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In Pursuit of Value

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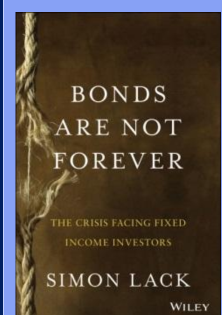
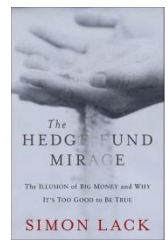


Annual Letter

In this month's letter we've decided to expand the format to incorporate a review of the investment strategies we run, important themes that we're following and an assessment of results. SL Advisors was founded in 2009 and four years' of newsletters are now available on our website. It seems appropriate to use the 49th to offer a broader perspective.

Our clients include self-directed investors who select investment strategies most appropriate for their needs as well as those who look to us to provide the complete investment solution. Our mission statement (prominently displayed on our website's homepage) is managing "Investment Strategies for a Low Interest Rate World." We recognize that public policy is to maintain unattractively low interest rates for the foreseeable future, and therefore approach portfolio construction with the perspective that exposure to major asset classes such as equities, high grade and high yield bonds as well as absolute return needs to be achieved through public equities alone. Bonds have been great, but *Bonds Are Not Forever*, and investors need to acknowledge the financial repression which is benefitting borrowers at the expense of savers.



Although we run hedged strategies as well as long-only, we don't run a "hedge fund" epitomized by the "2&20" charged for the asymmetric GP/LP structure and all the manager biased features that come with it. However, we do practice the pro-client structure advocated to investors in *The Hedge Fund Mirage*, including complete transparency, access to capital, no withdrawal restrictions and fair fees.

Investment Strategies

The five investment strategies we run are designed to provide a range of return and risk outcomes incorporating income generation, capital gains and growth. While they reflect a single philosophy and are thematically linked, their construction is designed to provide desirably low correlation with one another. In aggregate we believe they represent a complete solution for an investor's portfolio, as indeed they do for my own. Although our clients are generally invested in fewer than all five of our investment strategies, we thought it would provide useful context to see how they all fit together.

We run two strategies that provide broad equity market exposure. **Deep Value Equity**, and **High Dividend Low Beta (HighDiv)**. Deep Value invests in companies that we believe are trading below their intrinsic value where there is reasonable earnings visibility, shareholder friendly management and low debt. It is benchmarked against the S&P500. Low leverage is an important element of our risk management; excessive debt was a cause of the financial crisis in 2008, underpins the low interest rate regime (by favoring debtors over creditors) and can expose a business or portfolio to an unexpected reversal of fortune. Leverage can magnify gains but also holds an investor hostage to timing. We prefer to retain more control of outcomes. Our **Deep Value Equity** strategy can invest across most sectors and market capitalizations, depending on where we see the opportunities. The names we own typically have a slightly lower P/E ratio than the overall market and the portfolio is designed to provide greater downside protection than the S&P500 at the possible expense of modestly lagging strong equity performance.

Our second long-only equity strategy, **HighDiv**, seeks to exploit the Low Beta Anomaly, a thematic approach across all our strategies. Simply put, the Low Beta Anomaly holds that the intuitive trade-off between risk and return (i.e. you taking more of one results in more of the other) doesn't actually work. There's plenty of evidence that less volatile stocks provide higher returns than financial theory (the Capital Asset Pricing Model, CAPM) suggests. Therefore, **HighDiv** invests in a diversified portfolio of stocks specifically selected for their predictable earnings, long history of dividend growth and reliable free cashflow generation. Dividend yields on the longs are typically above 3% (the S&P500 dividend yield is 2%). Conventional risk analysis shows such a portfolio to be less volatile than the S&P500 and yet historically such investing has produced returns than are comparable to the index. We regard it as "low-octane" equity exposure; more downside protection with more constrained upside.

