Exeter
INVESTMENT MANAGEMENT

January 2026 Letter

January 20, 2026

Dear Clients & Friends,

My heartfelt thanks go out to those investing with Exeter Investment Management at this early stage. I am grateful for your faith in the firm's future, which is also faith in me by default. To friends and family who have subscribed, I'm excited to share the fruit of my passion for investing. I trust anyone sharing our goals and values will find these strategies worthy of consideration.

Below, I'll outline my investment philosophy, review performance, and set business objectives and expectations.

Investment Goals & Risk Philosophy

Exeter Investment Management aims to maximize long-term compounding, net of fees, with significantly less risk than market indices. Long-term orientation, tax awareness, and risk aversion align our strategies with your interests.

Exeter is designed with intent to outperform market averages in down years. We may also outperform in sideways markets, albeit with less certainty. Expect us to lag when markets are very strong. Accordingly, you should judge our performance on a multi-year basis to capture a full market cycle.

Jeff Bezos once asked Warren Buffett why people don't copy his simple risk averse strategy. Buffett responded that nobody wants to get rich slowly. This observation remains a great source of investment opportunity.

Consider two bets on a coin flip. In the first, you bet $100 to receive $120 on heads and $90 on tails. In the second, you bet $100 to receive $210 on heads and *nothing* on tails. There are parallels in the stock market. The riskier bets are palpably more popular today. Although the expected payoff is equal in this illustration, real-world results usually favor the risk averse choice. Volatile bets are a drag on compounding if continuously repeated. We aim to build wealth slowly with limited risk by investing in boring industries like golf equipment, packaging, and kitty litter (not joking). We will not try to get rich quickly with perilous levels of risk by speculating in space exploration and quantum computing.

To borrow inspiration again from Mr. Buffett, I share this sentiment:

> *"I've never believed in risking what my family and friends have and need in order to pursue what they don't have and don't need."*

As risk is difficult to measure, I am committed to providing a variety of metrics along the way to help you assess whether our round-trip performance was achieved in a risk averse manner.

Beyond risk aversion, the founding clients and I share a critical consideration: California residence. Based on current tax law and a 10% market return, I estimate that a manager holding stocks for less than a year must outperform the market by roughly **6–9% annually** just to match the after-tax return of a passive index fund in California. This hurdle falls to around 4% when holding stocks for just over a year, and roughly 1% when holding them for four years. For taxable clients in other states, the math is less extreme but leads to the same preference. We therefore pursue long holding periods where the hurdle to add value is lower. I also believe our most capable competitors are focused on short timeframes, creating further opportunities for Exeter to deliver on its goals.

Our Strategies

Exeter currently offers two strategies: Active Long-Short Equity and ETF Allocation. In *The Intelligent Investor* (1949), Warren Buffett's mentor and professor Ben Graham described two basic types of investors called "enterprising" and "defensive." Our strategies channel these two mindsets.

A "defensive" investor seeks the broad financial benefit of business ownership at minimal cost in money and time. Today's investors can do this with low-cost index funds. Yet they still face decisions on which indices to buy, how to time investing new funds, when to rebalance holdings, how to work with low-cost-basis legacy positions, and when to harvest tax losses. Our customized ETF Allocation approach is focused on optimizing these decisions.

The return profile should reflect our risk averse attitude, allowing clients to sleep well and spend their mental energy on things they find more interesting than markets.

For "enterprising" investors seeking a more aggressive footing, our Active Long-Short Equity approach channels my career of passionate practice in markets to pursue maximal risk-adjusted returns via stock selection.

Our Advantages

You've likely read the disclosures before: markets are highly competitive and unpredictable.

Our strategy is to use an optimal combination of technology and judgment to make better decisions. We apply these blended insights wherever opportunity appears, including the market for very small stocks in which large competitors cannot effectively play. In our effort to maximize risk-adjusted returns:

- **We use technology to maximize our awareness of what works and where to find it**: We embrace programming and AI to scour deeply into financial history and identify salient facts about a business that impact stock returns. This is an important pillar that helps to minimize emotional errors and better prioritize the available information.

