



In Pursuit of Value

April, 2011

SL Advisors, LLC is a registered investment advisor offering separately managed accounts to individuals, family offices and institutions.



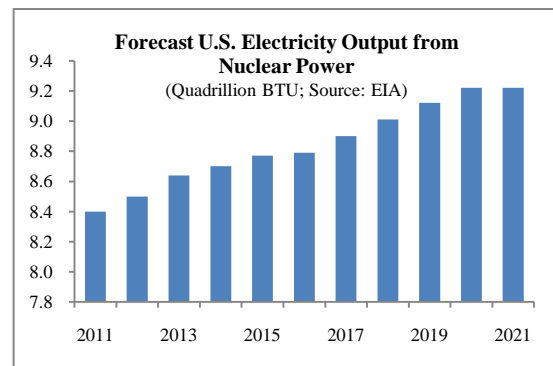
Quarterly Outlook

Looking back over the past three months and the major surprises that confronted investors, the relatively modest fall and subsequent rebound in markets illustrate just how hard it is to call highs and lows in equities. Unfolding political instability across the Middle East, the tragic combination of earthquake/tsunami/radiation release in Japan and ongoing European sovereign debt concerns are all part of the investment landscape and yet so far not that damaging. U.S. GDP forecasts are only modestly lower as a result, and a rise in short term interest rates still seems unlikely before next year. Meanwhile, some fiscal drag is expected as Congress tinkers with but doesn't fix the budget deficit.

In Fixed Income, the looming question is how the bond market will react to the apparently abrupt ending of QE2 in June. Yields fell steadily into last October in anticipation of its start; there is less uncertainty about its stop (until last October's announcement the size of new demand was uncertain; in June the size of removed demand is certain, about \$105 BN per month). U.S. treasury bonds have been unattractive investments for some time, and yields still appear to have much greater potential to rise than fall in order to attract new investors. Bill Gross notes that historically the yield on ten year U.S. treasuries has varied around nominal GDP, which would suggest ultimately they belong at 5% rather than around today's level of 3.5%. Meanwhile, government policy to weaken the US\$ continues to be executed flawlessly if without fanfare. Pygmy interest rates (so memorably says Jim Grant) and relentlessly energetic Federal spending are eloquent reminders to own foreign currencies. In our Fixed Income strategy 25% of our investments are now in non-US\$ (versus 20% a month ago), mostly in short term diversified emerging market currencies where growth, inflation and interest rates are all higher than in the U.S. It's one of the few ways to earn any income. We continue to maintain our U.S. interest rate risk around the two year sector in diversified high grade corporate bonds, selecting a cautious compromise between yield and risk, generating some income and preserving capital while waiting for fairer yields.

Regular readers are familiar with our natural gas theme, which is currently 25% of our Deep Value Equity strategy through various natural gas E&P names. Articulating the case in new and interesting ways becomes increasingly challenging – to summarize, compared with other fossil fuels (such as crude oil) natural gas is cheaper, cleaner and here. Companies with low debt that are efficient (i.e. low cost) finders and producers create lots of upside optionality for their investors waiting for the thesis to play out. Our holdings include Range Resources

(RRC), Comstock Resources (CRK), Southwestern Energy (SWN), Ultra Petroleum (UPL), Petrohawk (HK) and Westport Innovations (WPRT). Leaking radioactivity in Japan was hardly top of our list of potential catalysts, but it has probably reduced the role of U.S. nuclear power in meeting future energy needs. The chart is based on forecasts made prior to Fukushima – we think it will look different when the EIA updates it. The Financial Times recently noted that OPEC's oil revenues will reach \$1 trillion this year, an annual transfer of wealth so breathtaking that it surely must provoke a policy reaction among their clients. President Obama's recent speech seeking to reduce oil imports by a third over ten years was



*SL Advisors, LLC
focuses on
identifying securities
that are trading at a
discount to intrinsic
value.*

welcome if light on specifics. We think this story has plenty of chapters left.