Continuing across the asset class spectrum, we run two strategies that are superior substitutes for investment grade and high yield bonds. The need among investors for sources of investment income has probably never been greater, and we believe this need can be adequately met without resorting to the fixed income markets whose yields are artificially low. Our **Hedged Dividend Capture Strategy (DivCap)** is a long-short equity strategy that targets 5-6% returns (i.e. what bonds used to offer pre-2007) with bond-like volatility. It uses the long positions from **HighDiv** described above combined with a short position in the S&P500. The short position hedges the daily market volatility of the longs (the whole portfolio is "beta-neutral" to use a CAPM term) and as such returns from the strategy are uncorrelated with stocks or bonds. There are three drivers of performance:

1) Net dividend income, since the portfolio generates income even after the cost of the hedge is accounted for
2) Dividend growth, since although the strategy is market neutral the value of long positions is approximately double the short position, providing exposure to the equity market's long history of dividend growth
3) The Low Beta Anomaly, in that low risk stocks tend to outperform on a risk-adjusted basis.

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

We use this strategy as a substitute for investment grade bonds. It has approximately the same monthly volatility as the Dow Jones Corporate Bond Index (an equally weighted index of high grade corporate bonds) but we believe superior return prospects. Although its returns are generally uncorrelated with stocks, historically the worst time to be invested in low volatility equities has been during very strong equity markets (such as the late 1990s tech bubble). Conversely, during very weak markets (such as 2008) such names tend to fall less than the overall market given their more stable underlying businesses. This negative correlation with equities during extreme market moves can provide a useful offset to more equity-related exposure in a client's portfolio.

Many yield-seeking investors hold high yield bonds as an alternative to the low rates on offer in government and high grade corporates. High yield bonds are more correlated with equities since the issuers have lower credit ratings and are inherently more risky. In many respects holding high yield bonds reflects a compromise between conventional low yields and the opportunity of exposure to corporate earnings growth. Clearly the high yield bond investor can expect to suffer mark to market and possibly actual losses during an economic downturn as perceived and actual defaults rise.

Our **Master Limited Partnership Strategy (MLPs)** invests in energy infrastructure businesses such as pipelines, gathering and processing systems and storage facilities. These businesses are organized as partnerships rather than corporations, and as such don't pay corporate income tax which lowers their cost of equity and also provides advantages to equity investors that own their publicly traded shares (known as "units"). We have written extensively about MLPs in the past; suffice it to say that a portfolio that would willingly hold high yield bonds and instead substituted MLPs has shown improved performance over most timeframes. In addition, their 5-6% yields offer a substantial tax deferral. Tax reporting requires the investor receive a K-1 from each holding rather than a 1099, so they are only appropriate for individuals who are comfortable with the added complexity. However, it's fair to say that every taxable high net worth investor could benefit from an allocation to MLPs. Although non-U.S. investors can't access MLPs directly due to punitively high withholding tax (Effectively Connected Income tax, ECI) we do run a parallel version of this strategy that is appropriate for non-U.S. clients interested in exposure to U.S. energy infrastructure. It invests in traditional equities (C-corps) that own interests in the underlying MLP assets and does not subject the holder to ECI.

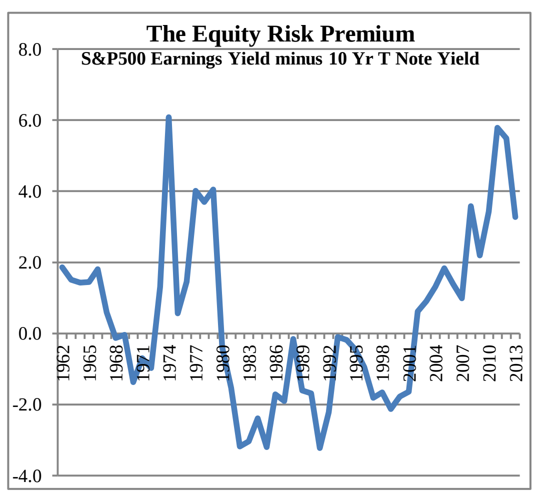
Low Beta Long-Short Strategy (Best Ideas) is a hedged portfolio of our “Best Ideas”. While the traditional structure of a hedge fund has many disadvantages for investors, hedged strategies offer the benefit of uncorrelated returns (despite being marketed as an “alternative asset class” most “hedge funds” offer poor returns that are in fact highly correlated with the equity market). **Best Ideas** is an “absolute return” strategy (a term no longer used by many in the hedge fund industry) that is uncorrelated with equity markets but includes concentrated, hedged bets on the less volatile names we like most. The hedge in this strategy is a market hedge. Shorting individual stocks is often far riskier than simply shorting a market index. Although conventional wisdom for long/short strategies is that they’re expected to generate “alpha” from both longs and shorts, we believe investors achieve better results by focusing all their attention on long positions in individual names, avoiding the idiosyncratic risks of individual shorts and more precisely hedging equity market exposure. Few hedge fund managers generate adequate returns from their individual short positions.

