JANIAN
INVESTMENT ADVISERS, LLC

February 17, 2022

Dear Clients & Friends:

2021 INVESTMENT REVIEW

STRATEGY	2021 Rate of Return*	Comparable Index Return
Unhedged Securities (Taxable)	28.3%	25.7%
Unhedged Securities After Tax (Estimated)	*22.2%*	
Hedged Securities (Taxable)	27.4%	12.1%
Hedged Securities After Tax (Estimated)	*23.4%*	

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

Most of the stock market had a great year. Happily for our short activities, a partial swath of the frothiest parts of 2020's stock market had a terrible year.

Janian beat the market slightly on the long side, and had a great year on the short side.

We'll briefly discuss each strategy's 2021 on the next few pages.

[1] Please contact us if you'd like an explanation of how we calculate these returns. The *After Tax* returns ignore State and 'NIIT' taxes.

Unhedged Securities

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

% Change

	Unhedged Securities Strategy, Net of Fees*	VTI
2018	(12.53)	(5.13)
2019	28.95	30.80
2020	35.09	20.95
2021	28.30	25.70
Annualized	18.24	17.20

*Fees = Management & Trading Fees

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 15 stocks[3]. Two of the positions, Kraton and Change Healthcare, are subject to a signed acquisition and will probably leave the portfolio later this year.

Bargains in stocks are still hard to find, even after the drops over 2021 in some frothy 2020 stocks and the market-wide pullback last month. The decade-long bull market (which may only be taking a brief pause) carried most stocks well past bargain territory. Happily, we have continued to occasionally find some promising long investments, and we are confident that we will continue to do so.

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[2] VTI = Vanguard Total Stock Market ETF.

[3] The Unhedged strategy is often long an equity index in order to be more fully invested. It has no such index position at the moment.

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
2021	27.38	12.14
Annualized	8.21	4.02

*Fees = Management & Trading Fees

Over the last nine years we have delivered higher returns in taxable Hedged Securities' accounts than the average similar strategy[4]. The returns in non-taxable accounts have been higher than the taxable accounts'. In 2021, we outperformed the average similar strategy.

It was a good year for our longs. They slightly outperformed a strong market.

It was a winning year for the taxable accounts' shorts. The 'crazy stampede' that we referenced in 2020's Investment Review swerved in the opposite direction, and our discipline and patience placed us in a good position to capitalize upon that.

The taxable Hedged Securities portfolio is currently long ~47% of capital, and short ~8% of capital.

[4] 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.

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<u>Ambushed</u>

In July a research group associated with the University of Chicago published a paper estimating that "high-frequency trading" [our term, "HST"] "imposes a roughly 0.5 basis point tax on trading."

We've mentioned this to a few of you. Your reaction was, essentially, "who cares?"

Janian does. Currently, the stock market capitalizes ~195% of U.S. Gross Domestic Product ("GDP")[5]. Let's estimate that that capitalization turns over ~125% per year[6]. That in turn implies that the high-frequency trading tax is ~1.2% of GDP. And what benefit does the other 98.8% of GDP get in exchange for this tax? Not much: you can be more confident that your trade order will be met and filled in microseconds instead of seconds.

So, you're being ambushed. 17 minutes of your [well, actually our collective GDP's] day, every trading day, goes to the HST folks' wallets. And, with those very fat wallets, HST funds an extensive list of politicians, it demands that every trading exchange's rules favor it, and I am told that it has put on retainer every major law firm in the country.

The few of you to whom we belabored this point suggested that the HST folks have figured out computer programming better than the rest of us and there's nothing that we can do about that. I believe that that's not true. I am told that it's relatively straightforward to force trades to be "batched" in dozens of microseconds, such that we [the other 98.8% of GDP] get almost all of the liquidity benefits <u>and</u> cut the HST "tax" by 20% or more. I also believe that we could treat HST like the utility function that it truly is - i.e., tax HST profits such that we 'cap' the profitability [I am of the opinion that that cap should allow for higher profit margins than, say, we allow for electric utilities, but I am a finance guy after all]. And, I see no reason why the per-security trading fee imposed by the SEC, etc. shouldn't be higher. It's a fraction of what it is in the U.K., which appears to me to be a very capitalistic society with plenty of people who have gotten rich through the securities markets.

The U.S. has under-invested in securities markets' surveillance and enforcement for many decades, and to allow regular ol' us to be repeatedly ambushed by HST is just one example of that. I suggest that you write to your elected Representative, Senators, and President that "I demand that you regulate high-speed trading so as to help provide for free, fair and transparent financial markets in the United States of America." I have. Please reference Becker Freidman Institute Working Paper No. 2020-86.

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[5] https://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS?locations=US

[6] https://data.worldbank.org/indicator/CM.MKT.TRNR?locations=US

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Best wishes for a happy and healthy 2022 to you and your family.

Sincerely,

James W. Hague
Founder
Janian Investment Advisers, LLC

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APPENDIX

Janian's Macroeconomic Outlook

We wrote a year ago that "almost no one believes that truly meaningful signs of current inflation … exist." And then The Wheel of Time[7] turned …

Some pundits predict that inflation won't derail the bull market in stocks. Some pundits predict that the stock market will suffer as the U.S. Federal Reserve (the "Fed") reacts hawkishly, then roar back when the Fed backs off. A small number of pundits predict that financial Armageddon is upon us.

We do not know what will happen in 2022.

We continue to believe that in the very long run (10+ years), stock prices are likely to go up. We also continue to believe that in the shorter term stock prices, and security prices in general, might be volatile and suffer losses for some periods of time. And, we further believe that some businesspeople are exceptionally capable, and some are incompetents, fools or thieves. Accordingly, our uncertainty about the macroeconomic outlook does not change our investment process for either the Unhedged or Hedged strategies.

[7] No, we don't have a position in AMZN.

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