October 31, 2021

Fellow Investors:

Thank you for your continued support and positive response to my previous letters. Despite calling this the Q4 letter, I am distributing it at the end of Q3 to share some big news: I am in the process of filing the legal forms and paperwork in order to become an independent registered investment advisor, under the name Niemann Investments LLC.

In conjunction with this, I recently resigned my full-time employment and, going forward, will be focusing the majority of my time on this new business. It's something I've dreamed about doing for many years. The State of Utah may take several weeks to review and formally approve the application, but, if all goes well, I'm hopeful that I can officially open for business in early Q4 2021.

For some of you, I have been managing money for more than six years now. However, through that time period I did not collect any fees for the service since I was not registered to do so. (It's worth mentioning that throughout all this time my status as a CFA Charterholder met the education and licensing requirements; I merely had not filed the paperwork.)

Fees

Most of the rest of this letter will be about fees. In launching a new investing business, it is important to clearly explain the fee structure and the reasons for its selection. The proposed fee structure is somewhat unique for registered investment advisors and in some ways is more like hedge fund fee structures; however, it also has some important differences to traditional hedge funds. I ask for your careful consideration.

There are two types of fees typically charged for investment management services. The first and most common fee is called a *management fee* and is simply an annual percentage of the account value, regardless of performance. For most current clients, this will be the structure

applicable to your account. The default management fee will be 1.25% for the first $1M, then 1.00% on all amounts greater than $1M.

For example, as shown in the table below, if an account had $5M total in total assets, the blended fee rate would be ($1M × 1.25% + $4M × 1.00%) / $5M = 1.05% of the total account value annually. These fee rates are in line with most other active investment management fees.

First million — Initial rate — Amount greater than a million — Reduced rate — Blended rate

$$\frac{(\$1M \times 1.25\%) + (\$4M \times 1.00\%)}{\$5M} = 1.05\%$$

Total account value

The second type of fee is called a *performance fee* (or incentive fee), which is typically an annual percentage of the account value gains. This means the fee is only paid if the account increases in value. No fee is paid if the account value does not increase. While a performance fee clearly provides better alignment of interests between the investment manager and the client, the regulators view performance fees as riskier and only allow them to be charged to more affluent investors (known as “qualified clients”). Hence, only clients with accounts over $1.1M will be eligible for the alternative performance fee structure.

Eligible clients who elect the performance fee structure will receive a 0.50% reduction of the management fee. Continuing the example from above, the 1.05% blended management fee would be reduced to 0.55% (1.05% − 0.50% = 0.55%), as shown in the table below. Additionally, a performance fee will be added of 25% of the account gains in excess of the benchmark S&P500 TR index, including a high-water mark (meaning the account must be positive before a performance fee may be charged).

Based on the recent conversations I’ve had with many of you, I expect most clients will find this fee structure desirable. As illustrated in the table below, if the portfolio’s outperformance (returns greater than the index) is 2%, then the performance fee would be 2.00% × 25% = 0.50% of the account value. A portfolio return of 2% above the benchmark

represents the breakeven point where the total fees under both fee structures are the same. If investment performance is less than 2% above the benchmark, then the total fees would be less under the optional structure than under the default structure. And similarly, if the investment performance is more than 2% above the benchmark, then the total fees would be greater under the optional structure than under then default structure. (Most investors are willing to pay fees when their account is strongly outperforming). If the benchmark is down one year, say a 10% decline, and the account is down only 5%, while this technically qualifies as outperformance (beating the benchmark), because of the high-water mark, no performance fee would be paid. Only positive returns and outperformance result in performance fees. This table summarizes the two fee structures:

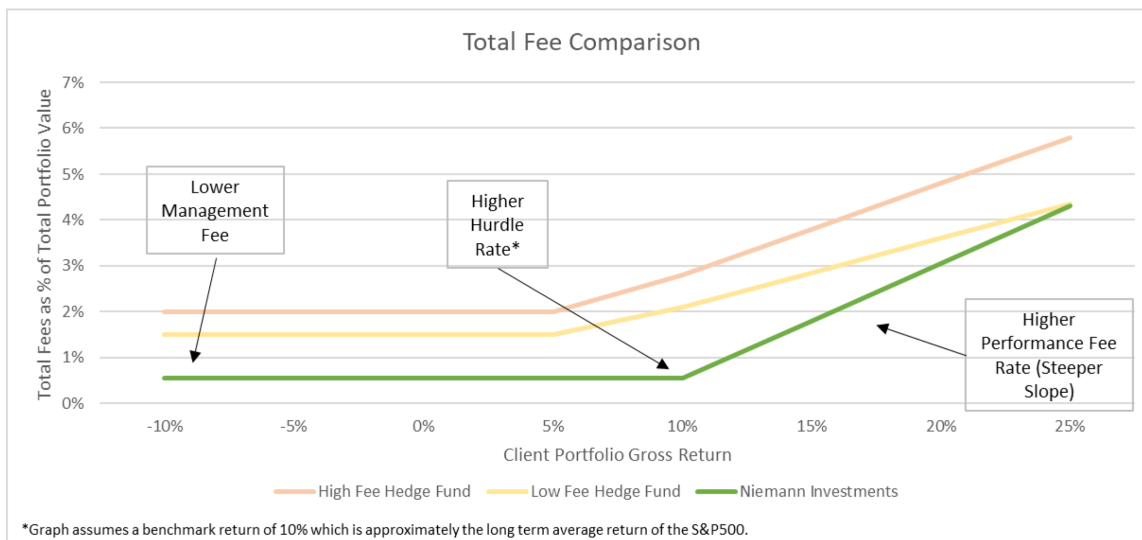
	Default Management Fee Structure	Optional Performance Fee Structure for Qualified Clients
Management Fee For First $1M	1.25%	0.75%
Management Fee For Amounts Over $1M	1.00%	0.50%
Performance Fee (% of Account Return over Benchmark)		25.00%
EXAMPLE CALCULATIONS:		
Blended Management Fee on $5M Account	1.05%	0.55%
Performance Fee Assuming 2% Outperforamnce		0.50%
Total Account Fees as % of Total Account Value	1.05%	1.05%

As mentioned in a previous letter, my goal is not to be a traditional financial planner. My goal is to earn better than average investment returns. While I cannot guarantee I will always be successful and outperform the benchmark, it is nevertheless my goal. In my opinion it is strange that most financial planners and investment managers do not even attempt to achieve

high investment returns. Very frequently these managers underperform their benchmarks (at times by substantial amounts). Many do not offer a performance fee because their performance is rarely good enough to generate any income with that fee structure. Others, particularly hedge funds, do offer performance fees but with unfairly low hurdles. The sad result is that their clients end up with poor investment returns and often pay high fees for it nonetheless (if you know of anyone currently in this unfortunate situation, please send them my way). Most anyone could buy an index fund on their own and both increase their investment returns and lower their fees, all without significantly increasing risk. (A real no-brainer.) Alternatively, if I can provide a service that others cannot easily replicate on their own, and thereby improve their financial wellbeing, then I have added value to them and have earned the fees charged.

Despite the regulatory hurdles, I feel offering a performance fee structure is essential, given my focus on generating strong investment returns. It demonstrates that I'm willing to stake my income on my skill as an investor. It also lowers the risk to the client who only pays after strong results have been achieved.

The chart below shows a comparison between the proposed performance fee structure and the fee structures used by many hedge funds. As illustrated, the proposed performance fee structure represents a significant discount to most hedge fund fees under all scenarios except very strong investment outperformance.



Please also keep in mind there are some very small fees that Interactive Brokers will charge for trades or securities borrowing. These can also be seen from the client portal. However, these fees are typically so small to be of no concern. I chose Interactive Brokers in part because their fee structure was the lowest I could find. I mention them now only for the sake of completeness.

Please let me know if you have any questions or comments regarding the fee structures. I'm happy to discuss as needed.

Housekeeping

As I transition to a fully registered investment adviser, there will be several changes in the coming weeks. Please keep an eye out for the following:

1. I have a new website (niemanninvestments.com), but I plan to keep the firm's web presence minimal. These letters will be posted on the site, but not much else. As a reminder, if you ever want to see your account's performance or holdings, you can access that information via the Interactive Brokers client portal. Going forward, I will be sending all emails and communications from my new email address: todd@niemanninvestments.com.
2. I am preparing and will soon distribute account agreements which will need to be signed.

3. I am also preparing a new client questionnaire for everyone. Despite the many years I have worked with many of you, for regulatory purposes you will nevertheless be considered new clients of a new firm. The questionnaire is designed mainly to document your risk tolerance and financial situation and is required by regulators.
4. All clients we be initially placed into the default fee structure explained above. If you qualify and would like to elect the performance fee structure, please contact me.
5. I will also be sending you documents called the Form ADV after they are approved by the State of Utah. This includes a regulatory prescribed brochure that I will be required to share with you annually. These documents will also be available online and updated at least annually at https://brokercheck.finra.org.

Conclusion

Thank you again for your ongoing support. And especially thank you to those who have recently referred friends and family members. With no marketing budget, your willingness to mention my services to others is tremendously appreciated.

Kind regards,
Todd Niemann, CFA