- **We are fast:** By programming customized daily information alerts, we stay aware of which stocks do and do not bear the strongest signals from our historical study and respond quickly to changes.
- **We leverage experienced human judgment:** We are machine-augmented, not machine-managed. Competitors who rely heavily on technology can be quick to dispense with intuition entirely. *We use computers for what they do better than people and use people for what they do better than computers*.
- **We automate internally**: Finally, we leverage technology to have a lean cost structure, automating everything possible in-house. This saves fees on third-party services and payroll, and we pass these savings on to clients.

Technology & AI

Our first edge is architectural: where competitors pay for expensive software and staff, we use AI assisted coding to build proprietary administrative tools in-house and stay lean wherever possible. We will always be pushing to expand automation of overhead tasks and exhaust the possibilities of lower-cost databases. The easiest way to add value for clients is to leave returns in their pocket with a lower cost structure.

We also use technology to gain an edge on competitors via awareness of what truly matters in stocks. For example, some investors prize debt-free firms. Yet published research shows that a prudent but non-zero amount of leverage is superior.[1] A zero-debt preference is revealed as an emotional error. AI helps us replicate research results using cheap databases, and we implemented these findings with confidence: where some investors may have prioritized a cleaner balance sheet, we own a few stocks with meaningful but manageable debt levels while prioritizing cash flow, insider ownership, and share buybacks.

This kind of work with quantitative items is common and established. The more exciting use of AI is reading and interpreting *qualitative* information at high speed. With the ability to digest thousands of SEC filings and other sources in mere hours, we can systematically study the performance impact of things only described in plain text. Examples include debt structures, activist investor involvement, SEC correspondence, and much more. Years of experience in discretionary research help us to use this new tool efficiently and apply it in small stocks where the most capable competitors are too big to operate.

All this enhances Exeter's ability to establish vital context and prioritize the facts where performance impact is verified. Competitors not utilizing AI may remain unaware of how their priorities are emotionally derived or out of order.

The Role of Judgment

We recognize where computers and data fall short. This includes evaluation of truly unique information such as the dynamics of personal relationships, the psychology of customer demand, and the applicability of historical data.

This points to a large hole in efficient market theory: **people do different things with the same information based on their values.** AI will not solve this anytime soon. I believe our reservation of judgment for the right circumstances should give us an edge over the purely algorithmic competitor.

Models can misidentify patterns and opportunities. Without discerning judgment, an investor who does not fully understand why an AI or machine learning model is telling them to act will unwittingly expose themselves to spurious results. You won't see Exeter betting against a stock because it does poorly in years when the AFC won the Super Bowl.

On another level, even established quantitative indicators can be deceptive independent of AI or ML.

Rules-based investors often buy stocks exhibiting high cash returns on capital, rising stock prices, and low valuations. Our own ranking of such stocks recently pointed toward "buy-now-pay-later" lenders. I do not think this industry is on sound footing and avoided investment here despite strong quantitative scores.

This may sound contrary to the principle of acting in accordance with verified influential facts. But where the numbers on the performance impact of zero-debt balance sheets are accessible, old, and uniform, data on alternative lending is guarded, young, and varied in nature. Unlike auto loans and mortgages, there is no asset to claim in default when the purchase is something like a spent concert ticket. You could repossess a Margaritaville blender in theory, but not a used Coachella pass.

While I continue to notice other managers owning these stocks, FOMO is simply not one of our values. I am willing to be wrong and potentially miss out despite our own quantitative data suggesting an opportunity in this industry. We value the moderating influence of sound judgment and believe strongly that there are plenty of opportunities for us elsewhere.