The five strategies above cover return/risk profiles that include growth equities, tax-deferred income generation with some growth, stable income and absolute return. They have varying degrees of correlation with equities, minimal with bonds and of course don’t involve any fixed income securities at all. We believe it’s possible to achieve most if not all of a client’s investment objectives in this way. Some may note the absence of emerging market exposure, or indeed any direct international exposure at all. Look through virtually any investor presentation for an S&P500 company and you’ll see a strategy to grow their earnings in the more attractive economies of the developing world. We choose to achieve such exposure through the capital allocation decisions of Coca Cola (KO), McDonalds (MCD), IBM and many other global firms. This allows us to invest in emerging markets with the benefit of U.S. corporate governance, accounting and disclosure standards and in those economies where these companies perceive the best opportunities. We think this is far more effective and less risky than trying to pick local winners across the globe.

We believe the strategies described represent a complete investment solution.

Investment Themes

Perhaps the single most asked question in investing concerns the market’s near-term direction. Countless hours of cable TV, thousands of websites and pages of prose are devoted to answering this question. We know we don’t know the answer, so although it’s easy to have an opinion we don’t invest based on any perceived short term market timing insight. It’s widely acknowledged that the choice of asset class an investor makes (i.e. stocks versus bonds) is far more impactful on long term returns than how that choice is implemented. Our investment strategies are built around the Equity Risk Premium, the difference between the earnings yield on the S&P500 and the yield on ten year U.S. government bonds. We first wrote about the Equity Risk Premium in 2010 as a reason to heavily favor equities over fixed income. On this basis, even today equities are as attractive relative to bonds as they were in the 1970s, a time of high inflation, war in the Middle East and great economic uncertainty, although not as compelling as a couple of years ago. Arguably the 2008 crisis was worse, and the subsequent correction in relative valuations reflects the avoidance of the very dire economic outcomes we faced at that time. But we continue to think stocks represent a superior way to preserve after-tax real value. Consequently, once a client has decided on his asset allocation (and we often spend considerable time helping identify the right



combination for each new client) we invest the funds accordingly. It's not that we're averse to holding cash if no better investments are available, but that apart, we're not being paid a fee to hold a client's assets in cash and the asset allocation decision has already been made.

The Equity Risk Premium doesn't only have meaning at the strategic level. Just as investing in debt is often a poor choice compared to equity for an investor, some companies can benefit by issuing debt at today's artificially low yields and using the proceeds to buy back their own higher-returning equity. Generally the requirements include an under-leveraged balance sheet, a business that generates reliably growing free cashflow and a management whose interests are aligned with shareholders via their incentive compensation and personal shareholdings. We also look for companies with the financial discipline to differentiate between returning free cash flow to investors versus reinvesting back in their underlying business whether or not they are issuing debt. Finding ways to take advantage of the historically wide spread between the return on equity and the return on debt is an important theme running through our portfolios.

The development of America's vast reserves of shale oil and gas is a significant and slowly unfolding positive for the U.S. economy. In the years ahead it will turn the U.S. from a net importer of fossil fuels to an exporter, and cheap natural gas is already creating advantages for a wide variety of energy-intensive industries. Exposure to the shale revolution can be obtained in many ways, including investing in exploration and production companies (E&P) that are undervalued relative to their likely reserves, companies that benefit from cheap energy, and the owners and builders of the substantial new energy infrastructure required to extract, process, move, refine, store and deliver this resource from its source to the end consumer. We have at times pursued all three angles, but today our biggest exposure is to the need for infrastructure.

A couple of years ago JPMorgan initiated coverage of Energy Infrastructure MLPs. They were motivated in part by the anticipated $130 billion of infrastructure spending required through 2020 and the consequent investment opportunities this would bring. A point not mentioned but worthy of consideration was that $130 billion of capital investment would require approximately $130 billion of new capital raised through debt and equity issuance. Since MLPs are not allowed to retain earnings but must distribute their cashflows after needed maintenance spending, any new investment requires new money. An investment bank might reasonably be excited at this outlook, but for MLP investors the prospects are more nuanced. The ultimate returns to the providers of this capital will be determined by how well it is deployed. A capital need in and of itself does not guarantee a profit (unless you're the underwriter).

