JANIAN
INVESTMENT ADVISERS, LLC

February 4, 2014

Dear Clients:

The firm's strategies returned, on average, the following in 2013[1]:

| | Equity (Taxable) | Equity (Non-Taxable) | Income |
|---|---|---|---|
| 2013Q1 | +7.6% | +7.8% | +10.3% |
| 2013Q2 | -4.2% | -1.3% | +2.6% |
| 2013Q3 | +5.3% | +7.6% | +1.7% |
| 2013Q4 | +9.7% | +8.5% | +1.4% |
| Total | +19.1% | +24.1% | +16.6% |

The Vanguard Total Stock Market Index Fund rose +33.4% for the year. The Vanguard Bond Market Index Fund fell -2.3% for the year.

As with most hedged investment strategies, Janian's strategies are likely to trail a market during any substantial bull run. This was the case with Janian's Equity strategy in 2013. I cannot predict with certainty when markets will fall, although I believe that it will happen periodically. Thus, an essential part of Janian's approach is to always have a hedge against such a downturn, with the belief that this will help produce higher returns over the long run.

The Income strategy clearly had a successful year, with a solid gain compared to the bond market's loss. The Equity strategy had higher returns than the average equity hedge fund – a widely quoted equity hedge fund index was ~+14% for 2013 – which suggests that Janian also had a solid year in the Equity strategy. The returns of the Income strategy during a falling bond market demonstrate the power of hedging to help produce higher long-run returns. Janian believes its hedging strategy is also likely to prove useful to the Equity strategy in the years ahead.

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[1] The track records above are for all client accounts with values greater than $45,000 that existed as of the first day of the pertinent quarter. The returns shown are net of all costs and fees EXCEPT Incentive Fees, which are excluded from the calculation. The Incentive Fees payable by the firm's Qualified Clients are 25% of the difference, if any, between a client account's annualized three-year return less the annualized three-year return of the Benchmark. The Benchmark for Equity accounts is the Vanguard Total Stock Market Index Fund. The Benchmark for Income accounts is the Vanguard Bond Market Index Fund. The return shown is the average (mean) return of all client accounts' returns for the quarter.

For details about the Equity strategy, please read Appendix I. For details about the Income strategy, please read Appendix II. For details about individual positions, please read Appendix III (which is being sent only to clients).

## Janian Update

An updated copy of Part 2 of Janian's ADV will soon be posted to Janian's website.

I believe that Janian continues to have the following characteristics that distinguish it from other investment advisors:

- Janian has no business other than advising clients about financial planning and investments
- Janian directly manages the investment capital entrusted to it
- Janian's management fee is lower than the all-in fee charged to most investors who choose active management
- My own capital is invested almost identically to clients' capital
- Janian manages accounts, not a fund, so investors have full transparency and access to their investment portfolio
- The performance fee (for Qualified Clients) has a hurdle that Janian believes is much higher than almost all similarly incented managers
- Janian offers general investment advice, not just investment portfolios, with the aim of addressing the totality of a client's investment circumstances instead of offering only investment returns and leaving the client alone to figure out the rest

I continue to be very proud to be helping you with your financial planning and investments. Best wishes for a happy, healthy and productive 2014.

Sincerely,

James W. Hague

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## Appendix I:
## Equity Strategy 2013 Performance and Portfolio Construction

The year's estimated return for Janian's proprietary Equities (Taxable) strategy, to which all such customer accounts are very similar, was comprised of the following:

| | |
|---|---|
| Long Equities: | +25.8% |
| Short Equities: | -6.1% |
| Long Puts on Equities: | -3.1% |
| Macro: | +2.2% |
| Yield: | +1.7% |
| TOTAL | +20.5% |

Quarter-end exposure[2] for the account was as follows:

| | 2013Q1 | 2013Q2 | 2013Q3 | 2013Q4 |
|---|---|---|---|---|
| Long Equities: | 82.5% | 79.5% | 79.1% | 89.8% |
| Short Equities: | -13.6% | -12.1% | -14.9% | -17.5% |
| Long Puts on Equities: | 1.2% | 1.0% | 0.7% | 0.4% |
| Macro: | 2.5% | 2.9% | 0.3% | 0.5% |
| Yield: | 5.0% | 0.0% | 0.0% | -0.3% |
| TOTAL | 77.6% | 71.3% | 65.2% | 72.9% |

Dividing the results in the first table by the average of the columns in the second table indicates that Janian matched the market with its long stock picks and beat it with its Macro and Yield investments:

**Estimated 2013 Return on Average Quarter-End Exposure**

| | |
|---|---|
| Long Equities: | +31.2% |
| Short Equities: | -42.1% |
| Long Puts on Equities: | -377.9% |
| Macro: | +142.7% |
| Yield: | +144.2% |
| TOTAL | +20.5% |

How then did Janian manage to trail the market's return in 2013? Largely by being less than 100% invested in long positions and by owning puts during a big bull run[3].

