January 15, 2025

Dear Clients & Friends:

2025 INVESTMENT REVIEW

STRATEGY	2025 Rate of Return*	Comparable Index Return
Unhedged Securities (Taxable)	20.5%	17.1%
Unhedged Securities After Tax (Estimated)	*21.6%*	
Hedged Securities (Taxable)	22.6%	10.1%
Hedged Securities After Tax (Estimated)	*23.1%*	
Fixed Income (Non-Taxable)	6.2%	7.1%

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

Janian's long stock portfolio performed well. The short stock portfolio (in the Hedged strategy) made money for the second year in a row. The fixed income portfolio slightly trailed the index.

We'll briefly discuss each investment strategy's specifics in the next few pages.

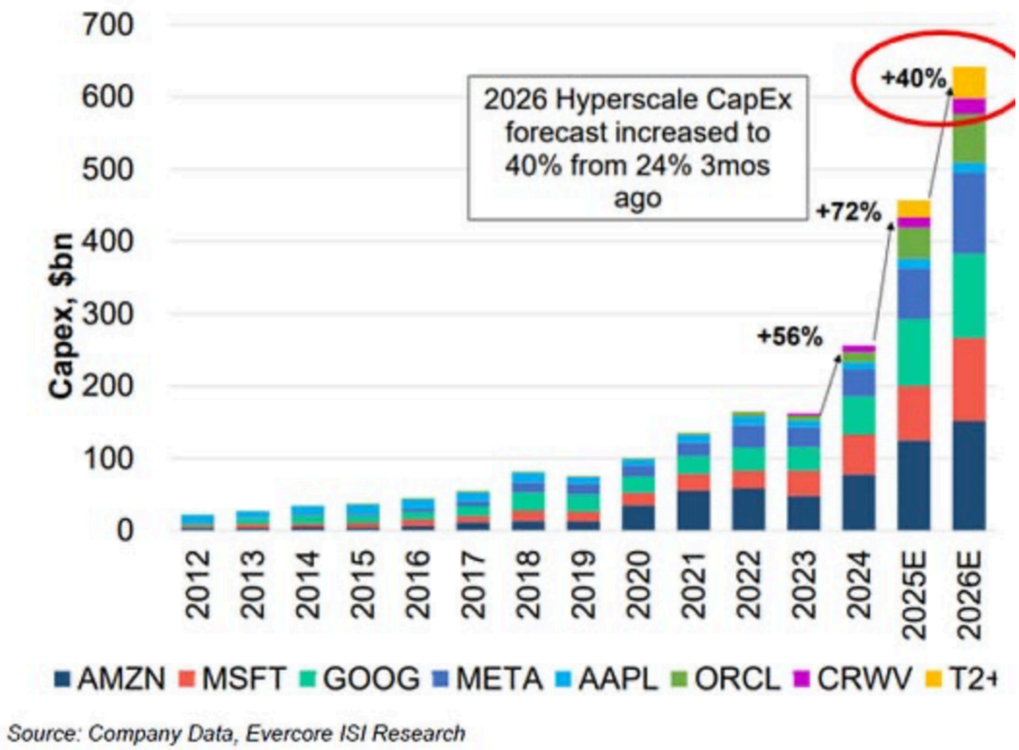
[1] Please contact us if you'd like an explanation of how we calculate these returns. The *After Tax* returns ignore State and 'NIIT' taxes.

Unhedged Securities[2]

	% Change	
	Unhedged Securities Strategy, Net of Fees*	VTI
2018	(12.53)	(5.13)
2019	28.95	30.80
2020	35.09	20.95
2021	28.31	25.70
2022	(23.41)	(19.50)
2023	3.51	26.03
2024	11.42	23.75
2025	20.46	17.14
Annualized	9.59	13.61

*Fees = Management & Trading Fees

This chart is key to understanding Janian's and the stock market's performance 2023-2025:



[2] VTI = Vanguard Total Stock Market ETF.

