

ROMC FUND

2021

ANNUAL REPORT

For the year ending December 31, 2021

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 135 Commerce Valley Drive East, 2nd Fl Thornhill, Ontario L3T 7T4 Tel. 905-707-5998	Cooper & Company 1120 Finch Avenue West, Ste 108 Toronto, Ontario M3J 3H7 Tel. 416-665-3383	McLean Asset Management 1 Richmond Street West, Ste 701 Toronto, Ontario M5H 3W4 Tel. 416-488-0547

For more information, including ROMC's Offering Memorandum, historical performance results, past annual reports, subscription forms and contact details, please visit ROMC's website at www.mamgmt.com or contact the fund manager directly by phone at 416-488-0547, or by email at davidmclean@mamgmt.com.

Investors have the right to cancel a subscription, have their money returned and/ or claim damages if information provided to them by management misrepresents facts about ROMC. More details about investor rights can be found in the Securities Act of Ontario, under section 130.1(1).

ROMC Fund Historical Net Asset Value per Security (NAVPS) vs. Inflation

Year	Change in:		Real return (a - b)
	ROMC NAVPS (a)	Inflation (b)	
2007 (inception October 1, 2007)	9.1%	<i>0.1%</i>	9.0%
2008	5.7%	<i>1.2%</i>	4.6%
2009	26.0%	<i>1.3%</i>	24.6%
2010	6.9%	<i>2.4%</i>	4.5%
2011	-5.5%	<i>2.3%</i>	-7.8%
2012	26.8%	<i>0.8%</i>	26.0%
2013	34.3%	<i>1.2%</i>	33.1%
2014	21.5%	<i>1.5%</i>	20.1%
2015	18.7%	<i>1.6%</i>	17.1%
2016	8.6%	<i>1.5%</i>	7.1%
2017	8.7%	<i>1.9%</i>	6.8%
2018	-13.3%	<i>2.0%</i>	-15.2%
2019	28.8%	<i>2.2%</i>	26.5%
2020	-9.2%	<i>0.7%</i>	-9.9%
2021	39.2%	<i>4.8%</i>	34.4%
Annual gain since inception	13.4%	<i>1.8%</i>	11.6%
Overall gain since inception	500.8%	<i>28.7%</i>	472.2%

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).

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 2021, ROMC showed a gain of \$16.7 million. On a class-weighted, per-security basis¹, the increase was 39.2 per cent. (Table 1 shows performance for each class.) Since inception just over fourteen years ago, our class-weighted per-security net asset value has risen from \$10 to \$60.08, an annual growth rate of 13.4 per cent.

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

ROMC security	2021 change in NAVPS:		End NAVPS
	\$Cdn	%	
Salary class	\$17.12	39.6%	\$60.38
Performance-fee class	\$14.82	35.6%	\$56.51

Our historical record should be put into context. Reporting a since-inception cumulative figure of 501 per cent may look defensible but it needs handicapping. Fund manager John Templeton put it best: “For all long-term investors, there is only one objective: maximum total real return after taxes.” Only by discounting our return against the costs of inflation and tax can we see how our buying power has fared. Inflation, as reported by the Bank of Canada, has shown a cumulative 29 per cent rise since October 2007. Taxes are not as easy (each one of us “enjoys” a different personal rate) but a crude approximation, using the highest marginal rates for Ontario residents, suggests that we deduct a further 134 per cent for our financial life partner. By summing the two “tolls,” we come to a handicap of about 163 per cent and by reducing our posted rate by this amount, we show a real, after-tax increase in purchasing power of 338 per cent. Meaning, for every widget you didn’t buy in 2007, you can now buy 4.4.

Table 2: ROMC Fund vs. Other Investment Categories

Oct. 1, 2007 - Dec. 31, 2021	Overall gain	Annual gain:	
		Since inception	Last 5 years
ROMC Fund: Salary class	504%	13.4%	8.9%
ROMC Fund: Performance-fee class	465%	12.9%	9.0%
U.S. Equities (S&P 500 TR)	433%	12.5%	17.1%
Global equities (MSCI World GR)	261%	9.4%	14.3%
Canadian equities (S&P/TSX Composite TR)	130%	6.0%	10.0%

Source: MSCI and S&P Dow Jones Indices

In Table 2, you can see that we have fared reasonably against other equity benchmarks since inception (and even over the last year). Where we continue to play catch up is over the last five years. In last year’s letter, I mentioned some of the reasons for our poor relative medium-term showing and since then, together with reallocation work and some luck within a “meme” (more on that to follow), we have clawed back some of the lost ground. From the table, you can see that work remains and there will be no satisfaction until we compare favourably with other investment options over all time frames. It is not on for an active manager to underperform passive alternatives.