Traditionally, MLPs like most partnerships have been run by a General Partner (GP) who manages the partnership on behalf of the Limited Partners (LPs, or unit holders). While MLPs are an attractive asset class, the rights of LP unitholders are far weaker than those enjoyed by equity owners in corporations. It's almost impossible to fire a poorly performing GP, which is why there are no activists directly involved in MLPs. GP's own a 2% interest in the MLP and are also entitled to an increasing share of the distributable cashflow (known as an Incentive Distribution Right, or IDR), usually up to 50%. Although this creates an alignment of interests between the GPs and the LPs, it also points out a fascinating similarity between a hedge fund manager and his clients. The GP economics of an MLP tend towards a hedge fund that charges its clients a 50% incentive fee, far higher than the 20% for which hedge funds are known. Unlike hedge funds you can invest in the GPs of MLPs. Hedge fund investors might consider what their returns would have been had they been able to participate in the wealth creation enjoyed by the managers of their funds. Furthermore, MLPs have generated far higher returns than hedge funds and their investors receive much better liquidity and reporting. But fabulous wealth has been created for the managers of both hedge funds and MLPs through the LP/GP structure.

For many years few GPs were available on public markets, but in recent years this has changed. It's increasingly possible to invest in MLPs without being burdened by the drag on returns that is caused by the IDRs mentioned above, both by investing in GPs themselves and by investing in MLPs who have bought back their GP, thus retiring the IDRs and improving returns for the LPs. Our own MLP Strategy is now 85% invested free of any drag from IDRs, and our long term plan is to take this higher as opportunities present. GPs were long regarded as a more leveraged way to invest in an MLP, since the IDRs gave them heightened sensitivity to profit growth different from expectations. A very appealing feature of the GP's position is that whenever an MLP issues new equity through a secondary offering, while it dilutes the LPs it increases the cashflows available to pay the GPs IDR. In this respect it is completely analogous to the position of a hedge fund manager accepting new assets from a client. Managing more capital generates more fees, while returns to the LPs will depend on how well the capital is invested.

The ability of the GP to exploit its position with respect to LPs represents a short term/long term trade-off, since an MLP whose LP unitholders are persistently mistreated will presumably see reduced investor interest and therefore a higher cost of capital. To quote Gus Levy (senior partner of Goldman Sachs 1969-76) it's better to be "long-term greedy". The investors who control today's MLP GPs appear to understand this.
Interestingly, in December Corvex Management, LP, and Soroban Capital Partners, LLC two activist hedge fund managers, filed a 13D disclosing an almost 9% joint interest in Williams Companies (WMB) and a belief that it was substantially undervalued. WMB owns the GP for WPZ, and this development will provide an interesting test of whether Gus Levy's philosophy has a place among today's activist hedge funds.

Given the substantial capital needs in energy infrastructure and the dominant, tax-advantaged role played by MLPs, we have identified this as the most effective way to profit from the U.S. shale energy boom. While our MLP strategy is fully committed to this approach, the insight described above is reflected in all of our strategies in more modest ways as appropriate. It is probably the most important theme driving our investment results.

Investment Results

Monthly returns for all our strategies can be found as usual towards the end of this newsletter. Here we will characterize 2013, highlighting what worked and what didn't.

Deep Value Equity
Although it's never easy for an actively managed value strategy to outperform a +32% equity market, we finished within 0.4% of the S&P500 with smaller losses than the market in months when it was down. We'll simply note the significant drivers of performance and not dwell on the deliberate absence of exposure to healthcare (up 41%) or some of the hype-driven social media stocks. Gencorp (GY) was our biggest winner. Limited sell-side coverage allowed them to operate under the radar as this supplier of propulsion systems to the U.S. military merged with its biggest competitor and took steps to develop long-held, valuable real estate in the suburbs of Sacramento, CA. It doubled in price and added 3.4% to performance. Navistar (NAV) was another big winner that was cheap following a huge strategic mis-step in truck engine development. We assessed that the worst was behind it and it represented potentially an attractive U.S. distribution network for a foreign buyer, a view we still hold. Other important sources of return included Berkshire Hathaway (BRK) whose diverse businesses performed well, Mondelez (MDLZ) which is benefitting from emerging market demand for its diverse snack products, AIG which is deleveraging, simplifying and still attractively cheap relative to its tangible book value, and Corrections Corp (CXW) which completed its REIT conversion and thus became attractive to yield seeking investors.

