

# Annual Management Report of Fund Performance ROI Fund Inc. – Series I, II, III



As at December 31, 2019

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-866-764-3863, by writing to us at 43 Front Street East, Suite 301, Toronto, Ontario M5E 1B3, or by visiting our website at [www.roicapital.ca](http://www.roicapital.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

Security holders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures or proxy voting disclosure record.

Every effort has been made to ensure that the information contained in this report is accurate as of December 31, 2019; however, the Fund cannot guarantee the accuracy or the completeness of this material. Please refer to the Fund's Prospectus and audited annual financial statements for more information.



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### Investment Objective

The ROI Fund's investment objective is to provide investors with yield as well as long-term capital gains by making debt and equity investments in a diversified portfolio of small- and medium-sized eligible businesses as required to meet the pacing requirements of the Fund. The ROI Fund also invests a certain portion of its assets in "reserves" that has the meaning ascribed thereto in the *Federal Tax Act* and the *Ontario Act*, which for each series of shares includes Canadian dollars in cash or on deposit with qualified Canadian financial institutions, debt obligations of or guaranteed by the Canadian federal government, debt obligations of provincial and municipal governments, Crown corporations, corporations and trusts listed on prescribed stock exchanges, guaranteed investment certificates issued by Canadian trust companies, qualified investment contracts, and securities listed on prescribed stock exchanges.

### Investment Strategy

To seek to achieve its investment objective, the ROI Fund endeavours to: (i) invest a minimum of 60% of the capital raised from the sale of Class A Shares in a diversified portfolio of businesses; and (ii) invest the balance of the net proceeds in reserves such as short-term government debt, corporate debt obligations, or for Class A Shares, Series I, Class A Shares, Series II and Class A Shares, Series III, publicly-listed securities. As the Manager believes that a critical component of portfolio risk management is diversification, the ROI Fund will diversify its investments and will seek to invest in companies with established products, customers, distribution channels and who have demonstrated solid financial results as

evidenced by historical cash flow, or the clear ability to generate cash flow in the near-term. The ROI Fund will not invest in speculative business models, early stage high-tech businesses or start-ups.

### Risks

The Fund's venture investments, when made, are primarily equity or subordinated, secured debentures made in small to medium sized private businesses and are generally subordinated to senior lenders.

There are risks associated with investing in these instruments. A long-term investment horizon is recommended when investing in the Fund. Investments are made with the expectation that they will be held to maturity. This diminishes the impact of economic cycles and market volatility.

### Valuation

The Fund estimates the fair value of its assets for which there is no published market. The valuation process is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. Measurement of fair value on an ongoing basis involves considerable judgment. Estimated fair value is determined using appropriate valuation methodology after considering: the history and nature of the business; operating results and financial conditions; independent valuations of the business; contractual rights relating to the investment; public or private market comparable transactions and results multiples, where applicable, and other pertinent considerations.

For further discussion on risk issues please see the notes to the financial statements.

### Results of Operations

The portfolio advisor of the Fund is Return On Innovation Advisors Ltd. The commentary that follows provides a summary of the results of operations for the period ended December 31, 2019.

#### *Financial Performance*

Total net assets at December 31, 2019 were \$26,978,780 down from \$43,616,439 at the prior year end.

During the year ended December 31, 2019, the Fund had redemptions of \$18,033,355 and an increase in net assets from operations of \$1,395,696. The Fund is not accepting new subscriptions.

Redemptions continue to be high, but not unexpected. Investors cannot redeem units without penalty for eight years. Once the eight-year hold period is finished, they may redeem units without penalty. The high levels of redemptions reflect the end of the holding periods and consequent redemptions. The Fund continues to hold ample liquid portfolio to manage the liquidity requirements relating to these redemptions.

#### *Investment Performance*

For the year ended December 31, 2019, Series I returned 3.02%, Series II 2.95% and Series III 2.61%. Please refer to the past performance section for additional performance information.

The increase in net assets from operations was composed of a \$1,961,241 loss from operations and \$3,356,937 in realized and unrealized gains on investments. The realized and unrealized gains on investments are made up of \$1,580,121 in net realized gains on investments and a \$1,776,816 net change in unrealized gains.

#### *Investment Activity*

On May 14, 2018, Series I, II, III completed the sale of its investment in Toronto Waterfront Studios Inc., Class A common shares, the last venture investment held by the Fund.

