JANIAN
INVESTMENT ADVISERS, LLC

February 16, 2016

Dear Clients and friends:

2015 was an uninspiring year for most financial markets. The U.S. bond market more or less broke even, the average stock in the S&P 500 was down in the mid-single digits, and many commodities fell sharply.

Out of the spotlight, it was worse for the stocks of smaller companies, for value versus momentum, and for stocks of leveraged companies.

Janian also suffered an uninspiring year, with returns in the taxable Equity Strategy roughly the same as the average S&P stock[1]. Shorts helped, but the long portfolio underperformed due to too much exposure to value and stocks of small or leveraged companies. The damage was mostly done during the early fall swoon, and Janian then further reduced market exposure as a result.

The rough start to 2016 for stocks around the world has quickly overshadowed 2015; the Vanguard Total Stock Market Index Fund Investor Shares ("VTSMX") is –9.6% year-to-date through February 12. Janian's defensive posture has helped us to avoid most of the losses so far; the average taxable Equity Strategy account[2] is –0.2%. This leaves the average of these accounts slightly ahead of the VSTMX for roughly the last 2 ½ years.

These accounts continue to be defensively positioned, with average gross long exposure of ~51% and average gross short exposure of ~46%. Janian is nibbling on some potential bargains that have begun to emerge, while also continuing to be very active on the short side.

Seeing as Janian has tried to be defensively positioned since our start in 2012, it is ironic that our first three-calendar-year performance fee mark occurred just before this positioning worked. Janian was too defensive too early: 2013 was a big bull year where shorting was not a good idea, Janian roughly matched markets in the so-so 2014, and it did not chase the handful of momentum stocks that (barely) carried

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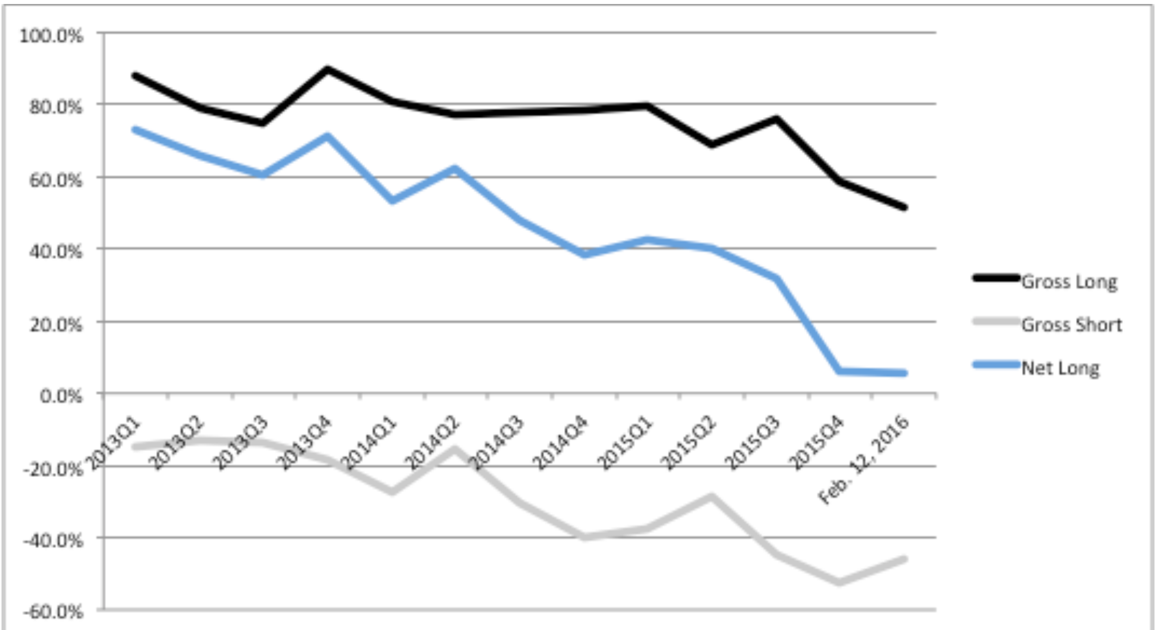
[1] Returns in the non-taxable Equity Strategy were slightly worse. Returns in Fund accounts varied, with some slightly better versus their benchmarks and some slightly worse.