Our biggest loss was JCPenney (JCP), where we simply underestimated how poorly management would execute its overhaul and the consequent collapse in sales. In conversations with clients, many were surprisingly focused on our ownership of JCP as I've mentioned in the past. Evidently their concern was warranted. The stock was down 22% for the year when we exited last Spring. We were also disappointed when ADT's activist investor and promoter of shareholder value suddenly sold out and resigned his board seat which is rarely a good sign. We exited at a modest loss. Cincinnati Bell (CBB) has been a disappointment in that management continues to reinvest free cash flow into its low-returning business rather than paying a dividend. We reduced the position slightly but remain invested because of cheap valuation. Low beta names Kinder Morgan (KMI), IBM, Target (TGT), and McDonalds (MCD) remained largely flat, significantly lagging the strong up market.

High Dividend Low Beta (HighDiv)
Security selection is less important than sector exposure given the more diversified nature of this strategy. Consumer staples represent a significant allocation, and good performance was registered by Clorox (CLX), Kimberly-Clark (KMB), Colgate-Palmolive (CL) and General Mills (GIS). Oneok (OKE), a low volatility dividend-paying owner of energy infrastructure assets, was one of the best performers. The biggest weakness came from Corrections Corp (CXW), a name we have followed for three years as it restructured to become a REIT. Its attractive dividend yield and fairly predictable cashflows made it attractive for this strategy and we added it more recently (it was a long time and profitable holding in Deep Value). Since then its performance has been weak but we continue to find it attractive. Although the average beta of the long positions in the portfolio is about 0.5, implying they should return about 50% of the S&P500's return, it did substantially better at 25% (half the S&P500 was 16.2%), suggesting that the Low Beta Anomaly persists.

Hedged Dividend Capture (DivCap)
This holds the same long positions as **HighDiv** so the significant sources of relative performance were the same. It outperformed our long-term 5-6% return target with 8.7%, by design equal to the relative outperformance of **HighDiv** compared to its beta neutral S&P500 equivalent. It also easily beat the HFRX Equity Market Neutral Index which was +1.8%.

MLPs
MLPs had a very strong year +27.6% and our strategy was +36.6%, outperforming the Alerian index by 9%. Historically, we've run the strategy to approximately track the index, something that's only possible through direct MLP holdings since mutual funds, ETFs, and ETNs lose some or all of the tax advantages. However, in the past year or so we've shifted towards a greater ownership of IDR-free MLPs as discussed above, which we believe will lead to meaningful outperformance. Sunoco Logistics (SXL) has been a strong performer and we reduced the position. Energy Transfer Equity (ETE) is a GP that performed very well, as did Magellan Midstream Partners (an MLP with no GP, the kind we prefer). Kinder Morgan (KMI) was a weak performer as in other strategies.

Low Beta Long-Short (Best Ideas)
Best Ideas had another strong year at +24.5%, substantially better than the HFRX Global Hedge Fund Index which was +6.5%. Performance was particularly good early in the year when, to our very pleasant surprise Heinz (HNZ) was acquired by Berkshire Hathaway and Brazil's 3G Capital. HNZ was already a holding in our **HighDiv** and **DivCap** portfolios given its attractive dividend and earnings visibility, and it had been in our Best Ideas portfolio for a couple of years. Dollar General (DG) and Family Dollar (FDO) were both profitable positions that we exited during the year, as were consumer staples names Johnson and Johnson (JNJ) and Proctor and Gamble (PG). Losses came from ADT, IBM and KMI.

<u>Our Clients</u>
Most of our clients were friends of mine long before I founded SL Advisors, and I'd like to think that the more recent ones have become friends too. Managing money for others represents a significant commitment of trust on behalf of the client, and hopefully all our clients realize how highly we value their confidence and support. People sometimes ask me about the pressure of managing money for others, especially when they are friends. I've found that it is more meaningful than managing your own money, and the fact that we're invested alongside one another means another form of shared experience. 2013 was a great year, as it ought to be for a firm biased towards U.S. public equities. We thank you for your continued support as we build a business that reflects the investment principles and business values that my partner Henry and I hold deeply.