We continue to own a couple of shipping investments – many of these stocks trade at steep discounts to tangible asset value (i.e. their ships) but face continuing pressure on freight rates (driven by steady growth in global shipping fleets). We recently sold Euroseas after it moved closer to fair value but continue to own Overseas Shipholding Group (OSG) and Aegean Marine Petroleum (ANW), both of which are depressed and therefore offer an attractive risk/return. We have a residual investment in Coeur d’Alene (CDE), a silver mining company that has handily outperformed the rally in silver. We’re also invested in a number of large cap, low P/E names including Kraft (KFT), Microsoft (MSFT), Johnson and Johnson (JNJ) and Procter and Gamble (PG). While we can scarcely claim a research edge into such widely followed companies, they each provide an attractive potential investment return with acceptable risk. We were intrigued by a recent article in the Financial Analysts Journal highlighting that in a world of relative performance with so much capital benchmarked to indices, low beta names (such as these four) tend to provide a higher return per unit of risk. This is because actively managed funds tend to overweight higher beta names that are expected to outperform a rising market. The article partially invalidates the Capital Asset Pricing Model, and while space doesn’t allow a detailed description here it’s always interesting to find inconsistencies in a widely followed academic theory. Interested readers can find a summary at <http://www.cfapubs.org/doi/abs/10.2469/faj.v67.n1.4> though CFA membership is required to access the full article. We also published our own research on this idea at <http://seekingalpha.com/article/257956-low-beta-stocks-look-particularly-compelling-today>. Our natural gas and shipping investments (high beta but in our opinion modest risk) provide a complimentary fit to attractively priced broad market exposure through some of the low beta names such as those listed above.

What We Own

Microsoft (MSFT) currently trades at a P/E of 10 based on this year’s earnings (they have a June year end) or 9 times next year’s consensus EPS of \$2.76. Their cash hoard net of long term debt is \$31.6 BN or \$3.69 per share, so the business excluding cash trades at only 7.9 times 2012 estimated earnings. Revenues will grow at 11% this year and probably 10% next year. The familiar criticism of MSFT is that they generate monopoly-like profits from their dominance of the PC business through Windows and Office only to sink it all into gaming and online services with precious little profit to show for it. Nonetheless they’ll still generate around \$4.12 per share of Free Cash Flow to Equity this year and revenues in their Entertainment and Devices division are growing at twice the company’s overall rate. Eventually, and maybe sooner rather than later, gaming and online will stop using cash and start generating it. In fact JPMorgan produced some research earlier this year illustrating that even with fairly stagnant growth in cashflow the NPV of flows suggested there was still substantial upside in the stock. At current levels we think MSFT provides exposure to global GDP at a reasonable price with attractive potential. MSFT is a holding in our Deep Value Strategy.

Republic Services Group (RSG) is the second largest waste management company. They are sensitive to economic activity through their Commercial business (a stronger economy produces more garbage) while their Residential business tends to be more stable. They’re in a competitive business, but through small price increases, efficiencies and volume increases they generate fairly reliable earnings growth. RSG is a consolidator in that they can acquire much smaller firms and squeeze efficiencies out of them. They can also benefit from cash-strapped municipalities looking to offload their own garbage services to a private operator. RSG’s stock price is not depressed, currently trading at around the market P/E multiple, but we like the fairly reliable and inflation-resistant nature of their earnings (since many of their contracts reprice annually based on CPI). RSG is a holding in our Deep Value Strategy.

SL Advisors runs three separate strategies: Fixed Income, Deep Value and Discount Arbitrage. Contact us for more information, or go to our website: www.sl-advisors.com

Fixed Income Strategy Monthly Returns (%)

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2009							9.6	4.3	6.3	-1.2	1.8	1.4	24.0
<i>Index</i>							7.0	1.5	2.2	1.5	1.6	-1.5	12.7
2010	2.7	1.5	2.7	1.8	-2.1	0.3	0.8	0.8	1.0	0.3	-1.0	0.0	9.0
<i>Index</i>	1.5	0.4	0.3	1.8	-0.6	2.2	2.2	1.9	0.6	0.1	-0.8	-0.8	8.8
2011	0.4	0.2	0.2										0.8
<i>Index</i>	-0.1	0.7	-0.2										0.3

Returns do not include cash balances prior to November 2009. YTD returns are unannualized compounded returns. The Index is the Dow Jones Corporate Bond Index, an equally weighted index of 96 investment grade bonds. Returns are net of fees. Past performance is not indicative of future returns.

Deep Value Strategy Monthly Returns (%)

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2009							8.9	0.6	9.3	1.6	1.4	9.7	35.4
<i>Index</i>							7.6	3.6	3.7	-1.9	6.0	1.9	22.6
2010	-1.3	4.3	3.9	3.1	-3.9	-4.6	4.9	7.2	7.8	1.2	1.0	2.7	28.8
<i>Index</i>	-3.6	3.1	6.0	1.6	-8.0	-5.2	7.0	-4.5	8.9	3.8	0.0	6.7	15.1
2011	0.1	2.4	1.9										4.7
<i>Index</i>	2.4	3.4	0.0										5.9

Returns do not include cash balances prior to November 2009. YTD returns are unannualized compounded returns. The Index is the S&P 500 including dividends. Returns are net of fees. Past performance is not indicative of future returns.

