, equating to a return on our capital of 18 per cent.

Table 12: Economic Results (Energy and transportation)

($Cdn)	**2018**
Reported earnings attrib. to ROMC (a)	374,223
Average capital invested (b)	2,085,725
Return on ROMC capital (a ÷ b)	18%

It is not often that we are rewarded with exceptional economic returns right from the start. In fact, the last time we had anything close to an 18 per cent yield was in March 2009. Not an easy month. This time isn't so easy either: shipping (our foray) is an economically-sensitive industry and one year's returns may not signal an enduring trend. On the plus side, our interest is one in which there is a strong leadership team and admirable investor base. That doesn't, in itself, guarantee success and I am reminded of a saying by Warren Buffet: "When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact." Here, I'd replace "bad economics" with "cyclical economics" but the gist is the same. That's not the only connection to Warren Buffett: his favourite Berkshire Hathaway manager of years past—one who left that business because of a perceived ethical lapse—is an important investor in and chairs our new holding. Nothing is perfect. I do believe that this individual has something to prove and he has shown evidence of it already by bringing in new investors that are not only competent, but also adherent to fine business practice.

The shipping industry has been through a tough period since the financial crisis. Prior to 2008, overconfidence in the global economy caused shippers to order more new capacity than was warranted and it has taken many years to grow into and even rationalize that capacity. Retiring old ships doesn't happen quickly and a history of over ordering new ships caused downward pressure on transport prices and, hence, shipping profits. That misalignment looks to be ending: new ships coming into the global fleet are down and the shipping industry has consolidated. Transport prices have increased and profits have returned.

Macroeconomic discussion should probably never lead investment decisions but it is hard to ignore recent trade frictions around the world, the recent slow-down in global GDP growth (trade-concern related?) and the push toward a cleaner environment (transport ships use dirty fuel). All of these factors, should they continue on trend, will have an impact on the industry. Our defence: a shrewd operator with the ability to lead further consolidation, and an acquisition price that should offer a margin of safety.

At year end, our allocation to this area was seven per cent of our capital (at cost) and in one business.

Table 13: Capital Invested (Energy and transportation)

	2018
$Cdn yearend cost of investment	2,453,794
% of ROMC capital invested (at book value)	7%

Fixed income and Other

In 2018, much like the year prior, we held cash and so earned interest of $24,224. Other losses were $2.4 million.

Table 14: Economic Results (Fixed income and other)

($Cdn)	2018	2017	2016
Fixed income & gains (losses) (a)	-	-	-
Cash interest income (expense)	24,224	63,804	(6,913)
Net fixed income & cash (b)	24,224	63,804	(6,913)
Assets invested in fixed income (c)	-	-	-
Cash (borrowings)	3,265,286	6,846,914	283,545
Average capital invested (d)	3,265,286	6,846,914	283,545
Return on assets (a ÷ c)	n/a	n/a	n/a
Return on ROMC capital (b ÷ d)	1%	1%	n/m
Other profits (losses)	(2,433,739)	1,229,708	2,535,129

Almost all of last year's Other losses were in the form of capital losses in excess of reported economic earnings and have already been described by sector. Another $243,598 of losses came in the form of a disposal from a security held for less than 12 months. The loss was in a stock that was originally bought for long-term investment in healthcare but that because of perceived opportunities elsewhere, was rationalized.

Table 15: Other profits (Fixed income and other)

($Cdn)	2018	2017	2016
Capital gains in excess of reported economic profits	(2,433,739)	1,298,466	1,432,375
Equity-index hedging	-	(68,758)	(993,483)
Currency hedging	-	-	2,096,237
Other profits (losses)	(2,433,739)	1,229,708	2,535,129

In last year's letter, I described how ROMC, in order to earn attractive economic returns, must employ capital in attractively-valued productive assets. For the last couple of years, finding them proved difficult. That changed somewhat towards the end of 2018 and so we ended the year with no cash.

Table 16: Capital Invested (Fixed income and other)

	2018	2017	2016
$Cdn yearend assets (incl. cash)	-	6,560,181	1,160,973
% of ROMC capital invested (at book value)	0%	25%	4%

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 illustrate the impact that expenses have on market returns. In Table 17, you can see how the various expenses associated with our operation impacted returns last year as well as the average since inception.

Table 17: Administration and Management Expenses

	2018		
(Any differences are due to rounding)	**Salary class**	**Performance-fee class**	**Avg. since inception ***
ROMC gross return	-12.2%	-12.2%	14.6%
Administration & audit expense	-0.15%	-0.15%	-0.24%
ROMC operating return	-12.3%	-12.4%	14.4%
Management expense	-1.0%	0.0%	-2.1%
ROMC owner return	-13.3%	-12.4%	12.3%

* On a class-weighted basis

Manager's discussion and analysis: Taxes [7]

2018 reportable income was $515,738 and it was all from dividends. As the income was derived from holdings outside of Canada, withholding taxes of $91,013 were automatically applied. Taxable owners will be given credit for the withholding and it is feasible that an owner could enjoy a refund, but for marginal-rate owners, taxes owing are simply reduced.

As suggested in Table 18 and since inception, the reportable portion of ROMC's personal tax accrual (for marginal-rate Ontarians) at the end of 2018 was about one-third of the total tax accrual. That leaves two-thirds to compound as interest-free capital. At time of writing and on a per-ROMC-security basis, the deferred portion was over $4, or 11% of net asset value.

Table 18: After-tax Real Return

($Cdn)	**2018**	**Since inception**			
Change in ROMC NAVPS (class-weighted)	-13%	269%			
Estimated impact of personal tax accrual	3%	-73%	------>	Tax accrual since inception	
Change in ROMC NAVPS, net of tax accrual	-10%	196%		Reported & paid	-25%
Impact of inflation	-2%	-19%		Deferred	-48%
ROMC after-tax real return	-12%	177%		Total	-73%

[7] 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". Prior to 2018, "Other comprehensive income" measured the unrealized gains/losses in assets/liabilities (after corporate taxes) of a corporation's balance sheet, including marketable securities held. Again prior to 2018, since these gains are unrealized (meaning they have not been sold), they usually did not appear in a company's income statement. Comprehensive earnings, prior to 2018, were 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.