Your Portfolio Manager gracefully accepting the change of seasons.

SL Advisors runs a variety of strategies focused on generating attractive risk-adjusted returns using public equities in long-only and long-short format. Contact us for more information, or go to our website: www.sl-advisors.com

Returns for each strategy shown at right are from a single continuously managed account. The Hedged Dividend Capture, Deep Value and MLP Strategies have all been independently verified and attested to by Marcum, LLP. Documentation available on request.

Hedged Dividend Capture Strategy (%)							Since Inception			15%	*Index*		*-2%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011										**0.4**	**0.2**	**3.5**	**4.2**
Index										*0.6*	*-0.2*	*0.2*	*0.6*
2012	**-3.5**	**-2.1**	**1.1**	**1.6**	**1.2**	**2.1**	**1.1**	**-1.3**	**0.4**	**0.8**	**0.5**	**-0.7**	**1.0**
Index	*0.4*	*-0.8*	*-1.2*	*-1.5*	*-0.4*	*-1.5*	*-0.1*	*-0.1*	*-0.3*	*0.2*	*0.5*	*0.1*	*-4.7*
2013	**2.8**	**3.4**	**4.1**	**0.9**	**-2.8**	**1.1**	**1.4**	**-3.2**	**-0.5**	**3.2**	**-0.8**	**-0.4**	**9.3**
Index	*0.4*	*0.2*	*0.0*	*0.5*	*0.2*	*-0.6*	*0.6*	*-1.6*	*-0.1*	*1.4*	*0.6*	*0.3*	*1.8*

The Index is the HFRX Equity Market Neutral Index. Returns are net of fees. Past performance is not indicative of future returns.

High Dividend Low Beta Strategy (%)							Since Inception			51%	*Index*		*72%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011										**5.9**	**0.1**	**4.0**	**10.3**
Index										*10.9*	*-0.2*	*1.0*	*11.8*
2012	**-1.3**	**0.1**	**2.8**	**1.3**	**-1.8**	**4.2**	**1.8**	**-0.2**	**1.7**	**-0.1**	**0.8**	**-0.2**	**9.1**
Index	*4.5*	*4.3*	*3.3*	*-0.6*	*-6.0*	*4.1*	*1.4*	*2.3*	*2.6*	*-1.8*	*0.6*	*0.9*	*16.0*
2013	**5.4**	**4.1**	**6.0**	**1.9**	**-1.6**	**-0.4**	**4.0**	**-4.6**	**1.1**	**5.5**	**0.7**	**0.8**	**25.7**
Index	*5.2*	*1.4*	*3.8*	*1.9*	*2.3*	*-1.3*	*5.1*	*-2.9*	*3.1*	*4.6*	*3.0*	*2.5*	*32.3*

The Index is the S&P 500 including dividends. Returns are net of fees. Past performance is not indicative of future returns

Deep Value Strategy Monthly Returns (%)							Since Inception			163%	*Index*		*121%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2009							**8.5**	**1.0**	**11.3**	**0.4**	**3.5**	**9.8**	**39.3**
Index							*7.6*	*3.6*	*3.7*	*-1.9*	*6.0*	*1.9*	*22.6*
2010	**-1.1**	**3.8**	**6.6**	**3.5**	**-5.6**	**-4.5**	**5.2**	**7.0**	**7.8**	**1.2**	**1.0**	**2.7**	**30.2**
Index	*-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	**0.2**	**2.2**	**1.9**	**2.5**	**-2.3**	**-2.9**	**0.6**	**-5.2**	**-9.2**	**12.3**	**-0.5**	**-0.6**	**-2.3**
Index	*2.4*	*3.4*	*0.0*	*3.0*	*-1.1*	*-1.7*	*-2.0*	*-5.4*	*-7.0*	*10.9*	*-0.2*	*1.0*	*2.1*
2012	**4.4**	**5.2**	**0.9**	**2.0**	**-8.8**	**3.8**	**0.7**	**3.6**	**3.3**	**-0.9**	**-2.6**	**1.0**	**12.4**
Index	*4.5*	*4.3*	*3.3*	*-0.6*	*-6.0*	*4.1*	*1.4*	*2.3*	*2.6*	*-1.8*	*0.6*	*0.9*	*16.0*
2013	**6.4**	**0.6**	**4.3**	**1.6**	**2.1**	**-1.6**	**4.3**	**-1.2**	**1.7**	**3.1**	**2.0**	**5.1**	**31.9**
Index	*5.2*	*1.4*	*3.8*	*1.9*	*2.3*	*-1.3*	*5.1*	*-2.9*	*3.1*	*4.6*	*3.0*	*2.5*	*32.3*

