February 28, 2017

Dear Clients and friends:

Investors' year-end letters always focus on returns, and this one will too. That said, Janian integrates general financial advice with the delivery of investment results, and we've not given that much attention in past letters. So, this year we'll switch things up and lead with some thoughts about that part of our work.

For us, 'general financial advice' means helping clients think about their entire personal income statements and balance sheets in a business-like manner. We try to understand our clients' goals at a 'personal' level, and then translate that into financial numbers. If the client owns a business, which many do, this means considering the financial risk and reward of the business as part of the client's total portfolio. Since putting all one's eggs in a single basket is not a good idea, even if that basket is run by someone as awesome as a Janian client, the goal of this exercise for all our clients is to identify where the client should put her hard-won savings. Sometimes, this results in suggestions about the business' 401(k) or insurance plans. Sometimes, in suggestions about finding a personal accountant or estate lawyer. Always, in suggestions about investment strategies – and here we stand ready to deliver results through different strategies that best match the client's goals.

The strategies are:

(1) A menu of Funds that we screen, but the client makes the decisions about;
(2) Exposure to the equity market through Fund selection, in which we occasionally hold a meaningful cash position in response to elevated risks to the market's outlook;
(3) Exposure to the bond market[1] through Fund[2] selection, in which we also occasionally hold a meaningful cash position for the same reason; and
(4) A hedged security selection strategy, similar in concept to a hedge fund, in which we focus on minimizing the risk of large losses.

The three Janian-managed strategies returned, on average, the following in 2016[3]:

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1 And similar income-focused opportunities.

2 And occasionally a few securities.

3 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, annually, 25% of any

	Funds (Equity)	Funds (Bond)	Hedged (Taxable)	Hedged (Non-Taxable
Net Return	6.8%	3.9%	6.0%	7.6%

The Vanguard Total Stock Market Index Fund rose +12.5% for the year. The Vanguard Bond Market Index Fund rose +2.5% for the year.

It's not easy for us to reconcile those average-appearing market returns with such a non-average year outside of finance. Bob Dylan won a Nobel Prize? The Cavs AND Cubs came back to win after being down 3-1? A tabloid newspaper published a front cover photo of the soon-to-be U.S. President's third (!) wife wearing nothing but bracelets? And, of course, the stock market shared the surprising spirit. For example, through mid-December the best-performing 25 stocks[4] of 2016 were up ~40% after being down in 2015 an average of ~4%, and only ~1/2 of 2015's best were up in 2016 (by an average of ~3%).

Janian anticipated the uncertainty, although not the results, fairly well. For example, the Hedged strategy had low net long exposure all year. Accordingly, we're pleased with our attempts to control the amount of risk in our strategies.

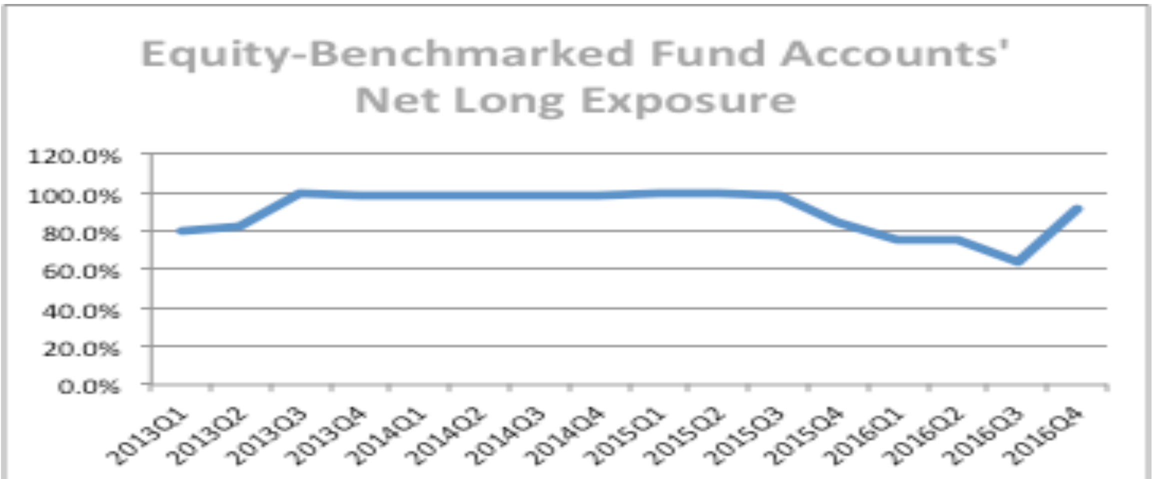
Some of the risks that Janian had been increasingly concerned about lessened late in 2016. In particular, business and consumer confidence rose, and various indications suggest that the U.S.' industrial economy gained some strength. Exposure[5] in all three active strategies[6] thus rose:

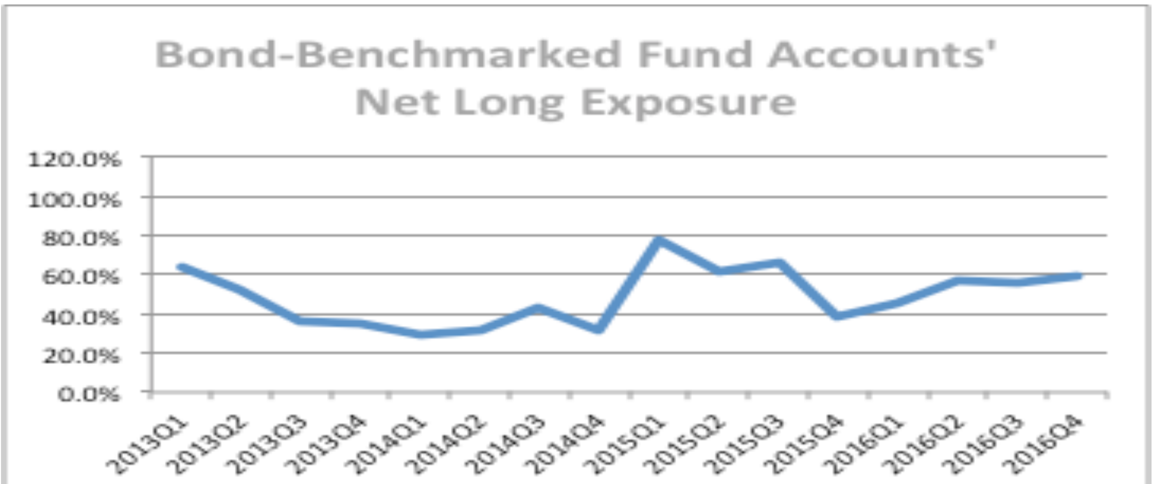
positive sum of a client account's annualized three-year return less the annualized three-year return of the Benchmark. The Benchmark for Hedged and some Fund accounts is the Vanguard Total Stock Market Index Fund. The Benchmark for some Fund accounts is the Vanguard Bond Market Index Fund. The return shown is the average (mean) return of all client accounts' returns for the quarter.

[4] With a market capitalization greater than $5 Billion.

[5] "Exposure" means the percentage of assets that are exposed to the market's daily fluctuations. Cash is defined to not be exposed. Longs plus (the negative number of) shorts equals net exposure.

[6] Please note the Hedged Securities Accounts' Exposures and RoRs shown are for Taxable Accounts.


Equity-Benchmarked Fund Accounts' Net Long Exposure
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
2013Q1
2013Q2
2013Q3
2013Q4
2014Q1
2014Q2
2014Q3
2014Q4
2015Q1
2015Q2
2015Q3
2015Q4
2016Q1
2016Q2
2016Q3
2016Q4