Why the caution?

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[2] The %s are of account NAV, measured on a dollar basis.

[3] The Equities (Non-Taxable) strategy's exposures and results are similar to the Equity (Taxable) strategy, with the important differences of no shorting and no purchases of securities in non-US$ currency in the former. IRS regulations prohibit IRAs from borrowing, so they cannot execute either type of transaction.

First, that's generally how Janian invests: with a hedged approach that aims to limit potential losses. As you know, it's much easier to climb out of a shallow hole than a deep one, and the 9th Wonder of the World, compounding, makes that very powerfully true – and so Janian hedges.

Second, the U.S. government's debt, and securities current valuations, leads me to believe that at present it is prudent to invest more cautiously, rather than less.

The U.S. Government's Debt

According to treasurydirect.gov, the total amount of the U.S. government's debt[4] went from $10 Trillion on September 30, 2008 to $17 Trillion on November 30, 2013. For 2012, the Government had receipts of $2.5 Trillion and outlays of $3.5 Trillion. According to census.gov, the U.S. national population in 2010 was 308.7 Million and the number of households was 116.7 Million. According to bea.gov, the U.S. GDP as of September 30, 2013 was $16.9 Trillion.

You, of course, can perform your own calculations with this data, but here are a few:

- Federal debt is now ~$55,000 per person and ~$145,000 per household
- If the federal government increased all its receipts – including your income taxes – by ~44%, it would have broken even in 2012
- 6.4% of GDP is currently borrowed by the federal government

I recommend that you read further at http://swindled.thecankicksback.org and http://www.slideshare.net/kleinerperkins/usa-inc-key-points.

There are reasonable arguments currently being made that the U.S. will "have much stronger economic growth in 2014.[5]" As Janian sees it, regardless of what happens in 2014, there will be a large amount of debt that must eventually be paid – reducing the money available in the future to pay investors, and thus reducing the amount, all else being equal, that Janian is willing to risk today.

Most investors have ignored this issue for many years. I can image future scenarios wherein investors' imaginations are fearfully seized by it. I do not know if this will come to pass, but the accelerating size of this issue, the powerful impact that it could

[4] Some (false?) Cassandras cry that debt is a greater problem in Europe, and/or China, and/or Japan.

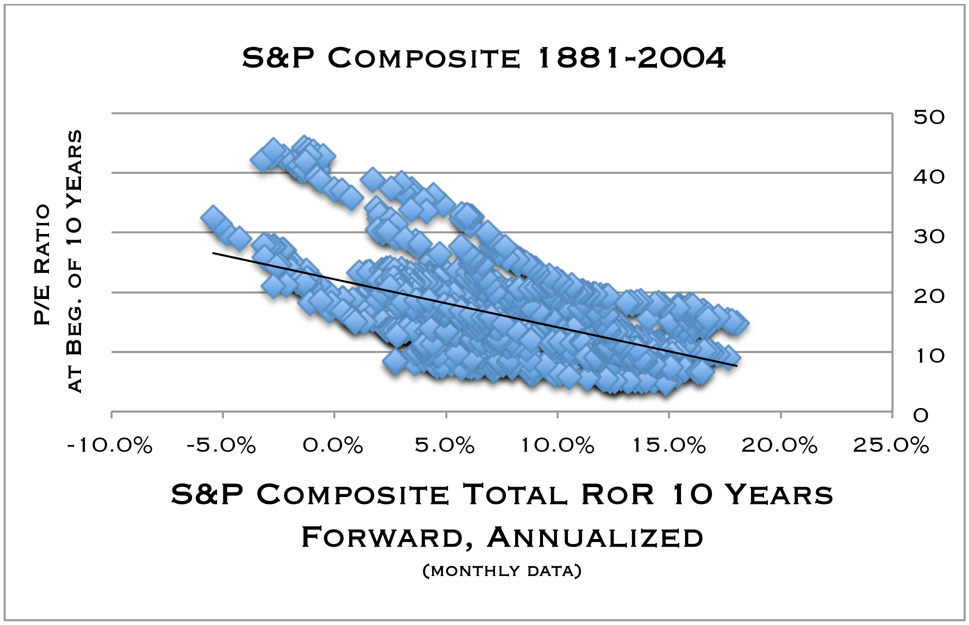
[5] Please see http://www.marketwatch.com/story/moodys-analytics-2014-us-macro-outlook-a-breakout-year-2013-12-12?siteid=nbsh. Of course, if you lay three economists end-to-end you get nowhere; please see http://www.project-syndicate.org/commentary/stephen-s--roach-says-that-anyone-trumpeting-a-faster-us-recovery-is-playing-the-wrong-tune#TqYWLdTiWyp1cGkz.99 for a different take.

possibly have on investors, and the fact that it has not been addressed in a substantial manner[6] all contribute to Janian's cautious approach.