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.

MLP Strategy Monthly Returns (%)							Since Inception			158%	*Index*		*130%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2008	**-0.7**	**3.0**	**-0.8**	**1.9**	**4.2**	**-10.7**	**-2.0**	**0.6**	**-14.9**	**-1.1**	**-25.4**	**7.4**	**-36.1**
Index	*-0.6*	*-0.5*	*-6.3*	*7.3*	*1.0*	*-4.9*	*-1.7*	*1.7*	*-17.2*	*-0.1*	*-17.1*	*-3.7*	*-36.9*
2009	**15.4**	**-2.1**	**5.0**	**5.8**	**9.9**	**-1.1**	**10.1**	**0.1**	**1.0**	**2.3**	**6.2**	**5.0**	**73.3**
Index	*15.3*	*-4.2*	*0.7*	*11.0*	*9.3*	*-1.7*	*12.4*	*-3.2*	*4.8*	*2.9*	*6.4*	*6.6*	*76.4*
2010	**0.7**	**5.4**	**2.0**	**2.4**	**-0.5**	**5.1**	**5.8**	**-1.6**	**5.0**	**2.0**	**3.2**	**2.7**	**37.2**
Index	*0.6*	*4.6*	*2.9*	*3.4*	*-5.4*	*5.6*	*7.5*	*-2.5*	*6.1*	*5.4*	*1.9*	*1.7*	*35.9*
2011	**1.2**	**5.1**	**0.0**	**2.6**	**-4.3**	**1.8**	**-3.0**	**-0.3**	**-3.4**	**9.1**	**0.2**	**6.8**	**15.8**
Index	*3.0*	*3.5*	*-0.6*	*3.3*	*-5.0*	*1.1*	*-1.9*	*-1.1*	*-4.1*	*10.3*	*-0.2*	*5.8*	*13.9*
2012	**1.7**	**5.2**	**-3.7**	**0.9**	**-7.1**	**3.1**	**5.9**	**3.2**	**2.3**	**-0.7**	**0.4**	**-3.2**	**7.4**
Index	*1.9*	*4.2*	*-4.0*	*2.2*	*-7.5*	*3.3*	*5.1*	*1.6*	*2.0*	*0.5*	*-0.8*	*-3.1*	*4.8*
2013	**12.9**	**1.7**	**5.8**	**-0.5**	**-1.2**	**2.6**	**0.3**	**-0.4**	**1.2**	**2.4**	**4.0**	**3.4**	**36.6**
Index	*12.6*	*0.9*	*5.4*	*0.9*	*-2.0*	*3.1*	*-0.5*	*-2.5*	*2.3*	*2.7*	*0.9*	*1.6*	*27.6*

Returns do not include cash balances prior to May 2010. The Index is the Alerian MLP Index, AMZX. Returns are net of fees. Past performance is not indicative of future returns.

Low Beta Long-Short Monthly Returns (%)							Since Inception			106%	*Index*		*-1%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011			**-3.5**	**19.4**	**6.5**	**4.5**	**0.0**	**9.1**	**-1.1**	**6.7**	**1.9**	**1.5**	**52.6**
Index			*-0.9*	*0.5*	*-1.4*	*-1.6*	*-0.1*	*-3.5*	*-3.0*	*0.8*	*-0.9*	*-0.4*	*-10.0*
2012	**-5.1**	**-1.6**	**5.7**	**3.3**	**1.1**	**2.4**	**3.2**	**-2.2**	**2.1**	**0.7**	**0.2**	**-1.3**	**8.6**
Index	*1.7*	*1.4*	*0.0*	*0.1*	*-1.7*	*-0.3*	*0.5*	*0.5*	*0.4*	*-0.5*	*0.4*	*0.9*	*3.5*
2013	**7.9**	**6.2**	**6.5**	**3.2**	**-2.1**	**-0.7**	**4.0**	**-2.1**	**0.3**	**0.4**	**-2.8**	**2.0**	**24.5**
Index	*2.0*	*0.4*	*0.7*	*0.6*	*0.7*	*-1.3*	*1.0*	*-0.9*	*1.0*	*1.2*	*0.6*	*0.4*	*6.5*

