JANIAN
INVESTMENT ADVISERS, LLC

January 26, 2021

Dear Clients and Friends:

2020 INVESTMENT REVIEW

STRATEGY	2020 Rate of Return*	Comparable Index Return
Unhedged Securities (Taxable)	35.1%	21.0%
Unhedged Securities After Tax (Estimated)	*33.6%*	
Hedged Securities (Taxable)	2.7%	4.6%
Hedged Securities After Tax (Estimated)	*10.3%*	

* Average Client Account, Net of Management & Trading Fees[1]

The stock market had a very turbulent year that ended strongly.

Janian had a great year in a good environment on the long side, and a relatively less-bad year in a bad environment on the short side.

Your account, which employs strategies X & Y, returned Z%. Tables displaying your account's composition of returns for the 4th quarter, track record since inception, and non-cash exposure at year-end are attached after the Appendix.

We'll briefly discuss each strategy's 2020 on the next few pages.

[1] Please contact us if you'd like an explanation of how we calculate these returns.

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Unhedged Securities

	% Change	
	Unhedged Securities Strategy, Net of Fees*	**VTI**
2018	(12.53)	(5.13)
2019	28.95	30.80
2020	35.09	20.95
Annualized	15.07	14.49

*Fees = Management & Trading Fees

The Unhedged Securities strategy[2] beat the stock market.

The positions held by the taxable Unhedged Securities strategy continue to match those held in the long portfolio of the taxable Hedged Securities strategy, which currently is long 17 stocks, and (often) an index to more fully invest this strategy. One of the positions, Slack, is subject to a signed acquisition and will probably leave the portfolio later this year at a 50%+ annualized return.

Our investment posture in January 2021 is similar to January 2020's. Given the long bull market and the high valuations touched on below, bargains in stocks are hard to find. Most of our positions have mildly exceeded our estimates of fair value, although they are still in the range of 'reasonably' valued, and we have continued to let the winners run. We do so while keeping a close eye on trailing price stops, i.e. are constantly trying to stand near the exit door in case the party turns sour. Even with this cautious stance, we have had and expect to continue to have success finding new longs.

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[2] VTI = Vanguard Total Stock Market ETF.

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Hedged Securities

	% Change	
	Hedged Securities Strategy, Net of Fees*	**Index of Similar Hedge Funds**
2013	18.52	11.14
2014	10.21	1.42
2015	(6.65)	(2.33)
2016	6.00	0.10
2017	10.17	9.98
2018	(9.64)	(9.42)
2019	20.90	10.71
2020	2.68	4.60
Annualized	6.03	3.05

*Fees = Management & Trading Fees

Over the last eight years we have delivered higher returns in taxable Hedged Securities' accounts than the average similar strategy[3]. The returns in non-taxable accounts have been higher than the taxable accounts'. In 2020, we mildly underperformed the average similar strategy.

It was a great year for our longs. Many of our positions were enthusiastically embraced by other investors; 8 had annualized returns >100%. For the year, longs contributed ~+36%. Turnover was low.

It was a losing year for the taxable accounts' shorts. They cost ~-32%. Successes such as Boeing and Roku made up ~1/3rd of the number of shorts, but their success was overwhelmed by shorts that exploded upwards. It was (and continues to be) a very tough environment for short-selling: a widely-referenced index of short-only funds was -48% for the year, and Goldman Sach's index of 'most shorted' stocks was reported to be up ~200% (i.e., it crushed short-sellers) in 2020[4].

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[3] A critical additional point is that the average hedge fund has much more gross leverage, and thus more risk, than Janian. We have produced better relative risk-adjusted results than shown here. A second important point is that our tax costs have been lower than the average hedge fund's.

[4] https://www.institutionalinvestor.com/article/b1q3cxqlbmltyl/The-World-s-Biggest-Short-Selling-Hedge-Fund-Is-Scaling-Back

We long ago adopted the idea that 'crazies lead bull stampedes,' and we have tried diligently to avoid getting in front of stampeding and non-stampeding crazy too often. For example, after covering one of our top five 2019 short winners, iRythmn, in that year, we had no position in it in 2020 - even though it lost almost as much money through September as in 2019 and competition against its product appeared to intensify, while the stock price rose more than 250%. But, though we did avoid that particular stampede, we were caught in several others.

The economic gains from the long side were largely unrealized or long-term, while the realized short-term losses from the taxable accounts' short side were >100% of the economic losses. If we assume that all tax losses are fully utilizable as offsets against gains elsewhere, the taxable Hedged Securities strategy produced a 10% after-tax profit for the year.

