

ROMC FUND

2022

ANNUAL REPORT

For the year ending December 31, 2022

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
Damelin Financial Services 405 - 391 Brunswick Ave. Toronto, Ontario M5R 2Z2 Tel. 647-360-4771	Cooper & Company 108 - 1120 Finch Ave. West Toronto, Ontario M3J 3H7 Tel. 416-665-3383	McLean Asset Management 701 - 1 Richmond St. West 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:		
	ROMC NAVPS (a)	<i>Inflation</i> (b)	Real return (a - 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%
2022	-5.6%	<i>6.3%</i>	-11.9%
Annual gain since inception	12.1%	<i>2.1%</i>	10.0%
Overall gain since inception	467.4%	<i>36.8%</i>	430.6%

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 2022, ROMC's net asset value declined \$3.1 million. On a class-weighted, per-security basis¹, the decrease was 5.6 per cent. (Table 1 shows data for each class.) Since inception just over fifteen years ago, our class-weighted per-security net asset value has risen from \$10 to \$56.74, an annual growth rate of 12.1 per cent.

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

ROMC security	Start NAVPS	2022 change in NAVPS		End NAVPS
		\$Cdn	%	
Salary class	\$60.38	-\$3.40	-5.6%	\$56.98
Performance-fee class	\$56.51	-\$2.48	-4.4%	\$54.03

The big story in 2022 was the rise in inflation, accelerating from 2020's less than one per cent to last year's more than six. About a year ago, central banks took notice and started to raise interest rates from practically nothing to almost the equivalent of earnings yields in the stock market. The following table illustrates:

Year-end annualized yields & inflation	2022	2021	2020
S&P 500 Index earnings yield *	4.5%	4.2%	2.5%
10-year treasury bond yield **	3.3%	1.4%	0.7%
3-mth treasury bill yield **	4.3%	0.2%	0.1%
Inflation **	6.3%	4.8%	0.7%

* Source: www.us.spindices.com

** Source: www.bankofcanada.ca

ROMC's job is to outpace inflation, after taxes. How else will your purchasing power increase? But with inflation above the yields on all major asset classes, that job is made difficult. Gone are the days of easy money. Now the real work begins: finding productive assets that yield more than inflation, after factoring in the tax hurdle rate. Given the numbers above, you won't be doing that in an equity index fund; nor will you find success in a ten-year bond, and cash won't get you there either. The money tide is going out and with it, speculation—especially the leveraged kind. You only have to look as far as cryptocurrency, where the latest example of financial alchemy is exacting its toll on the once bewitched.

In Table 2 (updated to February 28, 2023), you can see that our relative record is improving. (I show you this relative-progress table in order to give you some idea of how we measure up against the general experience in equities.) In last year's example, ROMC's 5-year annual return was 8 per cent behind the best performing index of the three shown: the S&P 500. At the end of February, that relative figure had declined to less than 4 per cent and we'd almost caught up with the other two. There is still work, but I think the disadvantage we faced over the last few years—with zero interest rates, and their ability to pervert the normal function of security analysis—is in the past. (When there is no cost to money, what does it matter what anything costs?)

Table 2: ROMC Fund vs. Other Investment Categories

Oct. 1, 2007 - Feb. 28, 2023	Overall	Annual gain:			
		Overall	1 year	3 years	5 years
ROMC Fund: Salary class	542%	12.8%	12.6%	15.3%	7.7%
ROMC Fund: Performance-fee class	504%	12.4%	12.8%	14.8%	8.0%
U.S. Equities (S&P 500 TR)	387%	10.8%	-1.3%	13.0%	11.5%
Global equities (MSCI World GR)	234%	8.1%	-0.1%	10.9%	8.7%
Canadian equities (S&P/TSX Composite TR)	127%	5.5%	-1.3%	10.8%	8.8%

Source: MSCI and S&P Dow Jones Indices

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 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 which we own stock, multiplied by the average shares held by ROMC during the year. Last year, these “earnings” amounted to about \$4.2 million (\$4.52 per ROMC security); and
- (ii) Fixed income & other, where we sometimes operate on a short-term nature, mainly in trading strategies related to arbitrage, fixed income, foreign exchange and/or derivative instruments. Last year, profits in this category aggregated \$518,171 (\$0.55 per ROMC security).