The Index is the HFRX Global Hedge Fund Index. Returns are net of fees. Past performance is not indicative of future returns.

SL Advisors offers separately managed accounts for individuals, family offices and institutions across various investment strategies. Client assets are held with Charles Schwab, the largest provider of custody services in the U.S. with client assets of $1.89 trillion (as of September 30, 2012). 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 Hedged Dividend Capture Strategy
An alternative to bonds, this strategy utilizes stocks of stable companies with high dividend yields to generate income with capital appreciation by investing in a diverse, unleveraged, hedged portfolio of U.S. equities. Companies are selected that possess a history of steady earnings growth, attractive dividend yields and are less volatile than the overall market. The long positions are hedged with a short S&P500 position with the objective of making the portfolio beta neutral while still maintaining a net long equity exposure. Historically this strategy has exhibited monthly swings comparable to corporate bonds, and given the relative attractiveness of equities compared with investment grade bonds it has a more attractive return outlook. This strategy may be considered as a substitute for a portion of an investor's fixed income allocation.

SL Advisors High Dividend Low Beta Strategy
This is the long-only version of our Hedged Dividend Capture Strategy (Long/Short), which has been actively managed and deployed since October 2011. Academic research has shown the Capital Asset Pricing Model (CAPM) fails to explain risk-adjusted returns. Over long periods of time, high beta stocks tend to under-perform and low beta stocks tend to out-perform, on a risk-adjusted basis, which is inconsistent with predicted performance by the CAPM. This strategy allows investors to take advantage of this persistent anomaly.

SL Advisors Deep Value Equity Strategy
A portfolio of undervalued stocks of high quality businesses that aims to outperform the S&P500. Investments are in listed U.S. equities trading significantly below the intrinsic value of the underlying enterprise. Potential investments are identified both qualitatively and quantitatively following which detailed research is performed to assess fundamental value. Desired characteristics of businesses include pricing power, low leverage, low costs of production, and attractive valuation. Valuation is defined to us foremost as the net present value of cash one can extract from proportional ownership of the business, then relatively using peer multiples and finally liquidation value. The portfolio is reassessed constantly and all holdings are rated for return potential and risk against their peer group to rebalance into the most attractive opportunities. This strategy is part of the equity allocation for balanced accounts for individuals, and is also appropriate as an alpha seeking equity strategy for institutional accounts.

SL Advisors MLP Strategy
This portfolio consists of 10-15 investments in Master Limited Partnerships (MLPs) to receive a healthy and growing tax deferred income stream. MLPs are publicly traded interests in energy infrastructure and related assets. They represent direct proportional ownership stakes in the underlying assets rather than securities in a corporation. Historically they have paid regular distributions which have grown with the U.S. economy, and as such they can be suitable for investors seeking income generating investments with a tolerance for equity market exposure. The strategy engages in low turnover so as to minimize transaction costs and benefit from the income tax deferral features of the asset class. MLPs are appropriate for high net worth investors comfortable with receiving a K-1 for each investment rather than a 1099. SL Advisors does not provide tax advice.

SL Advisors Low Beta Long-Short Strategy
Low Beta Long-Short is more concentrated than Hedged Dividend Capture ("DivCap") with added leverage and is not restricted to dividend paying stocks. It includes our best ideas from DivCap weighted according to conviction rather than diversified, equal weight allocations. It is managed to be beta neutral and returns are driven very largely by individual stock selection. Interactive Brokers is custodian for assets in this strategy only.

Contact info:

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

Bonds Are Not Forever; The Crisis Facing Fixed Income Investors
is now available at Amazon.com.

Our blog, ***In Pursuit of Value***, is at: http://www.sl-advisors.com/blog/

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