In 2023, the stock market adopted the idea[3] that Nvidia would benefit from a coming surge in capital expenditures ("CapEx") from a handful of companies building Artificial Intelligence ("AI") related data centers. Janian was cautious about adopting that idea: Nvidia management had repeatedly promised great things (in video game graphics chips, then cryptocurrency) that turned out to be more one-time than lasting in heightened profitability, and we did not (and still do not) see a tremendously profitable future for OpenAI, which was (and maybe still is?) the first totem of AI's corporate future. The stock market continued to run with the AI CapEx idea (and expand it beyond just Nvidia), hard, in 2024 and 2025, and the actual AI CapEx in both years turned out to justify that. Meanwhile, in 2025 Janian invested in three companies, Coherent, GE Verona, and Seagate, that were almost immediately deemed AI CapEx 'beneficiaries;' their stocks returned +142%, +44%, and +83% to Janian by year-end.

About ½ of our long stock portfolio (as measured by capital deployed) changed in 2025:

- We sold large long positions in Air Products & Chemicals and UL Solutions with significant long-term gains;
- We sold a large merger arbitrage position, our only merger arbitrage idea, in Ansys/Synopsys at a significant gain (both long- and short-term); and
- We sold various medium- and small-sized positions at a collective loss (both long- and short-term)

We currently hold 15 longs (and ~10% cash in the Unhedged strategy). Although managements (and apparently investors) seem interested in trying to sprinkle almost every company with the AI CapEx magic dust, we believe that an aggressive effort would label ~½ of our long portfolio's capital as direct or indirect participants in the AI CapEx effort.

We continue to believe that speculative energy and, perhaps relatedly, risks to the stock market are elevated. Having written so often - see footnote 3 below! - about this, we have nothing additional to say at the moment.

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[3] A related - perhaps catalytic? - rise in speculative behavior in the stock market ignited in 2023 as well. We refer you to our letters from 2023Q2, 2023Q3, 2023 Year End, 2024 Year End, and 2025Q2.

<u>Hedged Securities</u>[4]

% Change

	Hedged Securities Strategy, Net of Fees*	Index of Similar Hedge Funds	50% VTI, 50% BND
2013	18.52	11.14	15.69
2014	10.21	1.42	9.26
2015	(6.65)	(2.33)	0.40
2016	6.00	0.10	7.63
2017	10.17	9.98	12.39
2018	(9.64)	(9.42)	(2.59)
2019	20.90	10.71	19.76
2020	2.68	4.60	14.33
2021	27.38	12.14	12.02
2022	(11.82)	(3.18)	(16.33)
2023	(2.77)	6.90	15.87
2024	14.07	7.83	10.37
2025	22.61	10.06	12.27
Annualized	7.10	4.40	8.81

*Fees = Management & Trading Fees

To make money with a short portfolio two years in a row during a strong, speculation-filled bull market is unexpected.

[4] BND = Vanguard Total Bond Market ETF.

Fixed Income

	% Change	
	Fixed Income Strategy, Net of Fees*	**BND**
2013	16.77	(2.14)
2014	(11.50)	5.96
2015	(4.38)	0.39
2016	3.89	2.57
2017	2.13	3.62
2018**	0.16	(1.66)
2019	N/A	N/A
2020	N/A	N/A
2021	N/A	N/A
2022	(9.50)	(13.15)
2023	7.30	5.70
2024	4.22	1.34
2025	6.19	7.11
Annualized	1.22	0.81

*Fees = Management & Trading Fees

**Thru 2018Q3

In our Fixed Income strategy, we have maintained an overweight to mortgage and other asset-backed bonds, short durations in general, and an underweight to 'typical' corporate bonds.

Best wishes for a happy and healthy 2026 to you and your family.