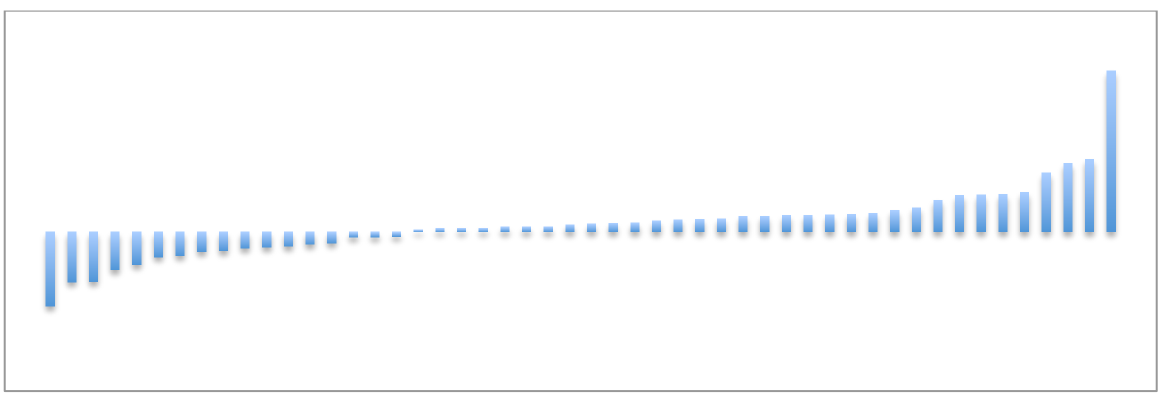
[2] With a NAV >$50,000. Smaller accounts have higher returns on lower net exposure. IRA accounts have lower returns on higher net exposure.

the market in 2015. Adding up all three years results in trailing the market. In summary, being defensive 2013-2015 did not pay well.

As the chart below suggests, this defensive posture has been consistent and has gotten more defensive over time[3].



Digging a little bit deeper into 2013-2015 performance attribution[4], longs were mostly successful with a small number of mistakes that were harshly punished. The chart below shows estimated performance attribution for the 50 medium- and large-sized longs that Janian had 2013-2015.

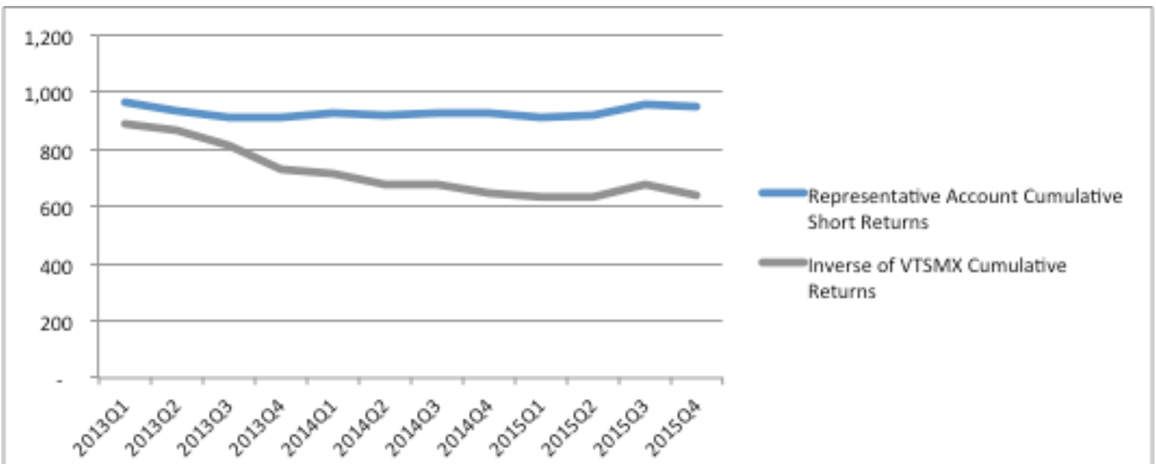


[3] There will be a day in the future when Janian is aggressively long.