We invest globally and across a range of market caps so we can insist on both intuitive and data-driven appeal. We are willing to own our higher-debt stocks (Marriott, Domino's Pizza, and AutoZone, for example) because we have judgmental confidence in their competitive position. Similarly, we refuse to short in headline-generating industries like crypto where the losses could be devastating.

Supplemental Advantages

Beyond the measured application of technology and the possession of sound judgment, Exeter enjoys certain structural and strategic advantages including:

1) **We have a small pool of capital** — large investors cannot buy big portions of a small company without impacting stock price or filing declarations with the SEC. Our opportunity set is larger because we can consider small, thinly traded stocks without these headaches. AI is a particularly strong tool in these uncovered corners of the stock market.
2) **We invest broadly** — Many managers pigeonhole themselves into narrow niches. This puts

responsibility for diversification to the client. By owning foreign stocks alongside our US holdings, we buy wherever the best risk-adjusted opportunities exist. We also do not invest exclusively in small caps for their own sake. If a big business looks better, we are happy to own it. Periodic rebalancing is also more powerful across categories than within them.

3) **We sell stocks short** — A very long bull market has forced many short-selling specialists out of business, reducing competition. Corporate management teams are also publishing an increasingly positive mix of information. This strengthens the value of rare negative news that slips through the corporate PR filter. Both create opportunities to radically reduce portfolio risk by selling short.

Over time we may also increase our use of relationship building with portfolio firms. We will never be hard-charging activists, but my professional experience includes making constructive proposals to management in small cap companies. This is a clear area where a human touch can make a big difference. We embrace that.

Performance Review: Active Long-Short

Our benchmark for the active strategy is **50% Vanguard Total World Stock ETF (ticker "VT") and 50% iShares Core S&P Small-Cap ETF (ticker "IJR"), rebalanced monthly**. VT invests broadly in global stocks of all sizes and geographies, reflecting our desire to invest in any company that meets our criteria. IJR invests in US small caps, reflecting our emphasis on stocks where we are more likely to find an advantage.

Performance from February 10, 2025 to December 31, 2025	
Exeter Active Long-Short Equity (Net of Fees)	**10.5%**
50% VT- Vanguard Total World / 50% IJR- iShares Core S&P Small Cap	**11.3%**
Exeter performance consisting of:	
Long Portfolio	16.3%
Short Portfolio	(4.0%)
Cash & Foreign Exchange	(0.1%)
Management & Performance fees	(1.7%)

*Risk Metrics Based on Monthly Performance, Net of Fees**			
	Strategy	Benchmark	**Ratio**
Standard Deviation	2.1%	3.2%	**64.2%**
Maximum Drawdown	(2.3%)	(9.0%)	**25.7%**
Up Capture	59.8%		
Down Capture	22.3%		

* See Appendix A for metric explanations & definitions

Since inception on February 10, 2025, our performance net of fees was 10.5% versus 11.3% for our benchmark. Non-fee-paying and discounted fee accounts have been adjusted to reflect hypothetical fees. Analysis of the slight underperformance in our inaugural year yields two positives and a big negative:

1) The long portfolio had a solid performance.
2) Risk metrics suggest an overall risk level well below that of the benchmark.
3) The short portfolio sizing was poor.

The year was broken into two parts performance wise. In the first, President Trump's tariff agenda affected the markets and drove the S&P 500 to a nearly 20% loss from its prior peak. From inception to April 30, the benchmark was down 9.0% and Exeter Long Short was down 2.3%. The subsequent rally was intense; our benchmark has not had a down month since April, rallying 22.3% versus 12.8% for our active strategy.

Taking the big negative first, my sizing of the short book was in complete reverse of what you would want in this situation. I faced a decision at launch: should I build the short book slowly as new stock ideas emerged or build it quickly as if past ideas had already been in place? I chose the former, believing our approach would do better when the signals were fresh. This caused us to go through the tariff drawdown with no more than 9% of our portfolio hedged. I reversed the mistake too quickly as the market rallied.