The taxable Hedged Securities portfolio is currently long ~85% of capital.

The taxable accounts' short portfolio currently has 25 positions with ~17% of capital. We are trying to keep a relatively large number of very small short positions, around which we create trade plans aiming to 'be ready' if bear spirits arise. The market currently offers the theoretically most attractive shorting opportunity since 1999; however, seeing as markets have remained irrational for years in the past, such as 1997 to 1999, we are trying to be very cautious in how we approach this potential opportunity. We'll touch on the current short-selling environment more in the Appendix below.

As everyone who has played Rummikub with me knows, I do not like losing. After losing a respectable amount of my own money short-selling in 2020, it is worth reminding myself why I bother with it. The Hedged Strategy aims to limit risk to be less than the stock market's. In 2020's first quarter, the VTI was -20.9%, while the taxable Hedged Securities strategy was -2.3%. Achieving such risk reduction requires the discipline to accept losing some money via short-selling in an enthusiastically speculative environment. Janian's Hedged Securities track record is excellent versus comparable strategies, and the strategy has, so far, met its aims. So, I remain committed to short-selling as a part of the Hedged Securities strategy.

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Janian Updates

We have advised our clients to close their Funds - Bonds accounts (given our views explained in the Appendix) and now manage only a few Funds - Equities accounts for low-balance clients (given that our Unhedged Securities strategy has historically delivered a higher return), so we will no longer report on those strategies.

Best wishes for a happy and healthy 2021 to you and your family.

Sincerely,

James W. Hague

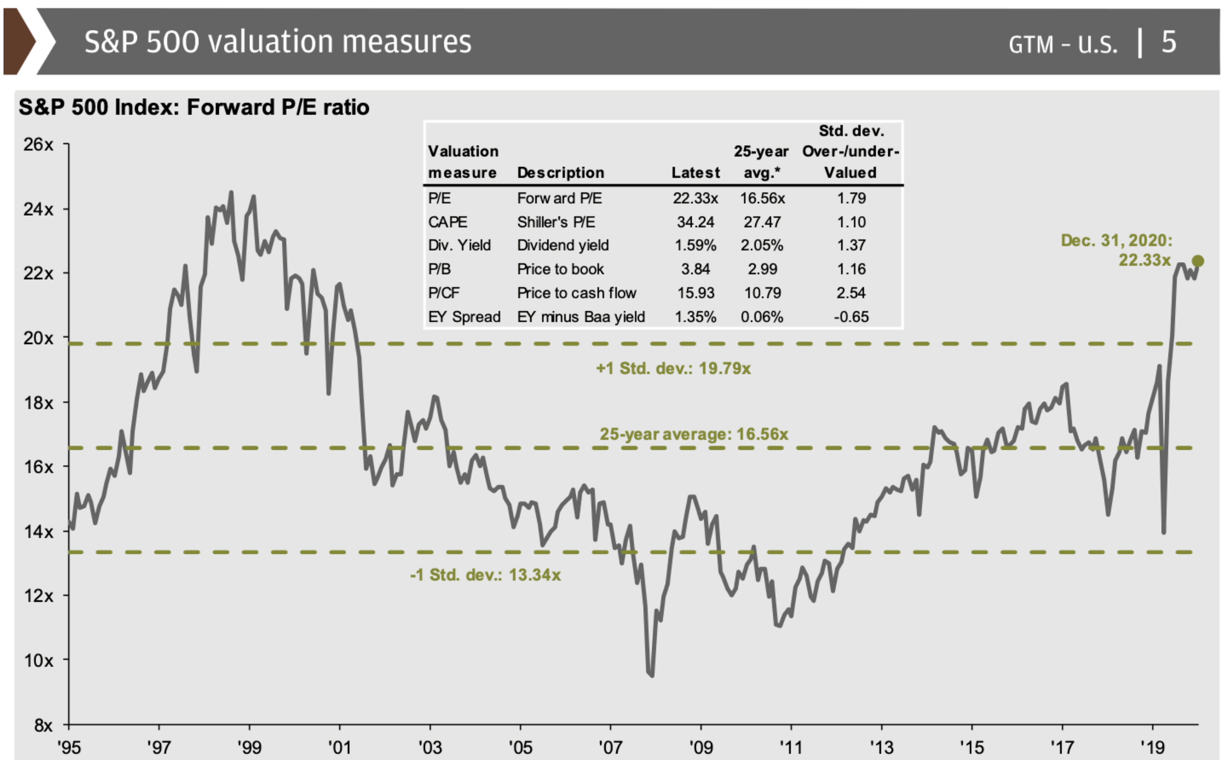
James W. Hague
Founder
Janian Investment Advisers, LLC

APPENDIX

Janian’s Macroeconomic Outlook

The Federal Reserve is publicly committed to an ultra-easy monetary policy for, it appears, forever. Cheap financial capital is everywhere, and almost no one believes that truly meaningful signs of current inflation (which could upset this situation) exist. Thus, speculators currently need only look at non-financial conditions. Regarding those, most professional economists, as well as all of the non-economists with whom we have discussed this, predict that there will be a powerful boom in the U.S. economy in 2021.

