ROMC FUND

2020
ANNUAL REPORT

For the year ending December 31, 2020

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 701
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:		
	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%
2017	8.7%	*1.9%*	6.8%
2018	-13.3%	*2.0%*	-15.3%
2019	28.1%	*2.2%*	25.9%
2020	-9.1%	*0.7%*	-9.8%
Annual gain since inception	11.6%	*1.6%*	10.1%
Overall gain since inception	329.8%	*22.8%*	307.0%

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).

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 2020, ROMC showed a loss of $4.8 million. On a class-weighted, per-security basis[1], the decrease was 9.1 per cent. (Table 1 shows performance for each class.) Since inception just over thirteen years ago, our per-security net asset value has risen from $10 to $42.98, an annual growth rate of 11.6 per cent.

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

	2020 change in NAVPS:		
ROMC security	$Cdn	%	End NAVPS
Salary class	-$4.45	-9.3%	$43.26
Performance-fee class	-$3.59	-7.9%	$41.69

It was a frustrating year. Over a career that has spanned 30 years, I have only once witnessed less common sense used in the valuation of common equity securities. Today, the existence of revenue doesn't matter, nor do earnings and/or cash flow. Only growth matters, and preferably in the distant future. Combine easily accessed margin loans at almost no cost with a new generation of young "investors," and the old (yet enduring) rules get thrown out the window. The last time this happened was the late nineties and my generation was the new "investor." What we learned then will likely have to be relearned now, that diamond-encrusted hands and rocket ships on their way to the moon make for better emojis than investment strategies.

Table 2: ROMC Fund vs. Other Investment Categories

		Annual gain:	
Oct. 1, 2007 - Dec. 31, 2020	Overall gain	Since inception	Last 5 years
ROMC Fund: Salary class	333%	11.7%	3.6%
ROMC Fund: Performance-fee class	317%	11.4%	4.3%
U.S. Equities (S&P 500 TR)	318%	11.4%	13.3%
Global equities (MSCI World GR)	197%	8.6%	10.9%
Canadian equities (S&P/TSX Composite TR)	84%	4.7%	9.5%

Source: MSCI and S&P Dow Jones Indices

Speaking of frustrating, our recent returns have been poor. In Table 2, you can see that over the last five years, our underperformance has been pronounced, especially against the S&P 500, our economic benchmark. Reflecting again over the last thirty years, I don't remember any five-year period of underperformance. Worse, of course, is that I have no excuse. Nothing was different in nature from the previous twenty-five years: same universe of securities, same methodology, same interest in success. What happened? After even more reflection, I can point to one thing, taxes, or better put, the deferral of their payment. Over the years, I have stressed the productive use of deferred-tax capital, produced by unrealized gains in our portfolio, akin to a loan from the government at zero per cent for as long as we hold. But what if this sort of extra capital is coveted to the point of holding securities, some of which are cyclical in nature, to the point of overvaluation? Instead of the investment process guiding our purchase and sale of securities, it is the avoidance of paying taxes that inhibits all else. This is not how deferred taxes are meant to be used. They are only useful if a stock's underlying business is growing economic value. Otherwise, fully-valued stocks should be sold, gains realized and taxes paid. You might think this obvious (even I do) but it seemed important that we grow efficiently and that overshadowed the work that was supposed to be done to actually keep growing. The reason that your 2020 T3 has so much realized capital gain is because of corrections made to that short-sightedness and active reallocation of capital to perceived better value and faster growing economics—the backbone of our historical success. Since September 2020, after which most of the changes were made, we began to see a reversal in our fortunes. As I write, less than six months since October 1, ROMC is up 50 per cent while the S&P 500 is up 10 per cent. Lesson: The tax "tail" does not "wag" the opportunity "dog."