The average daily short exposure was just 4.2% from inception to April 30 (benchmark down 9.0%) and 21.5% for the remainder of the year (benchmark up 22.3%). It was a meaningful drag on performance. Going forward I expect to have a more stable short exposure under <u>normal</u> market conditions. However, I believe that no matter how good any investor's stock picking is, there are times when it is unwise to be short <u>at all</u>. I will continue to reduce short sizing when market fear gets very high but will likely be slower to rebuild the short portfolio when the indices are fresh off a ~20% drawdown. Our risk averse approach to long investments should still be protective if the market goes past 20% into a more severe bear market.

On to positives: despite this sizing problem the portfolio showed strong signs of below-market risk, commensurate with our goals. Both the drawdown and standard deviation were significantly below our benchmark, and both the long and short side contributed to that profile. A +2.0% contribution from shorts through May 31 was excellent given the low weighting, albeit we had fewer positions than we will in the future.

On the long portfolio, both risk and return results were solid. The 16.3% contribution to return was certainly satisfactory. The standard deviation and drawdown of the standalone long book was 84% and 43% of the benchmark respectively (calculated monthly). There were noteworthy contributions from individual stocks:

- **Barrick Mining Corporation (ticker: B)** contributed +1.5%. This was a diversifying holding that we selected based on quantitative analysis. Gold miners happened to pay well in 2025.
- **Perma-Pipe (ticker: PPIH)** produces specialty piping and leak detection systems for energy and industrial chemical applications. It added +1.3% to performance. Only one Wall Street analyst covers it. I felt at the time of purchase that it was dramatically undervalued when considering contract announcements between reporting periods.

- **Espey Manufacturing (ticker: ESP)** contributed +1.0%. They make power transformers for defense vehicles including nuclear submarines. Supply relationships for US subs are extremely difficult to win or lose. They received grants from the government to invest in production and speed up delivery times for defense vehicles across the US and allied fleets. I was drawn to the free money for expanding output as a catalyst, as well as a high alignment of interest with employees via their company retirement plan owning 18.7% of the stock.

We have already exited both PPIH & ESP, generating some short-term gains. I was willing to own each for years, but the stocks rose too far and too fast (81% & 60% respectively) to wait many months for long-term capital gains treatment. I do not see them as long-term compounders: there is only so much construction of chemical infrastructure and capital ships to win. Valuation no longer looked juicy, and it seemed appropriate to exit despite the tax bill.

Performance detractors included a short position in Praxis Precision Medicines (PRAX, -0.8%) and a long position in Liquidity Services (LQDT, -0.5%). Praxis is a biotech stock that announced positive trial results. We were short based on certain disclosure red flags. While this approach has worked on average, I have learned a valuable lesson about the sizing of medical research names: because of their uniquely volatile risks, similar stocks will have more stringent criteria for inclusion and a smaller size from now on. Liquidity Services is an online auctioneer of underutilized government assets and commercial equipment when owners go out of business. I paid too high a price for the stock, perceiving industrial liquidation to be countercyclical and a valuable portfolio diversifier. This may turn out to be the case at a better price.

Performance Review: ETF Allocation

Client portfolios in our ETF Allocation strategies have customized stock versus bond allocations, but our most common choice of 80% Equity / 20% Bonds should still be indicative of our portfolio decisions. So rather than discuss all possible allocations, I'll refer to the composite of 80/20 accounts in our letters.