The total for both groups, at \$4.7 million, came to \$5.07 per security. After the payment of expenses and on a per-security basis, Salary class showed an economic profit of \$4.27 while Performance-fee class earned \$4.94. Based on average market values for the year, 2022 earnings yields were 8 per cent and 9.7 per cent, respectively. By comparison, the S&P 500 Index—our benchmark for the general experience in business and equity valuation—had an average earnings yield for the year of 4.3 per cent, nearly half that of Salary class.

Table 3: Economic Profit, Book and Market Value

(\$Cdn)	2022 economic profit	Average for the year:	
		Book value	Market value
Banking	2,854,629	4,515,928	7,789,362
Insurance	1,224,393	9,820,470	13,959,158
Consumer & healthcare	67,045	440,200	2,027,333
Fixed income & other (incl. cash)	518,171	21,930,310	23,868,832
Attributable to ROMC investments	4,664,238	36,706,909	47,644,686
ROMC expenses	(679,829)		
Attributable to ROMC owners	3,984,409		
On a per-security basis:			
ROMC investments	5.07	39.88	
Salary class	4.27		53.73
Performance-fee class	4.94		51.04
	2022		
Salary securities - average	845,584		
Performance-fee securities - average	74,892		
Average ROMC securities outstanding	920,476		

Table 3 shows a picture of ROMC that owners rarely see. Last year, we reduced our long-term investments in common equities in favour of cash, fixed income and other securities. Never in our history have we allocated anything close to 50 per cent of ROMC to this area. The split is pretty evenly spread between equity arbitrage and cash/fixed income. In our arbitrage holdings, the average discount to value is 33 per cent and I would hope to see that gap close within a 12-month timeframe. In fixed income, including cash holdings, we are earning over 5 per cent while we wait for long-term value to re-emerge.

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.