A portion of the proceeds from the sale of this investment were held in escrow as recourse for indemnity claims that may arise under the sale agreement. No indemnity claims arose from the sale agreement and during the period, the escrow amounts were paid to the Fund, resulting in a gain of \$245,000.

The remaining investments in the liquid portfolio consist of marketable securities and short-term investments. At December 31, 2018 the Fund held \$21,691,024 in marketable securities, (approximately 49.73% of the Fund) \$20,254,837 in cash and short-term investments (approximately 46.42% of the Fund) and \$1,997,483 in convertible unsecured subordinated debentures (approximately 4.58% of the Fund). At December 31, 2019 the Fund held \$ 18,631,670 in marketable securities, (approximately 69.06% of the Fund) \$ 8,537,663 in cash and short-term investments (approximately 31.65% of the Fund). The Fund remains liquid to ensure it can meet its liquidity requirements but will deploy as is prudent in appropriate investments given the investment objective and strategy of the series of the Fund.

During the year, the Fund did not invest in any new liquid investments but trimmed these investments as necessary to Fund redemptions and manage the overall asset mix of the Fund. The mix in the liquid portfolio has not changed materially since December 31, 2018 but the allocation to cash decreased and the allocation to equities has increased. During the year, cash and

short-term investments decreased from 45.88% to 31.55% of the Fund, large cap Canadian stocks increased from 23.14% to 29.30% of the Fund, bonds and convertible debentures increased from 15.43% to 17.74% of the Fund and Canadian REITs also increased 15.26% to 21.41% of the securities value.

Overall the Fund went from overweight in cash and fixed income to a balanced weight in cash and fixed income versus equities. Given the volatility of the stock market during the period this did negate some volatility in the Fund's performance during the period, yet the Fund benefited from the strong performance of the two largest investments. The iShares S&P/TSX 60 Index ETF had a gain of 21.72% during the year including dividends and the iShares S&P/TSX Capped REIT Index had a gain of 22.00% during the year including dividends.

The income of the Fund is comprised of interest income on fixed-income securities and distributions from the ETFs in the amount of \$619,977. The income from the securities portfolio was down year over year, as the portfolio size has decreased due to redemptions and to ensure there is liquidity on hand for anticipated redemptions.

### *Fees and Expenses*

Total expenses for the year were \$2,610,196.

The Fund's overall management expense ratio ("MER") was 8.17%. The comparable MER for the year ended December 31, 2018 was 7.67% (ignoring the expense recoveries in 2018) The MER increase was due to a contractual increase in trailing commissions paid and to the fixed expenses being spread over a declining NAV. These were somewhat offset by a decrease in commission finance fees paid by the Fund.

## RECENT DEVELOPMENTS

### *Investment Pacing Requirements*

The Fund is required to invest a prescribed portion of its assets in eligible venture investments as defined in the Community Small Business Investment Funds Act (Ontario) and the Income Tax Act (Canada). If the minimum level of qualifying venture investments is not met as at the calendar year end, the Funds may be subject to defined taxes and penalties. As at December 31, 2017 and 2016, the Fund was not in compliance with the investment pacing requirement. The Fund returned to compliance in February of 2018. As such, the investment level taxes relating to 2016 and 2017 were recognized as an expense recovery in 2018 in the Statements of Comprehensive Income (Loss).

As at December 31, 2019 the Fund was in compliance with the investment pacing requirement.

### *Coronavirus*

The impact of the coronavirus ("COVID-19") outbreak on the financial performance of the Fund's investments will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. These developments and the impact of COVID-19 on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Fund's future investment results may be materially adversely affected.

### *Related Party Transactions*

The Manager, Advisor and ACTRA Toronto Performers (the "Sponsor") are deemed to be related parties. Please refer to the section titled "Management Fees," which outlines fees paid to these related parties.

## Financial Highlights

The following tables show selected key financial information about Series I, II, III of the Fund and are intended to help you understand the series' financial performance.