Performance from February 28, 2025 to December 31, 2025	
Exeter 80/20 ETF Allocation (Net of Fees)	**16.9%**
80% VT- Vanguard Total World / 20% AGG- iShares Core US Bond ETF	**16.2%**

Risk Metrics Based on Monthly Performance, Net of Fees			
	Strategy	Benchmark	**Ratio**
Standard Deviation	1.6%	2.1%	**75.5%**
Maximum Drawdown	(0.3) %	(2.8) %	**11.9%**
Up Capture	88.8%		
Down Capture	10.9%		

Our 80/20 Allocation accounts slightly exceeded the benchmark net of fees. The benchmark is 80% the same broad global equity index ETF from our active strategy and 20% a broad US bond index ETF. This benchmark did better than our active one, mostly due to a higher allocation to foreign stocks and a lower allocation to small caps. The risk statistics look unsustainably great primarily because there was only one down month for the index. We were down 0.3% in March with the index down 2.8%. Do not expect us to get 89% of the upside and 11% of the downside regularly. There just wasn't much downside this time.

Nonetheless, slightly exceeding the market with some signs of less risk is a solid result for year one. As mentioned earlier, decisions in this strategy include index fund selection and rebalancing behavior. The primary driver of outperformance was both opportunistic and regular rebalancing actions.

Business Objectives & Commitments

Wrapping up the first of many letters from Exeter Investment Management, I make the following commitments:

1) To keep the vast majority of my liquid net worth in the same investment strategies I offer.
2) To be forthright with mistakes and learn from them.
3) To manage our cost structure carefully.

My priorities outside of investment decisions are to add a few clients a year, automate as much administrative work as possible in preparation for growth, and pass our first regulatory compliance review (whenever it comes). Although I intend to run as a one-man shop for a few years, I hope to eventually add staff who share the commitments and investment principles outlined above. I am involved with the UCLA Ben Graham Value Investing program, which should provide a unique connection with talented young people interested in the science and art of investing.

We will only manage separate client accounts for the foreseeable future. The benefits to clients are 1) you retain custody of your own money with the broker/custodian 2) you are unimpacted from a tax perspective by the inflows & outflows of other clients 3) the cost structure is low. I will not rule out a comingled fund forever, but this is the best way to start our track record in my view.

Thank you again for your partnership and interest. Feel free to call with any questions, feedback, or concerns. I look forward to connecting with you individually.

Best regards,
Jake Saroyan, Portfolio Manager

Jacob J Saroyan

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Appendix A: Risk Metrics

- **Standard deviation** is a measurement of the typical fluctuations for an investment strategy over a standard period. Precise calculation is explained well on Wikipedia.
- **Maximum drawdown** is the most an investor could lose in a strategy by buying at its highest point and selling at its lowest point. It is the low point divided by the high point, minus 1, and expressed in percentage.
- **Up capture** is the average performance of an investment strategy divided by the average performance of its comparison benchmark in positive performance periods for that benchmark.
- **Down capture** is the average performance of an investment strategy divided by the average performance of its comparison benchmark in negative performance periods for that benchmark.

Exact calculations of risk metrics can differ between firms as well as when calculated daily, monthly, or annually etc. Risk is inherently difficult to measure, and investors differ in their preferred metrics for assessment.

Appendix B: Citations

1. O'Shaughnessy, James. *What Works on Wall Street*. 4th ed. New York: McGraw-Hill, 2012. Pgs. 248-252.

Appendix C: Fee Schedule

Strategy	*Management Fee*	*Performance Incentive Fee*	*Incentive Hurdle Rate*
Exeter Active Long Short	0.0 to 1.0%	0.0-25.0%	6.0%
Exeter ETF Allocation	0.2%	n/a	n/a

Non-fee-paying and discounted fee accounts have been adjusted to reflect hypothetical fees.

Appendix D: Disclosures

Exeter Investment Management LLC ("Exeter") founded in 2025, is a state-registered investment adviser in California. A copy of our current written disclosure statement discussing our advisory services and fees is available for your review upon request. All investments involve risk, including loss of principal and there is no guarantee that investment objectives will be met. Investments may be made in micro-cap companies, which involve a higher degree of risk and volatility than investments in large-cap companies. In calculating historical asset class performance, Exeter has relied upon information provided by the custodian or other sources which Exeter believes to be reliable. Exeter maintains information supporting the performance results in accordance with regulatory requirements.