Bond-Benchmarked Fund Accounts' Net Long Exposure
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
2013Q1
2013Q2
2013Q3
2013Q4
2014Q1
2014Q2
2014Q3
2014Q4
2015Q1
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2015Q4
2016Q1
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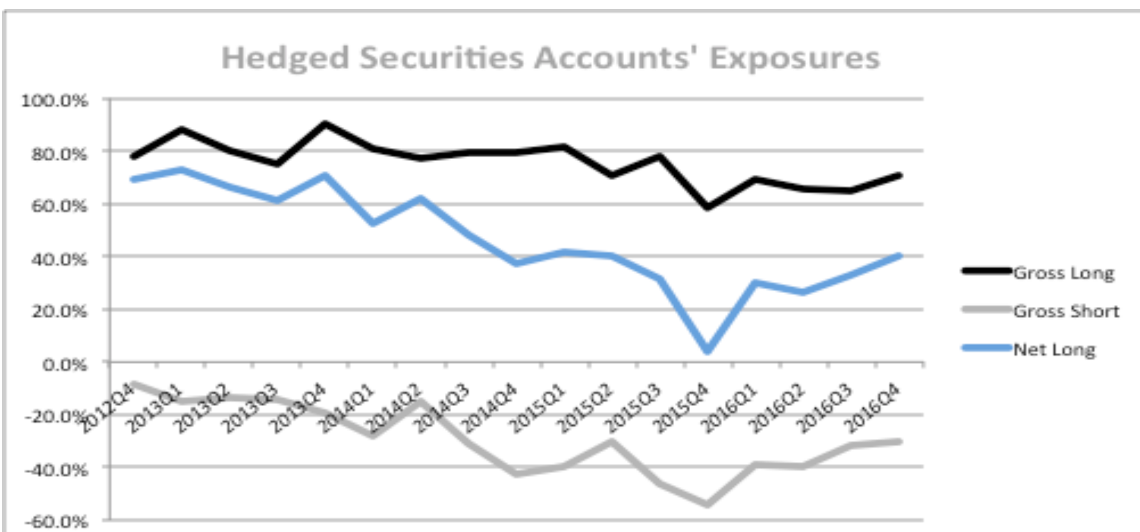
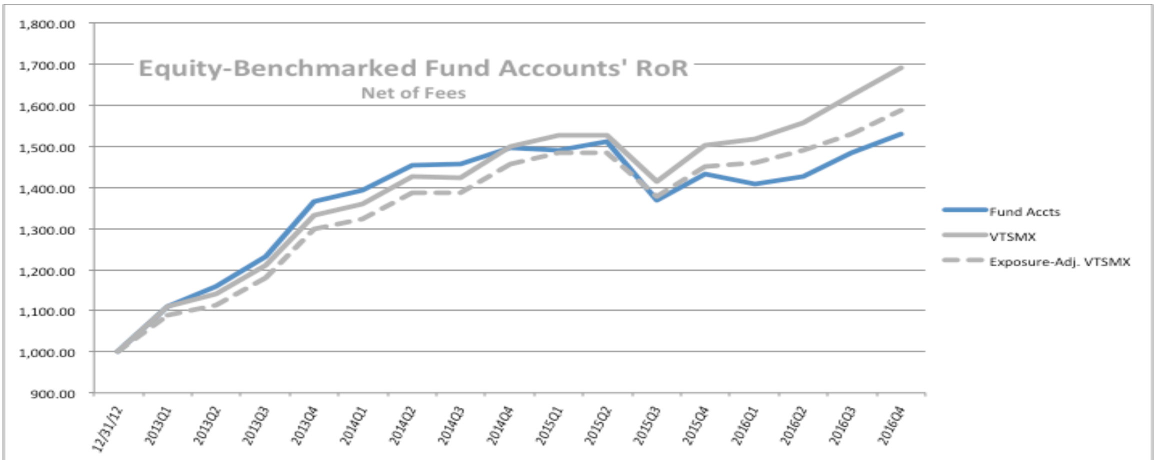
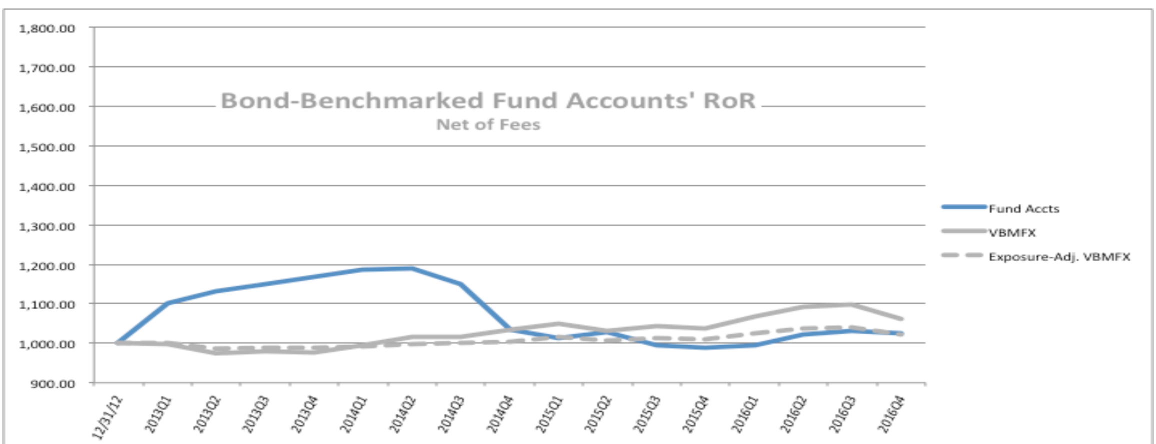
2016Q4