Securities valuations

With that as big-picture backdrop, let's review securities valuations. In general, they are high. So much, in fact, that history predicts that they will fall.

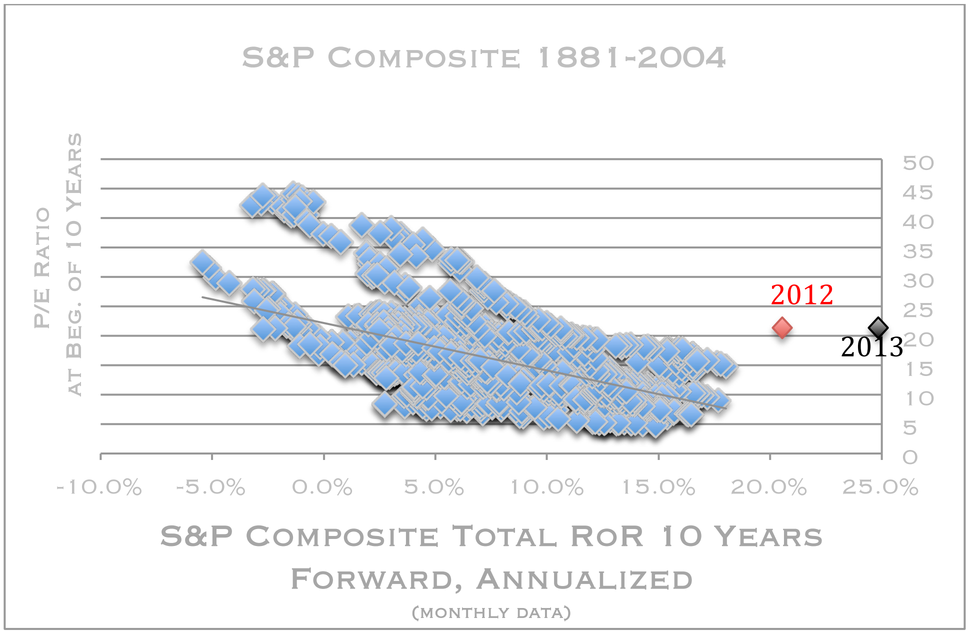
Historical data strongly indicate that the going-in valuation – for equities, that is the price-to-earnings ratio at the time of purchase – is critical to the 10-year annualized returns one receives after purchasing[7].




2012's and 2013's annualized returns so far will be extreme outliers – unless equity prices go up only mildly over the next eight or nine years, or drop meaningfully at some point during the same period.

[6] The Congressional Budget Office estimates that the 'successful compromise' Bipartisan Budget Act of 2013, drafted in December 2013, would reduce (from prior plans) the deficit by ~$21 Billion cumulatively over 2014-2018. That's ~0.6% of 2012 outlays. I am unimpressed.

[7] Data from http://aida.wss.yale.edu/~shiller/data.htm.




This general observation can be further illustrated with some valuations of two specific types of stocks: a group of stalwart U.S. icons, and a group of more speculative momentum stocks.

The icons are Accenture, CME (i.e. the Chicago Mercantile Exchange), Kraft, McDonald's, and Walgreens[8]. They are expected to earn a collective $15.2 Billion of net income in 2014[9] and as of December 31, 2013 have a collective stock market valuation of $261.9 Billion[10]. That's a net income yield of 5.8%. Ignoring all projections of the big-picture backdrop, do you want to be a passive partner in a business that will be around in a decade, at best probably won't grow a lot faster than the economy, and whose management could screw up, will likely never send out to you 100% of the earnings and has a strong incentive to take care of themselves before you – for an at-best prospective 5.8% yield?

[8] I believe that you could replicate this exercise with any number of iconic stocks. Ditto with the 'momentum' stocks in the next paragraph.

[9] Calculated as finance.yahoo.com's "Avg. Analyst Earnings Estimate" for fiscal year 2014 times finance.yahoo.com's "Shares Outstanding," as of January 21, 2014.

[10] Per finance.yahoo.com.

And if you need more action than 'stalwart,' there are 'momentum' stocks[11]. A group in which Janian has not had long or short positions in includes LinkedIn, Potbelly, ServiceNow, Tableau Software, and Workday. 2014's collective net earnings expectations: $0.3 Billion. December 31, 2013 collective stock market valuation: $53.0 Billion. Net income yield: 0.4%. Stock price gains in 2013: LNKD 89%, PBPB 73% (from the IPO price), NOW 87%, DATA 122% (from the IPO price), and WDAY 53%.