[4] The statistics about long positions and the "Representative Account Cumulative Short Returns" shown are for a particular client's taxable account that utilizes the Equities Strategy. As you know, all client accounts are very similar but not identical.

Happily there was one huge winner, and more winners than losers, and the winners on average had bigger moves than the losers … but there were also three losers of disproportionate impact[5]. All three fell into the dreaded nexus of small / value / leveraged mentioned above. Janian's estimates of the companies' net earnings proved to be mistaken, but not massively so, yet the stock market heaped massive disdain upon them anyway. Janian hung on too long in the belief that other investors would correct their overreaction. In basketball terms, Janian did not turn the ball over much, but three turnovers led to embarrassing dunks on us. There is an opportunity for defensive improvement by hustling to cut losses when the market continues to irrationally overreact to miscues.

Meanwhile, shorts as a group pulled their weight, especially in 2014 and 2015. The short portfolio provided a hedge in down periods, has not had a particularly costly loser, and overall has had attractive returns versus an inverse of the market.



Arbitrage and Macro have contributed mild profits and have delivered returns that are not closely related to the ups and downs of the stock market.

As always, the Quarterly Letter that clients receive has more commentary about portfolio exposures and individual positions.

[5] All three of the specific stocks have been discussed in some detail in quarterly letters.

I believe that the last three years have produced evidence supporting my vision of how high-quality investment advice can be delivered to individuals:

-<u>Better Risk-Adjusted Results</u>:

Through January 2016 Janian's results have exceeded those of the most widely referenced index of similar hedge funds, and exceeded the hypothetical results if one had invested an identical amount of Janian's net long exposure in the VSTMX, rebalanced at every quarter-end.

-<u>Better Service</u>:

> 95% of clients that have hired Janian are still clients today.

-<u>Lower Fees</u>:

Janian's fees are meaningfully below the disclosed fees of similar RIAs, bank-employed financial advisers, and similar hedge funds.

Looking forward, I am uncertain where markets will go this year. Considering primarily valuations, Chinese history, and the cast of characters running for the U.S. Presidency, it could be the beginning of a cruel bear market[6]. Conversely, considering primarily economic fundamentals, the energy and determination of the Chinese citizens that I know personally, and not least the creativity and discipline that have characterized so much of U.S. business history, it could be the beginning of another bull market[7]. The low net exposure that your account currently has reflects this uncertainty.

I am certain about Janian's vision and business model. I am carefully building a firm that delivers comprehensive financial and investment advice directly to several dozen families (and their businesses' employees) that Janian cares very deeply about, and can also deliver indirectly portfolio management services to more individuals served by other independent investment advisers with business values similar to Janian's. Under separate cover Janian will send a presentation describing what we do and how we do it. It's my hope that many of you will have questions for me about some part of it.

The first three years have been a solid beginning. Thanks to all our clients and friends for helping Janian to begin.

Sincerely,

James W. Hague

James W. Hague

[6] The U.S. government's debt that I mentioned in the 2013 Year-End Letter continues to be a concern. Please see http://www.mckinsey.com/global-themes/employment-and-growth/debt-and-not-much-deleveraging and https://www.washingtonpost.com/opinions/the-hard-decisions-obama-promised-remain-to-be-made/2015/10/28/8c90bda6-7d92-11e5-afce-2afd1d3eb896_story.html for discussions of the issue.

[7] Over longish time horizons time the world's been gettin' better all the time. Please see http://ourworldindata.org and http://www.theatlantic.com/magazine/archive/2016/03/how-america-is-putting-itself-back-together/426882/?curator=MediaREDEF for some data and color about this.