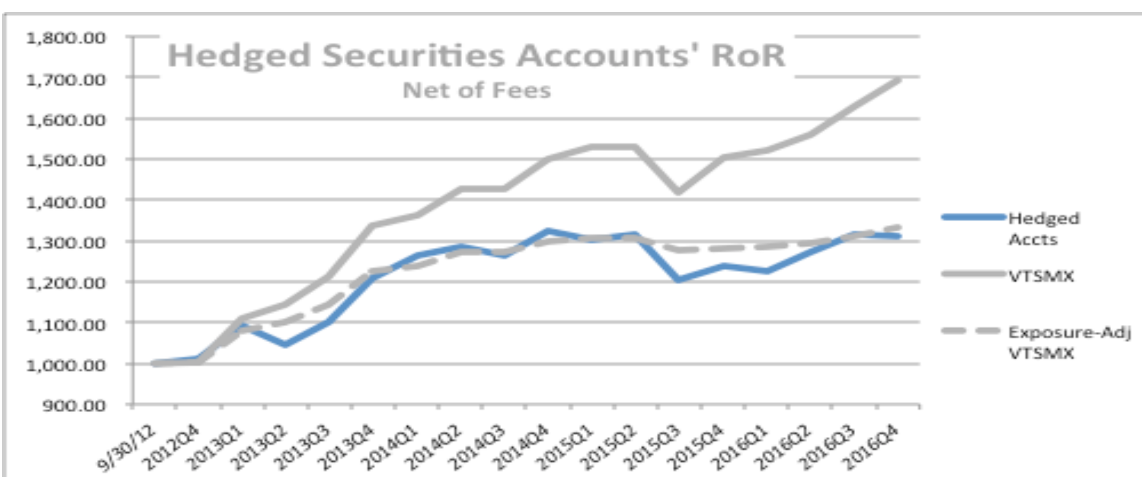

Hedged Securities Accounts' Exposures
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
-20.0%
-40.0%
-60.0%
2012Q4
2013Q1
2013Q2
2013Q3
2013Q4
2014Q1
2014Q2
2014Q3
2014Q4
2015Q1
2015Q2
2015Q3
2015Q4
2016Q1
2016Q2
2016Q3
2016Q4
Gross Long
Gross Short
Net Long

As we have written before, being defensive in financial markets 2013-2016 did not pay well. However, Janian has delivered good exposure-adjusted returns.



The Equity-Benchmarked Fund Selection strategy's 2016 return was lower than the stock market's in 2016 primarily because of an allocation to value-style active management, a relatively defensive style that has been out of favor.





The charts above show-pre-tax returns, even though after-tax returns are more important to us. We're pleased that for the second year (out of four), the after-tax returns for the Hedged Securities strategy is higher[7] than the pre-tax return. We continue to be very mindful of taxes and hope to be able to deliver a low effective tax rate over the long term for all three managed strategies.

As always, more detail about clients' portfolios are included in the quarterly letter recently sent to clients.

Looking forward, other investors appear to be trying to handicap the Trump Administration's impact. We don't have an opinion. It is clear that the election stirred animal spirits, which led to a bull run that is currently ongoing. You are probably familiar with the case for Mr. Trump making America great again and thus generating a bull market like Mr. Reagan did. If you are not as familiar with the skeptical case, a summary of some of its arguments is at https://app.hedgeye.com/insights/55622-6-reasons-why-trump-won-t-unleash-reagan-era-economic-boom.

We can't help but chuckle that Mr. Trump himself was bearish a few months ago. In a debate against Mrs. Clinton, he responded to a bit of "we need to rebuild the middle class" sloganeering as follows:

> "Typical politician, all talk and no action. Sounds good, doesn't work. Never going to happen. Our country is suffering because people like Secretary Clinton have made such bad decisions.
>
> Now look. We have the worst revival of an economy since the Great Depression; and believe me we're in a bubble right now. The only thing that looks good right now is the stock market and if you raise interest rates even a little bit that's going to come crashing down. We are in a big, fat ugly bubble and we better be awfully careful."

We have an admittedly cloudy concern regarding the increasing prominence of quantitative investing. It's easy to view the piling of ever more money into index funds as abdicating real-time decision-making in favor of rules set up in the past. That could be a recipe for eventual disaster[8]. Further, this activity could allow greater scope for 'insiders' with faster computers and more aggressive ethics to cream profits off the rest of us. For example, in January of 2017 the SEC settled a claim against Citadel that it had '"willfully violated" the law governing how Citadel tells its customers about a service[9] after Citadel paid the SEC $22 Million. We are more knowledgeable than most about the firm, and are quite confident that

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[7] Please let us know if you'd like to know the assumptions and calculations behind this statement.

[8] Indulge us in some footnote stuffing with a faintly relevant quip (since we do think that index investing is a sensible idea some of the time): "First the innovators, then the imitators, then the idiots."

[9] See https://www.sec.gov/litigation/admin/2017/33-10280.pdf for the legal details.

whatever Citadel does, it intends to benefit itself and is very detail-oriented about doing so. This leads us to suspect that an innocent-minded drafting mistake of the legalese in Citadel's customer disclosures is not the story here. If, then, high-speed-trading Citadel is pressing its thumb on the market weighing machine so that some coins flow off the machine into its pocket, are there other problems being enabled by the rise of quantitative investing? We don't know. It's a nagging concern, among others, that for now helps restrain us from completely embracing the current bull run.

To summarize: we don't know what the near-term future holds, and we have some fears about longer-term issues that could be bad for us.

We will continue to provide advice intended to help protect and grow our clients' savings. Thanks to all our clients for working with us.

Sincerely,

Janian Investment Advisors, LLC