THE PHILOSOPHY OF SL ADVISORS

THE ALTERNATIVE TO ALTERNATIVES

SL ADVISORS, LLC
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Our Approach - 100% Pro-Investor:

- **Transparent**
- **Accessible**
- **Invested Alongside Clients**
- **Benchmarked**
- **Fairly Priced**

Transparent

SL Advisors invests through separately managed accounts. There is no “fund”. Each client has their own account in their name, allowing them to retain ownership of their securities and see exactly how their money is invested. Block trades are executed for all clients in a particular strategy and then broken up into smaller allocations on a pari passu basis.

Accessible

Each client can access their account at any time. It is *your* money. There are no gates, lock-ups or other impediments to withdrawals. Investments are all in U.S. publicly traded equities that are typically very liquid. Clients are free to withdraw available funds whenever they like. Stocks settle three business days following the trade date, so withdrawals in excess of available cash on hand may need to wait until sold securities positions settle.

Invested Alongside Clients

Founder and managing partner Simon Lack is invested alongside our clients in all our strategies. The strongest possible alignment of interests comes about when the investment manager shares the same returns and risks as the clients. Simon Lack’s investible assets are substantially invested through SL Advisors in the strategies we run, alongside our clients.

Benchmarked

Each strategy is compared with an appropriate benchmark. This allows SL Advisors and the client to objectively measure investment performance. Many clients participate in several of our strategies, and they have a separate account for each one to allow for easy monitoring.

Fairly Priced

Hedge Fund managers charge the ubiquitous “2 & 20”; a 2% management fee and 20% of the profits. *The Hedge Fund Mirage; The Illusion of Big Money and Why It’s Too Good To Be True (Wiley, 2011)* revealed that virtually all the investment profits made by hedge funds have been swallowed up by industry fees. Even away from hedge funds, many explicit and implicit fees are charged to investors including underwriting fees on new issues, sales mark-ups on bonds and other non-exchange traded investments, wide bid/ask spreads and high commissions. SL Advisors is not a broker-dealer and therefore is ALWAYS acting on behalf of the client (as opposed to trading AGAINST the client). Our fees are 1% of assets managed. Trades are executed through Charles Schwab which charges $8.95 per trade (clients who require paper confirmations pay a little more).

How We Invest

The fundamental challenge facing investors today is how to construct portfolios that can grow after inflation and taxes when interest rates are so low. Since 2008 public policy has been to maintain punitively low interest rates that result in a steady transfer of real, inflation-adjusted wealth from savers to borrowers. An entire asset class, fixed income, has been rendered unattractive because of the Federal Reserve's policy of zero short term interest rates and Quantitative Easing which suppresses bond yields. Regardless of whether these policies turn out to be enlightened or damaging, investors seeking to preserve the purchasing power of their portfolios cannot rely on bonds to be part of the solution.

Excessive debt has led to many of the problems facing investors today. Federal, state and local governments as well as consumers have all borrowed with reckless abandon; today's investment choices are a direct consequence of that. Believing that debt has been abused, we:

- avoid investments in highly leveraged companies, including banks
- don't use leverage (with the exception of the Low Beta Long Short Strategy)
- don't invest in debt

Companies with manageable debt can survive adversity. It means that through times of crisis when markets are reeling and everything is uncertain, prudently leveraged companies may suffer declining business prospects but are unlikely to go bankrupt, which allows us to hold onto positions until calmer times prevail.

Leverage magnifies returns as well as risk. It can force an investor to sell just at the wrong time. We don't like excessive leverage ourselves any more than we like it in the companies in which we invest.

Since the Federal Reserve is distorting credit markets so as to ensure negative real returns to savers, we think fixed income is generally a poor long run choice. In fact, we think every investor with an allocation to fixed income should carefully consider their return prospects and reduce that allocation below what it might normally be. Since a barbell portfolio of 25% equities and 75% cash has a good chance of at least equaling the return on ten-year treasury notes, there seems little point in being anything other than underweight fixed income.

While we do not run a hedge fund, we do utilize many of the value-added portfolio management techniques sought by Hedge Fund investors such as in-depth analysis (e.g., Macro/Micro economic and fundamental research) and sophisticated trading tools (e.g., long/short positions) to generate absolute uncorrelated returns.

Our Beliefs

At SL Advisors we believe that long term success comes from providing thoughtful investment solutions that are accessible, fairly priced and maintain an alignment of interests. So that is what we do.

We run long-only and long-short strategies. We believe our patient, value-driven investment approach gives us a comparative advantage over the long term. We don't charge hedge fund fees, prevent clients from seeing how their money is invested or impose any restrictions on withdrawals.

The financial services industry continues to promote bonds as a source of investment income for clients, even though the Federal Reserve maintains yields too low to be attractive and in spite of the extremely poor return outlook. Bonds have been correctly described as "return-free risk". We believe investors need to rely on equities (both long-only and hedged) and cash, balanced according to their return objectives and risk appetite. Bonds have no place for the investor who needs to stay ahead of inflation and taxes.

In 2011 *The Hedge Fund Mirage* revealed just how poorly hedge fund clients have done. The enormous media focus on hedge fund managers and their wealth has obscured the fact that success for a few has not been matched by results for clients. By 2011 the sorry result was that if all the money ever invested in hedge funds had been in treasury bills instead, the results would have been twice as good. The hedge fund industry was, and remains, overcapitalized. Since the book was published to widespread praise in the financial press, the hedge fund industry has continued to deliver mediocre results at great expense, to no great surprise.

Bonds Are Not Forever; The Crisis Facing Fixed Income Investors (Wiley, August 2013) chronicles three important trends that dominated investing over the past 30 years. Since inflation and interest rates peaked in the early 1980s, we've had a secular bull market for bonds combined with enormous growth in public and consumer debt. At the same time, financial services of all kinds grew in importance in the economy as banks became bigger, securities trading mushroomed and an increasing share of economic output was dedicated to managing financial capital. The 2008 Crash exposed many of the fault lines of debt-fuelled growth and highlighted the public sector's guarantee of banks that had grown too big to fail. Among the many consequences is the end of fixed income as a source of inflation-adjusted, after-tax capital preservation. Unprecedented debts and a populist reaction against banking likely mean interest rates that fail to properly compensate savers for inflation will be part of the solution.

SL Advisors invests for clients in ways that are consistent with the advice and the values found in both of these books. Clients deserve no less.