Economic Results²

Economic results derive from two groups:

- (i) Common equity investments, our long-term holdings in businesses through fractional ownership in common stock. These economic profits 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. Last year, these “earnings” amounted to about \$6.7 million (\$6.93 per ROMC security); and

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

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.

- (ii) Fixed income & other, where we sometimes enter into operations of a short-term nature, mainly in trading strategies related to fixed income, foreign exchange and/or derivative instruments. Last year, profits in this category aggregated \$11.4 million (\$11.75 per ROMC security).

The total for both groups, at \$18.1 million, came to \$18.68 per security and was by far the best showing in our history. After the payment of expenses and on a per-security basis, Salary class showed an economic profit of \$17.97 while Performance-fee class earned \$16.22. Based on average market values for the year, 2021 earnings yield, at 33 per cent and 32 per cent, respectively was, much like my bout with Delta variant, a one-off.

Table 3: Economic Profit, Book and Market Value

(\$Cdn)	2021 economic profit	Average for the year:	
		Book value	Market value
Banking	830,899	4,121,303	5,688,115
Insurance	4,810,016	17,392,062	21,266,593
Consumer (Retail)	192,877	1,100,469	3,615,488
Communications, media & technology	267,711	2,833,639	5,662,154
Energy, industrial & transportation	604,376	3,435,311	6,282,280
Fixed income & other (incl. cash)	11,362,061	7,543,117	7,718,165
Attributable to ROMC investments	18,067,940	36,425,902	50,232,795
ROMC expenses	(812,144)		
Attributable to ROMC owners	17,255,796		
On a per-security basis:			
ROMC investments	18.68	37.65	
Salary class	17.97		53.73
Performance-fee class	16.22		51.04
	2021		
Salary securities - average	896,025		
Performance-fee securities - average	71,336		
Average ROMC securities outstanding	967,361		

Table 3 shows a dramatic year-over-year increase in profits and capital allocated to Insurance. When dealing in common equity investments, long-term value for money is our focus and last year, in insurance, there was plenty to focus on. Discounts to accounting-valued net assets were as high as 40 per cent and earnings were exceptional.

The table also shows unusually large profits from Fixed income & other (mainly to “other”). Within this area, our attention is drawn to pricing inefficiency caused by irrational behaviour in securities markets. Last year’s prize in the absurd went to the Wall Street Bets (WSB) online forum. What started as a reasonable idea by a few became a ridiculous frenzy by the many. A large group of “investors” entered herdlike into a short-squeeze operation whereby an economically-challenged business with a large amount of its common stock loaned out to short sellers receives overwhelming demand for its loaned shares back. If enough demand for stock materializes, what follows is a chain reaction—buyer causes loaned stock to be called in, causing short seller to buy back same shares to return stock. A few iterations of this and things get downright interesting. As luck would have it, one target caught up in this “meme” melee was a former ROMC holding. (Did I mention economically challenged?) Having some opinion of its worth and seeing that the WSB crowd had vaulted its stock price to more than 100 times that opinion, we got to work. (*Technical section: ROMC supplied long-dated, deeply out-of-the-money options to the diamond-handed.*) Within two weeks,

reason began its inevitable return and we exited our obligations. Profits of this nature—of which last year we produced \$11.4 million—are immediately taxable. 2021 was the gift that will keep on hurting.