Financial markets have already priced this boom into most securities’ prices. The U.S. stock market is thus trading at very high valuations.



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	22.33x	16.56x	1.79
CAPE	Shiller's P/E	34.24	27.47	1.10
Div. Yield	Dividend yield	1.59%	2.05%	1.37
P/B	Price to book	3.84	2.99	1.16
P/CF	Price to cash flow	15.93	10.79	2.54
EY Spread	EY minus Baa yield	1.35%	0.06%	-0.65

Source: FactSet, FRB, Robert Shiller, Standard & Poor’s, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1995, and FactSet for December 31, 2020. Current next 12-months consensus earnings estimates are $167. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller’s P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody’s Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure.
Guide to the Markets – U.S. Data are as of December 31, 2020.

J.P.Morgan Asset Management

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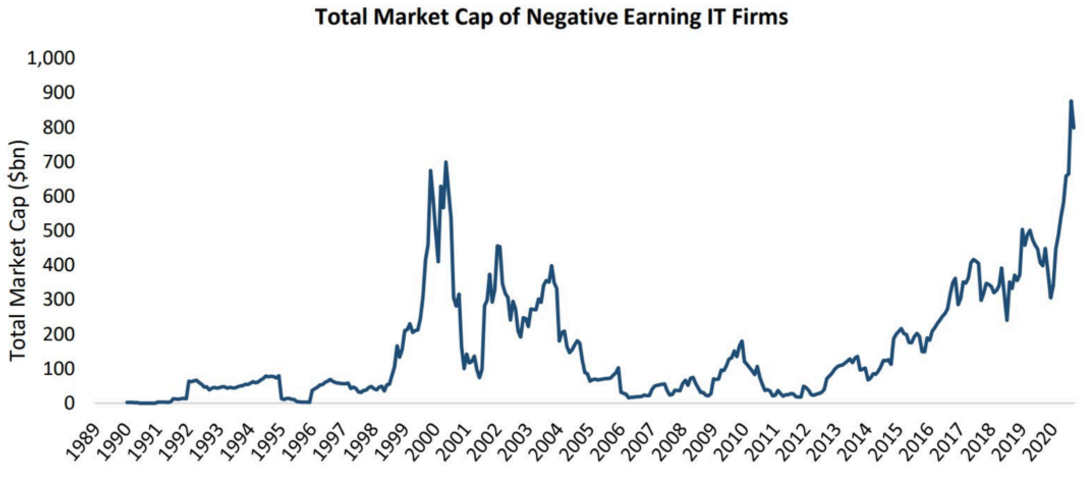
Business stories of ‘losses now, profits eventually’ have been embraced to a degree unrivaled since the late ‘90s.



Source: Kailash Capital; Data from 4/30/1989-12/31/2020

The heavily promotional and lightly ethical have launched many kites into the gusts of capital that have rushed to profit from the predicted boom. Eventually financial gravity will take hold, and the stocks of such issuers will underperform. Will that underperformance effect the stock prices of ‘better’ issuers? Will that underperformance begin in 2021? We do not know. It is important to note that while current equity valuations are high by historical standards, they are not considered high relative to where long-term interest rates are today, and there are many stocks that are ‘reasonably’ valued.

We do believe that 2020 cemented a change in macroeconomic investing eras. Since peak U.S. 10-year Treasury bond yields of 15.8% in 1981, investors seeking to reduce their equity market risks have successfully deployed fixed income allocations (60% stocks, 40% bonds was the consensus default) that paid observable coupons AND usually rose in value when stocks fell. With the Federal Reserve’s ultra-easy monetary policy, coupons are too low to matter (unless, often, buyers take on equity-related risks of corporate issuers) AND below inflation for many sovereign issues AND the coupons are so absolutely low that potential increases in value during prospective weak periods for stocks are also too low to matter. Thus, we believe that the 60/40 era is over. This will not improve the return prospects for either of Janian’s strategies, though we believe that it does increase the relative attractiveness of the Hedged Securities strategy vis-à-vis other risk-avoiding strategies.

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