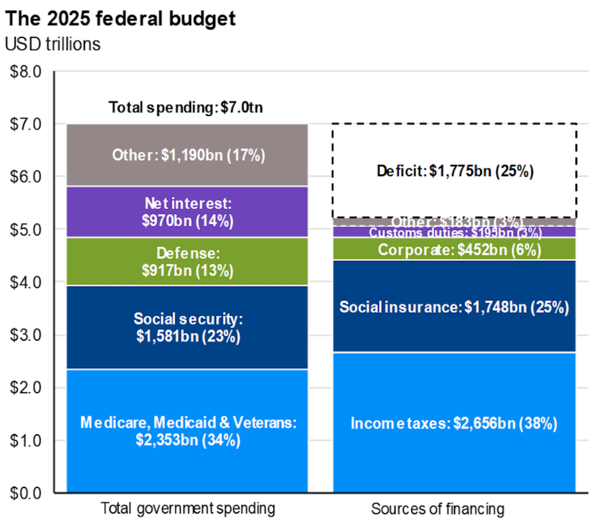
Sincerely,

James W. Hague

James W. Hague
Founder
Janian Investment Advisers, LLC

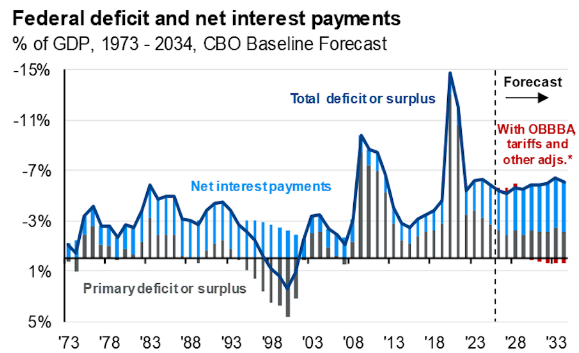
APPENDIX I: Macro Thoughts

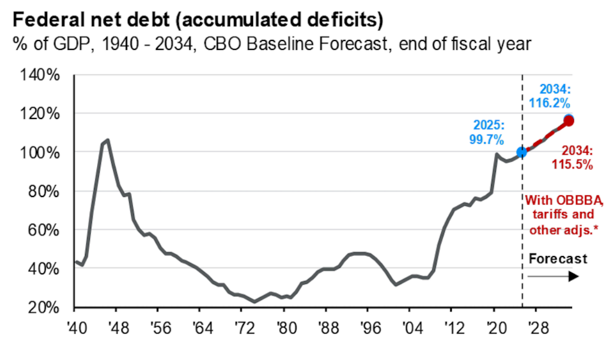
We've written before about our concern about the U.S. Federal government's debt's potential impact on the business environment and investors' confidence. That concern, largely unshared by financial markets, has been growing recently. Curtesy of JP Morgan[5], here are some charts that summarize[6] the situation:



CBO's Baseline economic assumptions

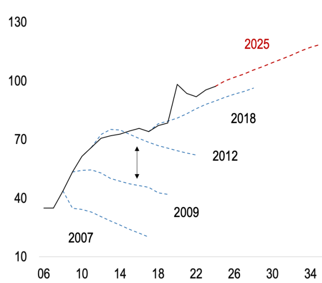
	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%





Regarding the bottom right-hand chart, we would add:

F5: Will the CBO once again undershoot?
CBO federal debt-to-GDP projections (%)



Takeaway: The CBO has historically underestimated upward pressure on US government debt. This reflects excessive optimism around a reduction in both spending and interest costs. Source: Congressional Budget Office.