<b>Class A Series I Net assets attributable to holders of redeemable shares per unit<sup>1,2,3</sup></b>	<b>Dec 31 2019</b>	<b>Dec 31 2018</b>	<b>Dec 31 2017</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Net assets attributable to holders of redeemable shares, beginning of year	8.42	7.97	6.92	6.76	7.31
<b>Increase (decrease) in net assets attributable to holders of redeemable shares</b>					
Total Revenue	0.17	0.15	0.11	0.15	0.26
Total Expenses	(0.68)	(0.52)	(0.61)	(0.53)	(0.54)
Realized gains (losses) for the year	0.44	3.04	0.36	0.09	–
Unrealized gains (losses) for the year	0.38	(2.06)	1.17	0.40	(0.19)
<b>Increase (decrease) in net assets attributable to holders of redeemable shares<sup>2</sup></b>					
	0.31	0.61	1.03	0.11	(0.47)
<b>Distributions:</b>					
From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains	–	–	–	–	–
Return of capital	–	–	–	–	–
<b>Total annual distributions<sup>2</sup></b>					
	–	–	–	–	–
<b>Net assets attributable to holders of redeemable shares</b>	<b>8.68</b>	8.42	7.97	6.92	6.76
<b>Ratios and Supplemental Data</b>					
Total Net assets attributable to holders of redeemable shares (000's) <sup>3</sup>	14,608	18,549	32,052	35,660	45,842
Number of shares outstanding <sup>3</sup>	1,683,247	2,201,874	4,019,935	5,153,142	6,776,394
Management expense ratio <sup>4</sup>	8.16%	5.95%	8.54%	7.89%	7.46%
Management expense ratio before waivers or absorptions	8.16%	5.95%	8.54%	7.89%	7.46%
Trading expense ratio <sup>5</sup>	–	–	0.01%	–	–
Portfolio turnover rate <sup>6</sup>	–	–	25.91%	7.25%	2.62%
Net assets attributable to holders of redeemable shares per unit	8.68	8.42	7.97	6.92	6.76

# Management Discussion of Fund Performance

<b>Class A Series II Net assets attributable to holders of redeemable shares per unit<sup>1,2,3</sup></b>	<b>Dec 31 2019</b>	<b>Dec 31 2018</b>	<b>Dec 31 2017</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Net assets attributable to holders of redeemable shares, beginning of year	8.18	7.77	6.76	6.62	7.16
<b>Increase (decrease) in net assets attributable to holders of redeemable shares</b>					
Total Revenue	0.17	0.14	0.11	0.14	0.24
Total Expenses	(0.68)	(0.56)	(0.62)	(0.53)	(0.54)
Realized gains (losses) for the year	0.39	2.96	0.34	0.09	–
Unrealized gains (losses) for the year	0.55	(2.05)	1.17	0.41	(0.19)
<b>Increase (decrease) in net assets attributable to holders of redeemable shares<sup>2</sup></b>	<b>0.43</b>	<b>0.48</b>	<b>1.00</b>	<b>0.11</b>	<b>(0.49)</b>
<b>Distributions:</b>					
From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains	–	–	–	–	–
Return of capital	–	–	–	–	–
<b>Total annual distributions<sup>2</sup></b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net assets attributable to holders of redeemable shares</b>	<b>8.42</b>	<b>8.18</b>	<b>7.77</b>	<b>6.76</b>	<b>6.62</b>
<b>Ratios and Supplemental Data</b>					
Total Net assets attributable to holders of redeemable shares (000's) <sup>3</sup>	11,991	24,549	31,194	31,356	37,500
Number of shares outstanding <sup>3</sup>	1,423,540	3,000,263	4,014,528	4,637,658	5,662,983
Management expense ratio <sup>4</sup>	8.17%	6.57%	8.82%	8.08%	7.57%
Management expense ratio before waivers or absorptions	8.17%	6.57%	8.82%	8.08%	7.57%
Trading expense ratio <sup>5</sup>	–	–	0.01%	–	–
Portfolio turnover rate <sup>6</sup>	–	–	25.91%	7.25%	2.62%
Net assets attributable to holders of redeemable shares per unit	8.42	8.18	7.77	6.76	6.62