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[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]

Economic results derive from two groups:

(i) Common equity investments, our long-term holdings in businesses through fractional ownership in common stock. When I report these economic profits to you, they are based on the per-share earnings of the businesses in whose stock we own, multiplied by the average shares held by ROMC during the year (and in Canadian dollars). Last year, these "earnings" amounted to about $1.9 million ($1.82 per ROMC security); and

(ii) Fixed income & other, where we sometimes profit from operations of a short-term nature, mainly in trading strategies related to fixed income, foreign exchange and/or derivative securities. Last year, such profits aggregated $622,028 ($0.59 per ROMC security).

The total for both groups, at $2.5 million, came to $2.42 per security and was a poor relative showing based on our history. Covid has been cruel.

Table 3: Economic Profit, Book and Market Value

		Average for the year:	
($Cdn)	**2020 economic profit**	**Book value**	**Market value**
Banking	1,043,917	5,967,728	11,383,563
Insurance	36,351	6,444,049	7,509,776
Consumer (Retail)	214,624	3,915,167	5,677,343
Communications, media & technology	424,515	5,414,951	10,080,975
Energy, industrial & transportation	191,882	2,699,173	3,803,267
Fixed income & other (incl. cash)	622,028	4,471,725	4,612,210
Attributable to ROMC investments	**2,533,318**	**28,912,793**	**43,067,134**
ROMC expenses	(640,940)		
Attributable to ROMC owners	1,892,378		
On a per-security basis:			
ROMC investments	2.42	27.57	
Salary class	1.67		38.97
Performance-fee class	2.25		37.26
	2020		
Salary securities - average	973,745		
Performance-fee securities - average	74,987		
Average ROMC securities outstanding	1,048,732		

After the payment of expenses and on a per-security basis, Salary class showed economic profits of $1.67 while Performance-fee class showed $2.25. Based on average market values for the year, 2020 earnings yield, at 4.3 per cent and 6 per cent, respectively, was nothing to write home about. Incidentally, the S&P 500 finished the year with a 3.5 per cent earnings yield.

[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.

2020's Table 3 showed a reduction in long-term holdings in Banking, Insurance and Technology and increased holdings in Consumer and Other. We sold long-held positions at a profit in order to:

1) Protect ROMC's capital from other than temporary economic and market value impairment; and
2) To reallocate capital to areas of perceived undervaluation and faster growing economic value.

In the process, we realized material capital gains, but they amounted to only one third of the total within ROMC. At present, our yet-undistributed capital gains position exceeds $20 million.