Discount Arbitrage Strategy Monthly Returns (%)

	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec	YTD
2009											-0.2	0.9	0.7
2010	0.8	0.0	-0.7	-0.8	-0.6	1.3	0.1	1.6	1.4	-0.1	0.1	0.8	4.0
2011	-0.7	0.0	1.6										0.9

YTD returns are unannualized compounded returns. Past performance is not indicative of future returns.

Contact info:

SL Advisors, LLC
210 Elmer Street
Westfield, NJ 07090-
2128
908-232-0830
sl@sl-advisors.com
www.sl-advisors.com

SL Advisors offers separately managed accounts for individuals, family offices and institutions across three different investment strategies. Client assets are held with Charles Schwab, the largest provider of custody services in the U.S. with assets of \$1.36 trillion and 7.9 million individual accounts (as of June 30, 2010). Client portfolios are completely transparent via Schwab's extensive website which provides real-time access to accounts and all supporting information. Detailed monthly statements are mailed directly to clients from Schwab.

SL Advisors Fixed Income Strategy

A diverse portfolio of U.S. government debt, investment grade corporate credit, bank debt, and sovereign emerging market debt. The objective is preservation of capital combined with income generation. The portfolio's exposure to interest rates and credit spreads changes depending on the manager's outlook and assessment of relative value opportunities in each sector. Income generating investments with appropriate risk are favored when interest rates are stable or rising, while longer duration investments are selected when interest rates are falling. Investments are through ETFs, listed closed end funds and U.S. government securities. This strategy represents the fixed income allocation for balanced accounts, and is most appropriate for individuals, family offices and smaller institutional accounts.

SL Advisors Deep Value Equity Strategy

A portfolio of 10-20 names that are deeply undervalued. Investments are in listed U.S. equities trading significantly below the value of their tangible assets. In addition, they must have a strong balance sheet with relatively low debt and are likely to be underperforming similar securities in the recent past. Industries include energy, mining, shipping, infrastructure and others with hard assets where tangible value can be assessed. Potential investments are identified through a proprietary screen following which detailed research is performed to assess underlying value. The likely holding period is generally at least several months but can extend to one or two years until value realization occurs. The portfolio is reassessed regularly and all holdings are rated for return potential and risk against their peer group, which often results in rebalancings to upgrade into more attractive opportunities. This strategy is part of the equity allocation for balanced accounts for individuals, and is also appropriate as a deep value equity strategy for institutional accounts.

SL Advisors Discount Arbitrage Strategy

This portfolio consists of several sub-strategies that seek to extract value from pricing inefficiencies while minimizing market risk. One sub-strategy holds the same positions as the SL Advisors Deep Value Equity Strategy combined with a market hedge. Another sub-strategy takes long positions in closed end funds that are underpriced and hedges out the market risk. A third sub-strategy invests in special situations where a pricing inefficiency can be identified and isolated from overall market risk. Occasionally other sub-strategies will be employed when opportunities appear. Securities used include equities, listed closed end funds and ETFs. Broad equity market exposure is hedged away so this strategy is managed on a market-neutral basis to generate steady returns that are uncorrelated with other major asset classes, and is appropriate for institutional accounts.



SL Advisors regularly publishes investment research on Seeking Alpha's website. Click on the image to read more, or go to <http://seekingalpha.com/author/sl-advisors>.

DISCLOSURES: This document is not an offer to sell (or solicitation of an offer to buy) securities in the United States or in any other jurisdiction. Any reproduction or distribution of this document, as a whole or in part, or the disclosure of the contents hereof, without the prior written consent of SL Advisors, LLC, is prohibited. Notwithstanding the general objectives and goals described in this document, readers should understand that SL Advisors, LLC is not limited with respect to the types of investment strategies it may employ or the markets or instruments in which it may invest (subject to any contractual arrangements and/or applicable law). Over time, markets change and SL Advisors, LLC will seek to capitalize on attractive opportunities wherever they might be. Depending on conditions and trends in securities markets and the economy generally, SL Advisors, LLC may pursue other objectives or employ other techniques it considers appropriate and in the best interest of its clients (subject to any contractual arrangements and/or applicable law).