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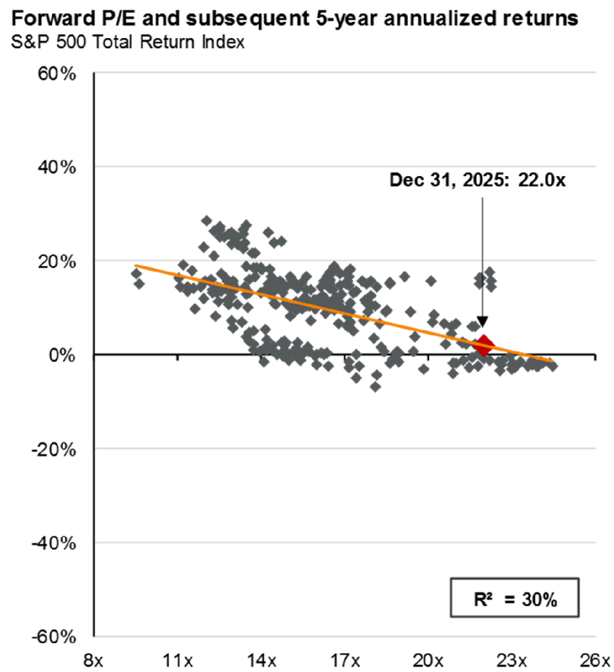
5 https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/?utm_source=substack&utm_medium=email

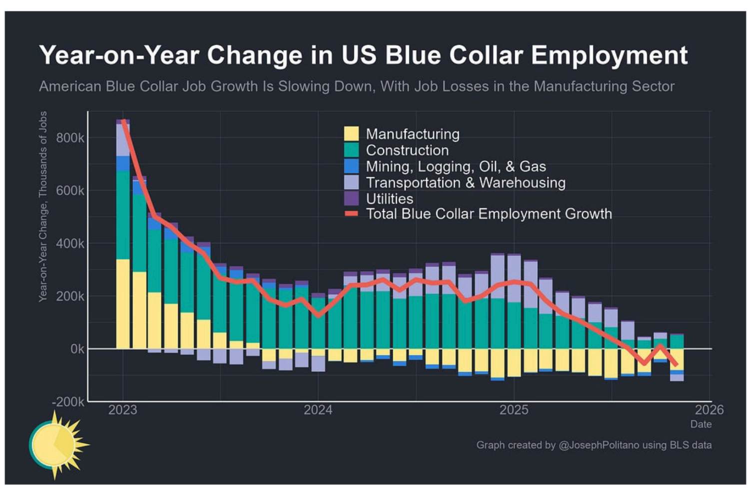
6 If you want to dive more deeply into the subject, https://www.nber.org/papers/w34455 offers 104 pages to swim in.

We have also written before about what results at-the-moment security prices have generated in the past. JP Morgan also has a chart for that:

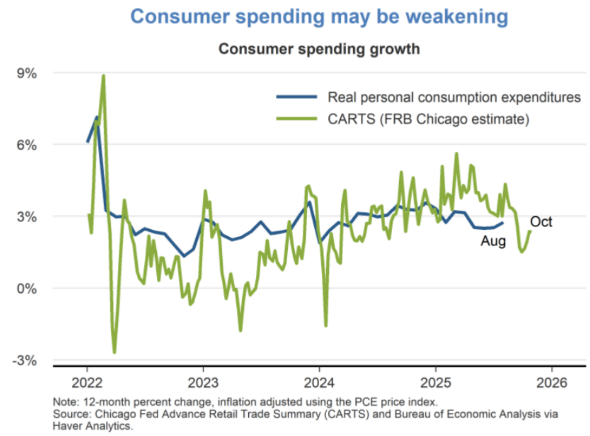


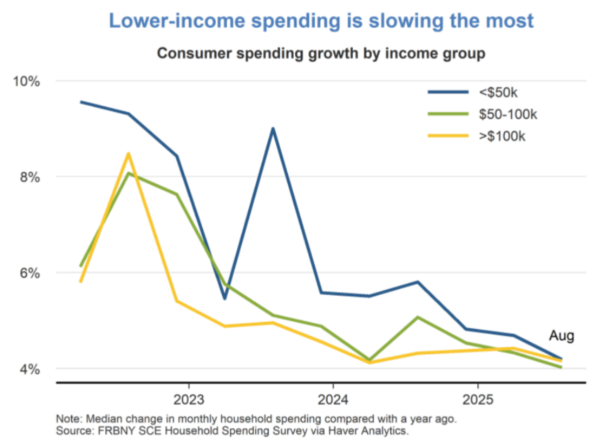
We have some newer items that we think are also not encouraging of medium-term returns to stocks. For example:

(1) Employment and consumer spending trends may be weakening:



Available data on real personal consumption expenditures show signs of a slowdown in consumer spending in recent months. The official series from the U.S. Bureau of Economic Analysis, available through August, shows that the 12-month growth rate in consumer spending has dropped to slightly below 3%. The Chicago Fed provides retail spending estimates through October that are derived from a statistical model combining data from multiple sources. The estimated spending series, while noisy, shows a growth slowdown in recent months. Other data from a household survey conducted by the New York Fed show that spending growth has slowed the most for lower-income households, consistent with the exhaustion of their excess savings and slower wage growth.





(2) The U.S. Federal government appears to us to have become more interested in political theatre and less interested in protecting investors from malignant players:

https://www.federalreserve.gov/newsevents/speech/powell20260111a.htm

Credit to @Dutch_Book:

Since April 1st the SEC has brought only seven complaints. This is down 91% from the same period last year, and 90% from the ten year average.

2025 will be the lowest level of SEC enforcement since EDGAR started in 1993 by an enormous margin.

4:21 PM · Oct 31, 2025 · **12.9K** Views

Regardless of these macro thoughts, stock prices have continued to rise. We refer you to page 3 of this Letter for a summary of the Unhedged strategy's current exposure, and page 5 for the Fixed Income's. We are happy to provide more details of any of our strategies' exposure if you'd like.

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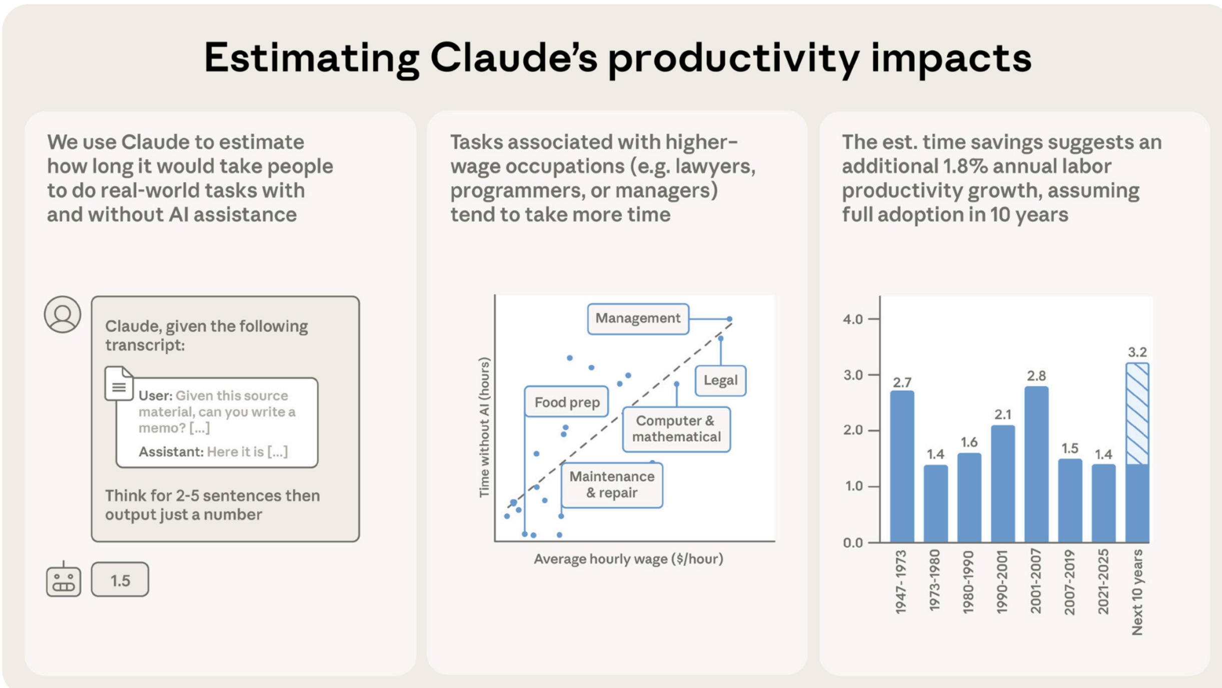
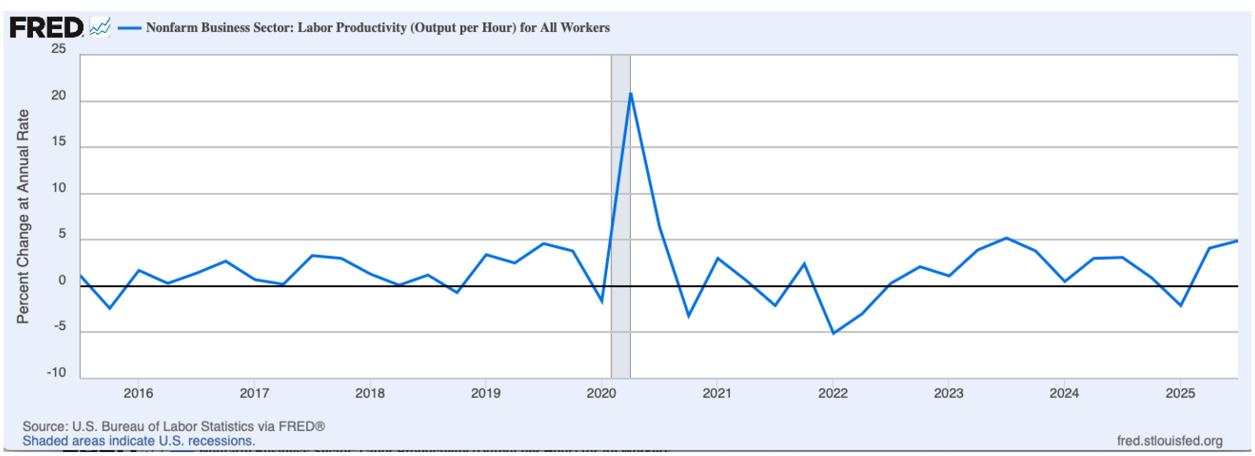
APPENDIX II: AI