While both iconic and momentum stocks, as well as various other securities, may go higher from today's high prices, and while my take on the economic big-picture backdrop may be dead wrong or of no concern to other investors, Janian has been and will for the time being continue to be cautious.

The bottom line: if the U.S stock market is up 25%+ again in 2014, your accounts very likely will trail the market.

Janian anticipates that in 2014 it will continue to:

- invest less than 100% of capital in purchases of stocks;
- opportunistically establish small positions in macro and yield-like (often arbitrage) situations that are not directly related to the direction of the stock market;
- maintain a small sub-portfolio of puts on stocks, often 'momentum' stocks; and
- for the Equity (Taxable) strategy, maintain a sub-portfolio of short stocks.

[11] Netflix is currently considered to be a momentum stock. Here's what the CEO and CFO had to say about the stock market in the company's 2013Q3 Letter to Shareholders:

"In calendar year 2003 we were the highest performing stock on Nasdaq. We had solid results compounded by momentum-investor-fueled euphoria. Some of the euphoria today feels like 2003."

Taxes:

Assuming that you have other investment accounts that earned enough offsetting taxable income in 2013 and that your account was established in the fall of 2012 (when Janian's proprietary strategy was), the after-tax returns of your Janian account are estimated to be higher than the pre-tax returns reported herein[12]. Using these assumptions, Janian estimates the taxable returns for its proprietary taxable equities strategy, which is similar in construction to each of your accounts, are as follows:

| | Est. Pre-Tax % RoR to Acct | Tax Rate | Est. After-Tax % RoR to Acct |
|---|---|---|---|
| Unrealized Gains | +16.6% | 0% | +16.6% |
| Net Current Income | +0.4% | -35% | +0.3% |
| Realized Short-Term Gains | -3.3% | -35% | +1.2% |
| Realized Long-Term Gains | +6.8% | -15% | +5.8% |
| Total RoR | +20.5% | | +23.6% |

While most of your accounts were established after the fall of 2012 and you thus do not have the same after-tax results as Janian's proprietary strategy in 2013, next year they should be similar.

Vanguard estimates that investors in the Vanguard Total Stock Market Index Fund paid 0.6% of capital in taxes for 2013 on shares held, not sold (using the same assumptions as herein). As of December 6, 2013, Capital Group estimated that investors would pay (using the same assumptions herein) 0.3-2.0% of capital in taxes on a series of its mutual funds. Capital is a reputable buy & hold investor that manages many billions of dollars for individual investors[13], so Janian is pleased to have delivered 'extra' after-tax returns versus it, even if one has to make various assumptions to identify those 'extra' returns.

[12] Also assuming that you pay a 35% ordinary income tax rate, 35% for short-term capital gains, and 15% for long-term capital gains.

[13] You may know it as "American Funds."

## Appendix II:
## Income Strategy 2013 Performance and Portfolio Construction

The year's return for Janian's proprietary Income strategy was comprised of the following:

| | |
|---|---|
| Long Equities: | +10.6% |
| Long REITs: | +1.1% |
| Long MLPs: | +7.3% |
| Long Preferred Stock: | -0.7% |
| Long Bonds: | +0.4% |
| Merger Arbitrage: | -1.6% |
| Liquidations: | +0.0% |
| Hedges: | -1.9% |
| TOTAL | +15.2% |

Quarter-end exposure[14] for the account was as follows:

| | 2013Q1 | 2013Q2 | 2013Q3 | 2013Q4 |
|---|---|---|---|---|
| Long Equities: | 17.1% | 11.5% | 7.9% | 7.9% |
| Long REITs: | 5.3% | 0.0% | 5.6% | 5.8% |
| Long MLPs: | 30.3% | 24.5% | 7.4% | 14.7% |
| Long Preferred Stock: | 5.1% | 11.7% | 10.7% | 10.6% |
| Long Bonds: | 11.4% | 10.4% | 10.2% | 10.5% |
| Merger Arbitrage: | 0.0% | 2.5% | 8.0% | -5.8% |
| Liquidations: | 0.0% | 0.0% | 0.0% | 0.0% |
| Hedges: | 0.0% | 3.5% | 4.2% | 4.1% |
| TOTAL | 69.2% | 64.1% | 54.0% | 47.8% |

Customer accounts' construction is very similar to this, with the exception of the merger arbitrage exposure – no customer accounts currently have it. Please call me if you'd like to discuss why not.

Janian continues to believe that the opportunity set for income-oriented investing remains uninspiring, and expects to hold a large cash position in the Income strategy for the foreseeable future.

<u>Taxes</u>:

Janian expects that all profit in the Income strategy will be fully taxed at short-term gain rates. Janian estimates that for its proprietary Income strategy in 2013, 88% of the gains were short-term, and the remainder was long-term.

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[14] The %s are of account NAV, measured on a dollar basis.