# Management Discussion of Fund Performance

<b>Class A Series III Net assets attributable to holders of redeemable shares per unit<sup>1,2,3</sup></b>	<b>Dec 31 2019</b>	<b>Dec 31 2018</b>	<b>Dec 31 2017</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>
Net assets attributable to holders of redeemable shares, beginning of year	8.58	8.15	7.08	6.91	7.45
<b>Increase (decrease) in net assets attributable to holders of redeemable shares</b>					
Total Revenue	0.18	0.15	0.11	0.15	0.26
Total Expenses	(0.74)	(0.58)	(0.62)	(0.53)	(0.55)
Realized gains (losses) for the year	0.44	3.17	0.40	0.09	0.03
Unrealized gains (losses) for the year	0.42	(2.16)	1.15	0.39	(0.18)
<b>Increase (decrease) in net assets attributable to holders of redeemable shares<sup>2</sup></b>	<b>0.30</b>	<b>0.59</b>	<b>1.04</b>	<b>0.10</b>	<b>(0.43)</b>
<b>Distributions:</b>					
From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains	–	–	–	–	–
Return of capital	–	–	–	–	–
<b>Total annual distributions<sup>2</sup></b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net assets attributable to holders of redeemable shares</b>	<b>8.81</b>	<b>8.58</b>	<b>8.15</b>	<b>7.08</b>	<b>6.91</b>
<b>Ratios and Supplemental Data</b>					
Total Net assets attributable to holders of redeemable shares (000's) <sup>3</sup>	379	519	688	936	1,395
Number of shares outstanding <sup>3</sup>	43,071	60,478	84,457	132,263	201,904
Management expense ratio <sup>4</sup>	8.55%	6.54%	8.50%	7.77%	7.32%
Management expense ratio before waivers or absorptions	8.55%	6.54%	8.50%	7.77%	7.32%
Trading expense ratio <sup>5</sup>	–	–	0.01%	–	–
Portfolio turnover rate <sup>6</sup>	–	–	25.91%	7.25%	2.62%
Net assets attributable to holders of redeemable shares per unit	8.81	8.58	8.15	7.08	6.91

1. This information is derived from the Fund's audited annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").
2. The increase (decrease) from operations is based on the weighted average number of shares outstanding during the financial year. Distributions per share are based on the actual number of shares outstanding at the relevant time. This table is not intended to be a reconciliation of beginning to ending net assets per share. Distributions were paid in cash and either received in cash by the shareholder or reinvested in additional shares of the Fund.
3. This information is provided as at December 31 of the year shown.
4. Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the year. In 2018, there was an unusual expense recovery in the Fund, which led to a lower management expense ratio. Excluding this recovery in 2018 the management expense ratio would have been Series I – 7.33%, Series II – 7.95%, Series III – 7.92%.
5. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
6. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## Advisor, Sponsor and Management Fees

The Manager has been retained by the Fund to manage the Fund’s investment portfolio. As compensation for the services to be provided for and on behalf of the Fund by the Manager, the Fund has agreed to pay to the Manager an annual advisor fee of 1.0% of the NAV of the Fund. The Fund pays the Sponsor (ACTRA Toronto Performers) an annual fee of 0.25% of the NAV of the Fund, calculated and paid monthly in arrears.

The Manager has been retained by the Fund to develop and implement all aspects of the Fund’s sales, marketing, distribution and communications strategies; organize the retention and supervision of service providers; develop and refine the investment strategy; and manage the ongoing business and administrative affairs of the Fund. As compensation for the services, the ROI Fund has agreed to pay to the Manager an annual management fee of 2.5% of the NAV of the Fund. The major services paid by the management fees by series expressed as an approximate percentage of the management fees are summarized as follows:

Series	I	II	III
Dealer Costs	0.00%	0.00%	0.00%
Other Fees*	100.00%	100.00%	100.00%

\* Includes general and administration fees, marketing fees, and profit.

The Manager has also been retained by the ROI Fund to pay sales commissions on behalf of the Fund and provide services in connection therewith. As compensation for these services, the Fund has agreed to pay to the Manager an annual financing fee of 0.4% of the NAV of the Fund, as well as an annual base financing fee equal to the aggregate of 1.25% of the original purchase price of Class A Shares, Series I and 0.75% of the original purchase price of Class A Shares, Series II (issued after January 1, 2004 that remain issued and unredeemed, provided that such fee ceases for any such shares retained for more than eight years).