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

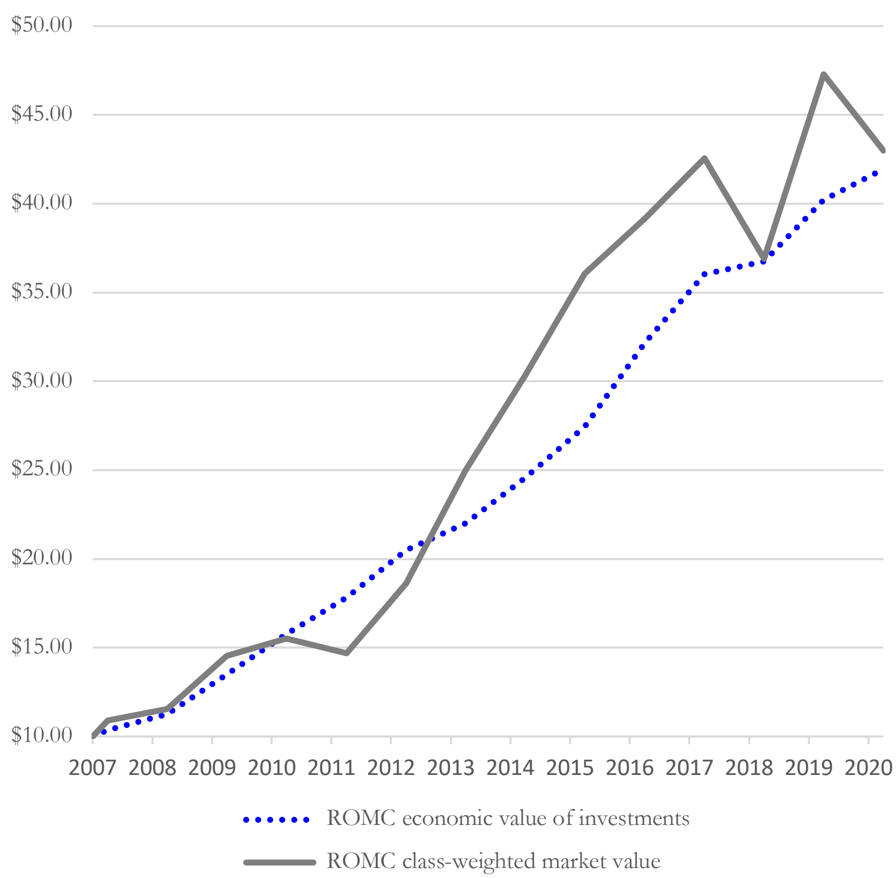

Figure 1 updates our position as to where we stood, at year end, in terms of economic value and market price. The table is an attempt to offer owners some understanding of the old saying: "Price is what you pay, value is what you get." As you know, I calculate the economic value based on all economic profits accrued to our interests since inception. It is an approximation of how we have performed, economically, since that time. It does not guarantee our future market path (even though it has closely matched our market past), but I do think it helps to show there is correlation between economics and market prices and it probably isn't too far-fetched to suggest that there will likely be some correlation in future. Typically, when our market price reverses to, or through, my calculation of our economic value, it has been a reasonable time to be an owner. Although early in the new year, the relationship has shown prescience as our per-security market value has rebounded by more than 20 per cent since year end and is currently trading around $53.

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

Expenses

Last year's administration and audit expenses were 0.17 per cent of average assets, increasing over the year because of a temporary decline in ROMC's market value. That has since reversed and our administration expenses, as a percentage of average assets, are tracking closer to 2019's record low.

Again, because of the decline in ROMC's market value during 2020, the salary class management fee—totaling $500,000, plus HST—was higher, on a percentage-of-assets basis, than in recent years, increasing to 1.46 per cent (up from 1.21 per cent). Again, and as a result of the rebound in our market value towards the end of last year and into 2021, things are returning to a more normal pattern of decline. In 2020, Performance-fee class owners paid no management fees.

The "all-in" management expense ratio (MER) for 2020 came to 1.64 per cent for Salary class and 0.17 per cent for Performance-fee class.

Taxes [4]

Taxable owners recently received their T3. The slip showed income and capital gains. The total to report came to a per-security figure of about $10. The tax owing for marginal-rate Ontarians is about 27 per cent of that figure.

Last year's realized capital gains were material. They were also likely necessary. As previously explained, a complacency descended upon ROMC in recent years that needed correction. The cost, unfortunately, is real and for those owners who find the liability to Ottawa more than their present liquid means, they might consider a partial sale of their ROMC holdings to cover the cost, even though such action will lead to more reportable gains in 2022.

Partnership

This year's annual meeting will again be hosted on Zoom. Details will be sent to you well in advance so that you might make arrangements if you wish to attend.

Those owners who have habitually read these reports will note some changes this year: (i) no beginning quote: because last year, instead of trying to teach, it was I who learned; (ii) a shorter format, due to a shift toward a more no-nonsense approach: it is the table on page three that should do the talking; and (iii) a somewhat humbled manager. I feel these changes will help get ROMC back to the business of providing owners with a more productive relationship.

March 24, 2021 David McLean

[4] 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: Convexus Managed 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.

Economic value

The economic value of ROMC investments is the aggregate of ROMC initial capital value of $10 per security and each year's economic profit. 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, all economic profits (as described above) have been calculated on a per-security basis and added to the initial figure of $10. Economic value is the cumulative amount of economic profit, plus the original $10 of capital. Our auditors do not offer any opinion on ROMC's manager's calculations.

The economic value for owners is the economic value of ROMC investments less owner expenses. All administrative and management expenses are netted from the economic value of investments to produce an approximation of ROMC's historical record of adding net economic value to owners. Again, the calculations are done by ROMC's manager and they are not reviewed by ROMC's auditor.

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

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.