One of the builders[7] of AI models says:



With annual labor productivity growth averaging ~1.9% over the last ten years, this could be a really big deal for the economy.



It appears that many Americans have experience with this:

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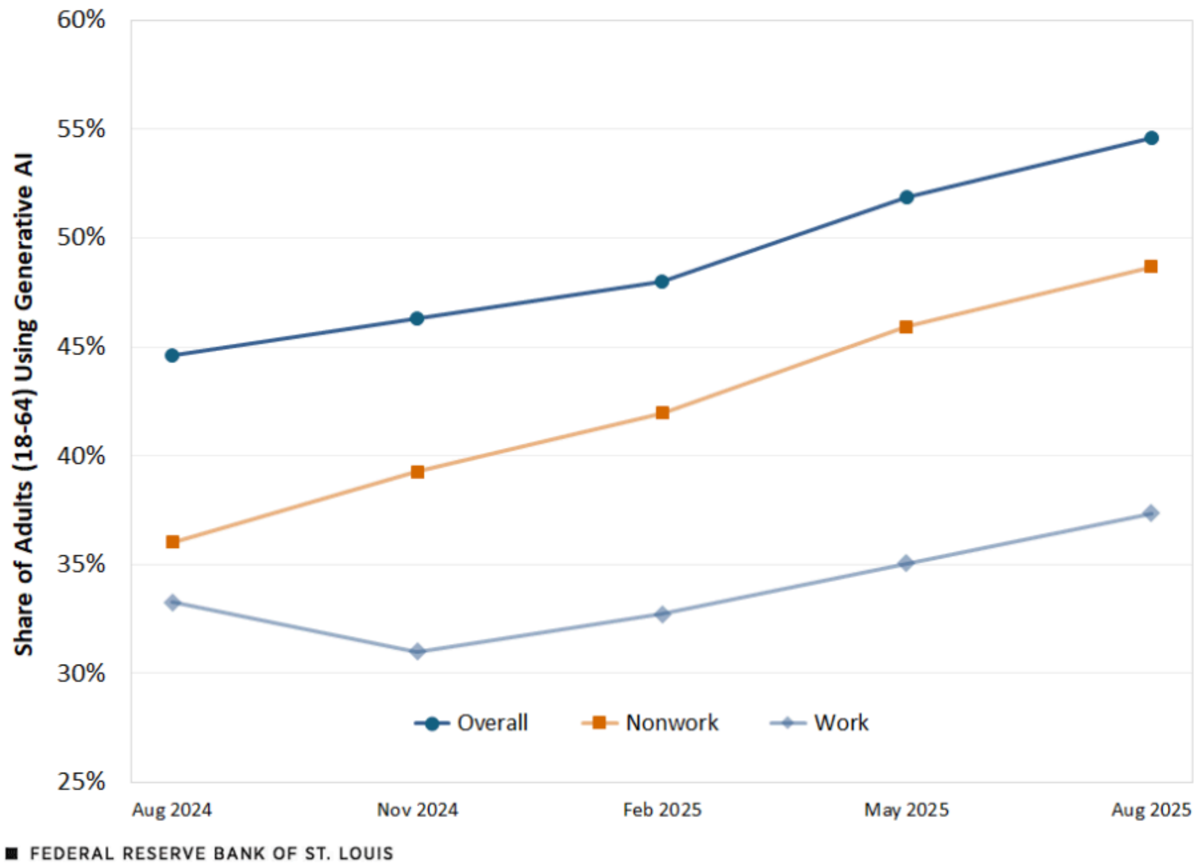
[7] Janian uses AI in several, mostly embedded, contexts (for example, it helps conduct investment research, and helped edit this letter, via tools we use that are task-specific); Anthropic's Claude and Google's Gemini are currently our preferred 'stand-alone' AI tools.



Harkening back to page 2 of this Letter, this 'big deal to the economy' has clearly incentivized various people to buy shovels ("CapEx") to mine for AI gold, i.e., the people looking to make money off selling AI itself have created profits for others. But, we have not seen evidence that this has yet translated into those hopeful sellers of AI itself making meaningful money.

We currently subscribe to a view articulated below by Brad DeLong[8]:

> Proprietary LLMs are likely to prove lousy businesses—high opex, thin moats, fast commoditization. But their capex won't vanish. And the value from it will diffuse broadly and equitably : better models for everyone; upgraded grids; repurposed GPU farms; millions of open repos. No Deep Thought, but better weather forecasting, antibiotics, copilots, and the replacement of bureaucratic cookie-cutter with bespoke algorithmic classification isn't failure.
>
> In short: AI is unlikely to mint new platform monopolies. It is likely to manure the next generation's digital commons. The bubble finances infrastructure and code that, post-panic, underpins broad gains.

[8] https://braddelong.substack.com/p/the-ai-bubbles-most-likely-endgame?utm_source=publication-search

> **FT Alphaville**: What if OpenAI is worth more dead than alive? <https://ftav.substack.com/p/what-if-openai-is-worth-more-dead>: 'Here's the theory. Proprietary large-language models['] core technologies still have value, but their developers' individual business models marry persistently high operating costs with shallow commercial moats and their innovations quickly become commoditised.... The result is better machine learning for all. Companies will die, but the spoils of more than $1tn in capital expenditures can trickle down equitably to a nation's underfunded labs, studios, factories and faculties. We won't get Artificial General Intelligence, but we might get improved weather forecasting and some new antibiotics.... YOLO indeed. A common fear about AI is that the bubble's bursting will metastasize into a financial crisis demanding of government interventions and value-destructive shotgun mergers — but what if it doesn't? What if all it leaves behind are worthless share options, defaulted bonds, written-off GPU clusters, some slightly upgraded power grids, and several million open-source repositories full of fairly useful code? LLM commoditisation won't give us Deep Thought, but can be a force for economic good in myriad small ways. Whereas China's open-model approach seems to already accept this possibility, the Western version can still succeed if a handful of companies stay irrational for longer than they can stay solvent…