Figure 1: A comparison of economic value³ and market value

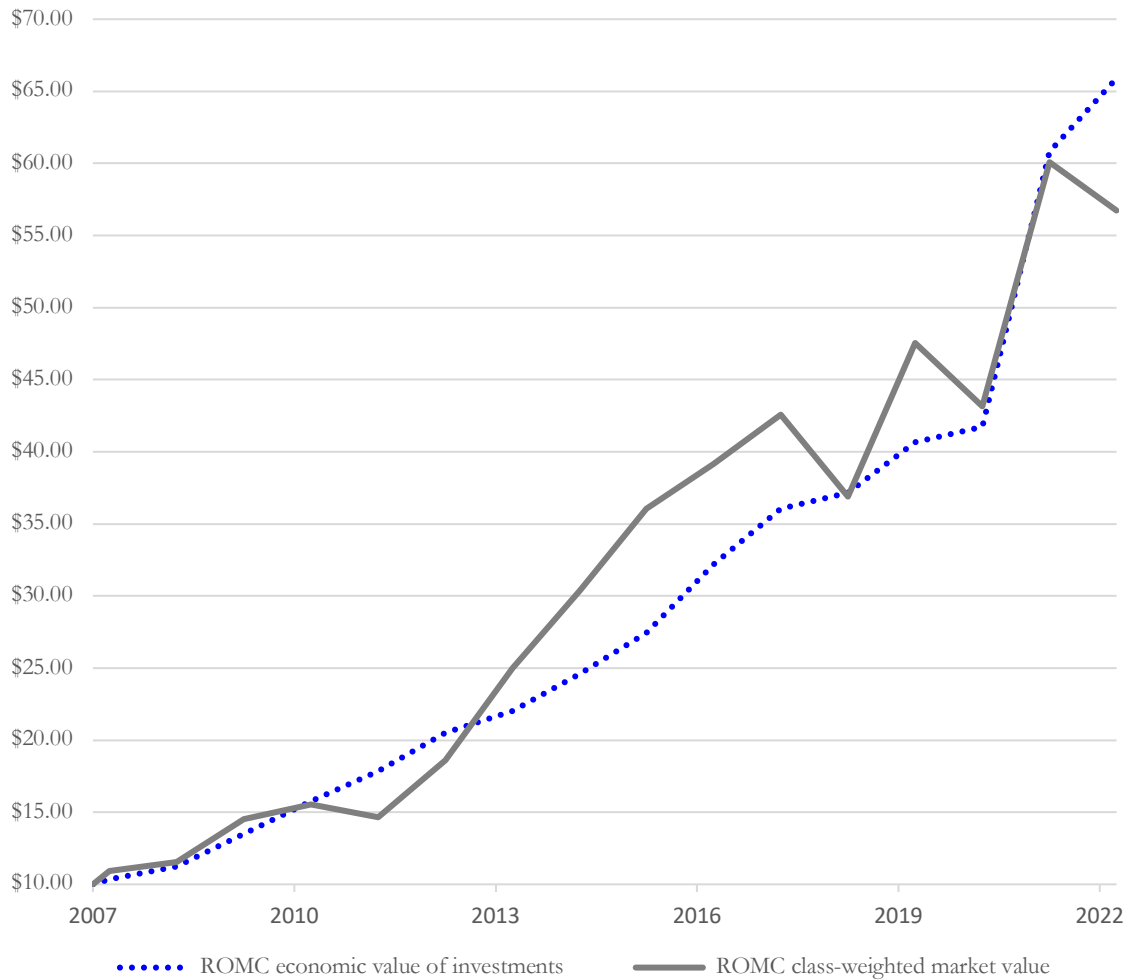


Figure 1 is an update of our position vis-à-vis economic value and market price. It is an illustrative attempt to provide owners with an understanding of the old saying: “Price is what you pay, value is what you get.” As you know, I calculate our economic value based on all profits accrued to our interest 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 2021, our market price and economic value were pretty much the same. Over 2022, our market price declined almost six per cent to just under \$57 but my calculation of our per-security economic value showed growth of more than eight per cent to almost \$66.

You might be interested to read that since inception, the calculated cumulative economic profit earned by owners is \$49 million. That’s after all expenses. The figure may not mean much on its own, but consider that at year end, ROMC had net assets of \$52 million. Let me make that clearer: since inception, the net amount of capital raised from owners moving in and out of ROMC is less than \$1 million. You rightly suggest that my marketing skills leave much to be desired. Perhaps you’ll be kinder about ROMC’s compounding skills.

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 0.192 per cent of average assets (increasing from last year's 0.147 per cent). It seems inflation does not spare the saver any less than it does the consumer. Salary class management fee—totaling \$500,000, plus HST—was the same, on a percentage-of-assets basis, as 2021, at 1.16 per cent. Due to a negative change in our per-security net asset value, Performance-fee class owners paid no management fee in 2022.

The “all-in” management expense ratio (MER) for last year came to 1.35 per cent for Salary class and 0.192 per cent for Performance-fee class.

Taxes ⁴

Only taxable owners that sold ROMC securities last year have income in the form of capital gains to report to CRA. Those owners that did not sell any of their securities last year did not receive a distribution.

At time of writing, ROMC's unrealized capital gain position was about \$14 million.

Partnership

Benjamin Graham, in his book *The Intelligent Investor*, wrote that: “In the short run, the market is a voting machine but in the long run, it is a weighing machine.” What he meant was that, at times, buying or selling in securities markets will have little to do with economic value. Instead, it will be based on the collective emotions of market participants. But business isn't run on emotion, it is run on economics and more specifically, return on capital. Within this battle between votes and weight is the cost of money, or interest rates. When they are normal—i.e., in line with inflation—they act as scales for market participants, offering a reasonable benchmark for returns on capital (weight). When they are perverted, as they were for more than a decade after 2008 when they were held down well below the rate of inflation, they alter otherwise rational behaviour and lead the market off its balanced diet and on to a binge. When reason returns, as it always does and interest rates correct, the ensuing reaction appears more like a famine, where once celebrated (and inflated) assets quickly lose weight, wither, and even expire.

While on the subject of lunch, this year's annual shindig will be held a little earlier than in the past. The details are as follows:

ROMC Annual Owners' Meeting
Friday, April 21, 2023
11 a.m.
1 Richmond Street West, Suite 701, Toronto, Ontario

We have again booked the Richmond Station (www.richmondstation.ca), conveniently located in our own building and with what looks to be a well-rounded menu. Please consider attending, this is your opportunity to learn more about your investment, meet like-minded people and enjoy some of Toronto's better cuisine.

March 25, 2023

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.