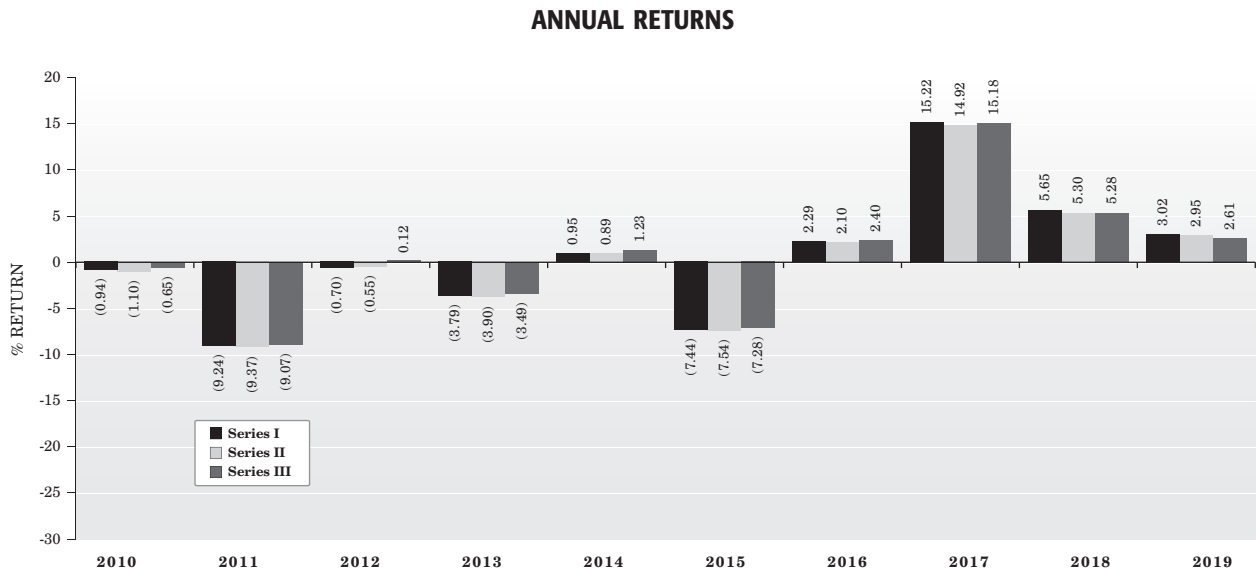


## Past Performance

The performance presented below is historical. The past performance information shown includes changes in security value; assumes the reinvestment of all dividends in the periods shown in additional shares of the Fund; and does not take into account sales, redemptions, dividend or optional charges, or income taxes payable by any investor, which would have reduced returns. It is important to note that past performance of the Fund does not represent how well the Fund will perform in the future.

### Year-by-Year Returns

The following bar chart shows the Fund's annual performance for each of the years shown and illustrates how the Fund's performance changes year to year. The chart shows in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



## Annual Compound Returns

The table below summarizes the ROI Fund’s historical compound total returns at December 31, 2019. As a basis of comparison, we have provided the returns of the Canadian Investment Funds Standard Committee Retail Venture Capital Index (“CIFSC Retail Venture Capital Index”) and the S&P/TSX SmallCap Index as at December 31, 2019. The CIFSC Retail Venture Capital Index is an equally weighted average of mutual funds within the Labour-Sponsored Investment Fund asset class. The S&P TSX SmallCap Index is a portfolio index of the Small Cap market segment of the Canadian equity market.

<b>COMPOUND RETURNS – %</b>	<b>5 YEARS</b>	<b>3 YEARS</b>	<b>1 YEAR</b>
Series I	3.50%	7.84%	3.02%
Series II	3.30%	7.60%	2.95%
Series III	3.39%	7.56%	2.61%
S&P/TSX Small Cap Index	3.18%	(0.87%)	15.84%
CIFSC Retail Venture Capital	(5.38%)	(4.15%)	(6.96%)

## Summary of Investment Portfolio as at December 31, 2019

The summary of investment portfolio will change due to ongoing portfolio transactions of the investment fund.

<b>Asset Mix</b>	<b>% of Series I, II, III Net Asset Value</b>
Marketable securities	69.06%
Short-term investments	31.65%
Liabilities, net of other assets	(0.71%)
<b>Total</b>	<b>100.00%</b>

<b>TOP 25 HOLDINGS</b> <b>(Note: Fund only has 4 holdings)</b>	<b>% of Series I, II, III Net Asset Value</b>
CIBC Mellon Trust Demand Deposit, variable rate	31.65%
iShares S&P/TSX 60 Index ETF	29.56%
iShares S&P/TSX Capped REIT Index ETF	21.60%
iShares Canadian Short Term Bond Index ETF	17.90%
<b>Total holdings as a percentage of net asset attributable to holders of redeemable shares</b>	<b>100.71%</b>
<b>Total Fund Net Asset Value</b>	<b>\$26,978,780</b>

The most recent annual report or semi-annual report is available at no cost by calling 1-866-764-3863, by writing to us at 43 Front Street East, Suite 301, Toronto, Ontario M5E 1B3 or by visiting our website at [www.roicapital.ca](http://www.roicapital.ca).