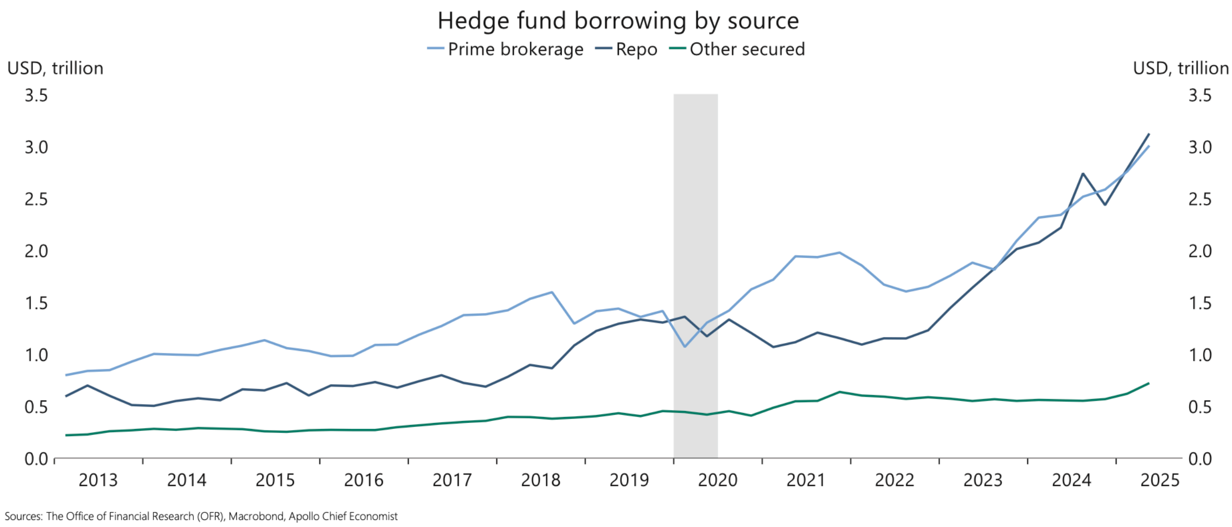
We also get very good on-device natural language interfaces to structured and unstructured databases, which are themselves very valuable. And the GPU clusters can do lots of very useful very high-dimension flexible-form big-data classification analyses, which will change and enrich the world in ways we do not yet know—provided we can keep the Zuckerbergs of the world from hacking our brains to distract and commodify our attention in ways that make us sick.

The most important thing to grasp here is that this is the most likely trajectory because ***Google, Facebook, and Amazon are not spending money like water on the AI-buildout to make money, but rather to defend their existing platform-monopoly profit flows***.

The data that we have seen so far (most of it from vendors who do not allow us to share it with you) strongly suggests that Google, Facebook, Amazon, and Microsoft have so far successfully defended their (very high margin) franchises that conceptually could have been weakened by customers adopting other vendors' AI tools (such as ChatGPT taking consumer internet search share away from Google). We currently do not see this dynamic changing much going forward.

APPENDIX III: Janian v Hedge Funds

In our 2024 Year-End Letter, we wrote that "U.S. government data indicates that our approach to hedged investing differs significantly from many "hedge funds," as we avoid net leverage and, most of the time, gross leverage as well." Below is an update on hedge funds' use of leverage.



Please note that the table attached to this letter was created using data drawn from your account's custodians. We urge you to compare this table to the reports from your custodians; hopefully, this is easier to read!