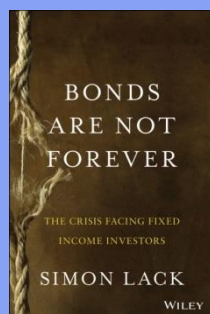




In Pursuit of Value

March, 2014

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



Liquidity

Liquidity is a quality about one's holdings that investors crave at certain times and happily cede at others. During the 2008 financial crisis liquidity all but disappeared for many assets just as investors sought it most keenly. Only a year or two earlier, liquidity had been both readily assumed to be available as needed and not particularly valued as investors traded away investment flexibility in exchange for perceived higher returns.

A March 1 article in Barrons titled "Treasure Hunt" describes how the prevailing wisdom among "leading wealth managers" is to invest in a "triple-play of alternatives: hedge funds, private equity and private debt". Put aside for a moment the far more colorful prose of professional journalist Karen Hube, compared with your portfolio manager, whose compensation for writing remains substantially non-financial, and consider the beneficiaries of such advice. Hopefully, the guidance by so many wealth managers of their clients into less liquid investments is driven primarily by what is in their clients' interests. Conveniently though, having one's clients commit to holding an investment for multiple years is invariably in the manager's best interest. A business that's funded with permanent, equity capital is more secure than one that needs to periodically roll over maturing debt, and an asset manager whose clients cannot readily leave has a more secure stream of fee revenue than one whose clients are highly liquid.

Just as equity investors typically demand higher returns than bond investors (and such is abundantly true today), holders of illiquid alternatives ought to be entitled to an "illiquidity premium", or additional compensation over their more liquid choices. The price for illiquidity varies widely over time, and there are many instances where investments that required the holder to sacrifice liquidity have paid handsomely. Calculating what additional return should accrue to illiquid investments is a mix of art and science. There's more than one right answer, since it is in part a question of taste. For my part, I value liquidity so excessively that I in effect price myself out of the market for things that can't easily be sold. When inviting people to visit us at SL Advisors, I warn that it will not appear to be visually very exciting. Watching others study SEC filings, company presentations or spreadsheets may even compare poorly with Olympic curling with its mercifully long four year intervals. In short, we don't trade actively. But we do make mistakes and while they're designed to be individually small and not that harmful, a speedy diagnosis and response can prevent a small problem from becoming a big one.

For example, expressed as a return premium over public equities, my illiquidity premium is above 10%, far more than for many other investors. Consequently, I don't invest in private equity because the marketplace generally offers far less. Calculating what reward illiquidity has provided to those who accept it is tricky. Private equity funds invest their capital over time, and a true comparison with public markets needs to align the timing of the cashflows of any private fund with the public market prices each investment would have faced. Whether investors in private debt and equity get fairly compensated is open to debate. What does seem to be clear is that the compensation has often been insufficient.

For example, Cambridge Associates last year published an apples-to-apples comparison of public versus private equity returns (see table below).

Index	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years
Cambridge Associates LLC U.S. Private Equity Index	17.19	15.66	10.95	14.21	12.02	13.49	13.39
Russell 2000 Index	29.75	18.2	12.07	10.00	9.15	9.06	9.43
PE Advantage	-12.56	-2.54	-1.12	+4.21	+2.87	+4.43	+3.96

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

In recent years the return to illiquidity has actually been negative, although such short term data is unreliable because most private equity funds take 5-10 years or longer to complete their investing cycle. But even over ten years the additional return is only around 4%. Now, 4% of additional return can turn out to be substantial, if it can be reliably harvested. This is where the manager selection question becomes vital. Deciding you've picked the wrong private equity manager, as with making the wrong private equity investment, is likely to be followed by years of remorse and, as with a hangover, solemn promises to self to not touch the stuff again. Although 100% of private equity managers somehow show themselves to be top quartile performers, choosing those who will not disappoint after you switch from prospect to client turns out to be surprisingly difficult.

The drive into the "triple-play of alternatives" perhaps reflects a modest loss of respect for liquidity. Cash of course earns you 0%; its value comes in the flexibility it affords you to use it tomorrow on something you weren't contemplating today. Other liquid investments such as U.S. treasuries charge similarly (through a low yield) for the option to sell, and quite possibly add the additional insult of a modest capital loss while you hold them. Correctly selected public equities, in spite of their ever-present risk of a sharp drop, do at least offer the prospect of a reasonable return combined with the freedom to change your mind.

While investors presented with opportunities to commit their funds with no near term exit must ponder whether the return they will earn includes compensation for giving up the ability to change their minds, investment managers and brokers promoting such vehicles have no equivalent downside. Indeed, while illiquidity may or may not deliver commensurate compensation to the client, it ALWAYS benefits the manager. The multi-year stream of management fees, guaranteeing as it does a captive if not always willing client for a considerable period, is a highly attractive business model. It's another example of the principal-agent problem that exists throughout Finance. Brokers and clients don't always have an alignment of interests. Hence the following advice: next time your broker recommends a private equity or debt investment, or an unlisted registered REIT (a type of security that truly should not exist; why register if you won't list, other than to draw in unsuspecting retail clients to something they can't sell?), ask if he's putting his own money into it. Of course not every recommendation is appropriate for every broker, but I have more than just a strong feeling that if clients followed this rule and rejected every proposal from their broker unless he/she was investing *his/her* money, they would get a better return on *their* money.

I recently saw a presentation at a conference by a peddler of unlisted registered REITS who noted among their many advantages fewer extreme, stress inducing valuations. This is because there are no public valuations at all for such securities, and sounds like a marketing pitch aimed at ostriches. In fact, I don't know why registering a security (which after all qualifies it to be offered to the general public) doesn't carry with it a requirement that the security be listed so as to allow the retail investors to whom they're offered an opportunity to exit. But for some reason there isn't such a requirement, and the absence of public quotes or critical sell-side research (pointless if there's no trading in the security) are items that wholly benefit the underwriter at the expense of the client.

"Liquid alternatives" is an area of substantial interest of late. Many hedge funds operate strategies that are in fact far more liquid than is reflected in the investment terms offered to their clients. I fondly remember one of the pre-2008 justifications for a long-short equity fund requiring a one-year lock up (and in some cases longer); it was, so went the explanation, in part to protect investors from themselves. The lock-up was designed to spare the investor the inevitable regret that would accompany a hasty decision to redeem their investment during a market swoon. Since the financial crisis with its attendant restrictions on redemptions, sidepockets and so on, such "client-friendly" justifications are no longer heard. And the development of registered vehicles offering liquid ways to access alternatives seems like a totally reasonable commercial response from hedge fund managers. Although at SL Advisors we don't run any hedge funds, we do run liquid hedged strategies. In at least one respect the gap between us and the hedge fund industry is narrowing.



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				13%	Index			0%
	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		
2014	-1.7	0.1											-1.6		
Index	0.7	0.6											1.3		

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				50%	Index			73%
	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		
2014	-3.5	2.5											-1.1		
Index	-3.5	4.3											0.7		

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			123%
	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		
2014	-4.7	5.2											0.2		
Index	-3.5	4.3											0.7		

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				169%	Index			131%
	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		
2014	1.5	2.6											4.1		
Index	0.6	-0.2											0.4		

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				94%	Index			0%
	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		
2014	-5.6	-0.6											-6.1		
Index	-0.2	1.5											1.2		

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

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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 outperform, 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.

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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