Figure 1: A comparison of economic values³ and market value

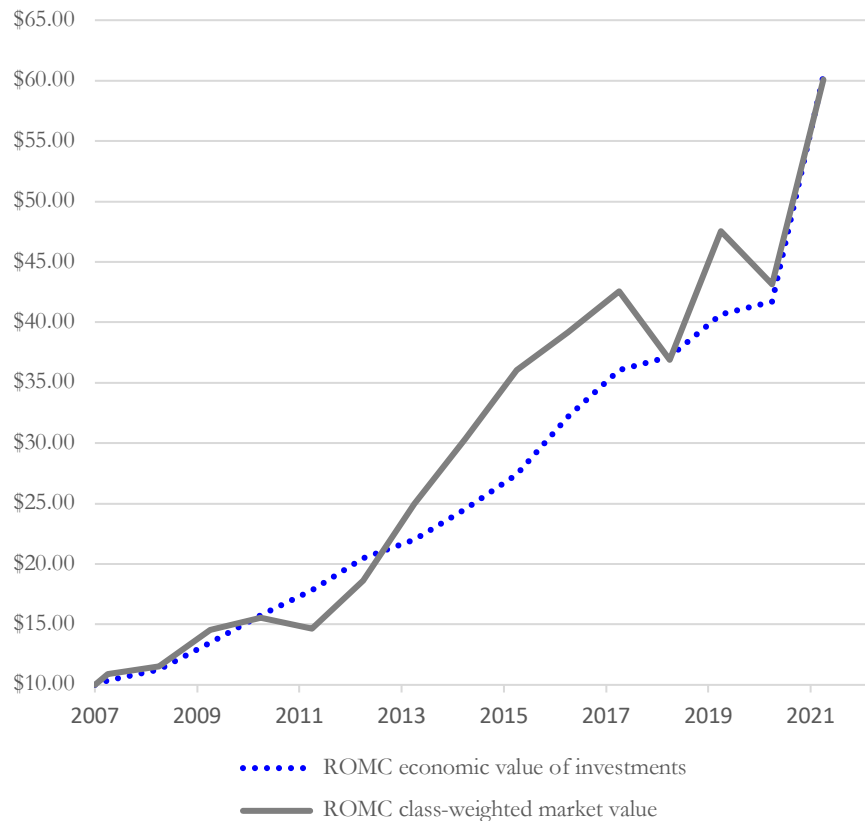


Figure 1 is an update of our position vis-à-vis economic value and market price. It is an illustrative attempt to provide owners with an understanding of the old saying: “Price is what you pay, value is what you get.” As you know, I calculate our economic value based on all profits accrued to our interest since inception. It approximates how we have performed, economically, over time. It does not guarantee our future market path (even if it has matched our market past), but I do think it helps to show a correlation between economics and market prices and it probably isn’t too far-fetched to suggest some correlation in future. Historically, when our market price approximates our economic value, it has been a reasonable time to be an owner. At the end of 2020, our market price and economic value were pretty much the same. Over 2021, our market price increased almost 40 per cent to \$60.08 but my calculation of our per-security economic value showed growth of more than 44 per cent to \$60.40.

Expenses

Last year’s administration and audit expenses were 0.147 per cent of average assets (declining from last year’s 0.175 per cent). Salary class management fees—totaling \$500,000, plus HST—was lower, on a percentage-of-assets basis, than in recent years, decreasing to 1.16 per cent (down from last year’s 1.46 per cent). After an almost three-year hiatus, Performance-fee class owners paid management fees in 2021, equivalent to 4.38 per cent of class assets.

The “all-in” management expense ratio (MER) for 2021 came to 1.31 per cent for Salary class and 4.52 per cent for Performance-fee class.

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

Taxes⁴

Taxable owners will receive a T3 slip showing a reportable capital gain that came to a per-security figure of about \$13. The tax owing for marginal-rate Ontarians is about 27 per cent of that figure.

Last year's realized capital gains were again material but unlike in 2020, they were derived almost entirely from our "other" category. The last time we had a decent year in Fixed income & other was 2016, so it's not to be relied upon as an annual occurrence. That doesn't mean the tax isn't payable. For those owners who find the liability to Ottawa more than their present liquid means allow, consider a partial sale of your ROMC holdings, even though such action will lead to more reportable gains for you in 2023.

Before you begin to think that we're all square with CRA, I will tell you that, at time of writing, ROMC's unrealized capital gain position was about \$18 million.

Partnership

A glance at Figure 1's market price movements over our history suggests that in investing, as in life, there are no straight lines. But does that mean that a convulsively rising price represents risk? Textbooks suggest this is the case and when you read your ROMC subscription form or review yet the latest regulatory compliance directive sent to your inbox, you might begin to believe it yourself. I offer a different perspective, summed up as follows: "I'll take a lumpy 15 per cent over a smooth 7 any day." When it comes to gyrating price lines, known colloquially as volatility, you should find them opportunistically useful. Risk, on the other hand, is properly defined as the permanent loss of capital. We may not like the anxiety caused by temporary swings in our market value but to suggest that they are permanent, and therefore risky, is silly. As your managing partner in ROMC, part of my job is to help you see the difference and, in that spirit, I offer a rousing pep talk by the ever-ebullient Charlie Munger:

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

Feel the tingle?

This year's annual meeting will be planned as an in-person gathering. A reminder note will be sent to you closer to the date, but the details are as follows:

ROMC Annual Owners' Meeting

Wednesday, May 11, 2022

11 a.m.

1 Richmond Street West, Suite 701, Toronto, Ontario

The meeting will swiftly move to what I consider the social event of the season: The Owner's Lunch. To celebrate the return of the in-person experience, we have reserved the Richmond Station, www.richmondstation.ca, "Top Chef Canada" winner Carl Heinrich's noteworthy restaurant, conveniently located in our own building. Please consider attending, this is your opportunity to learn more about your investment, meet like-minded people and enjoy some proper nosh.

March 29, 2022

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.