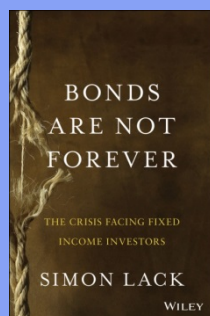




In Pursuit of Value

July, 2014

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

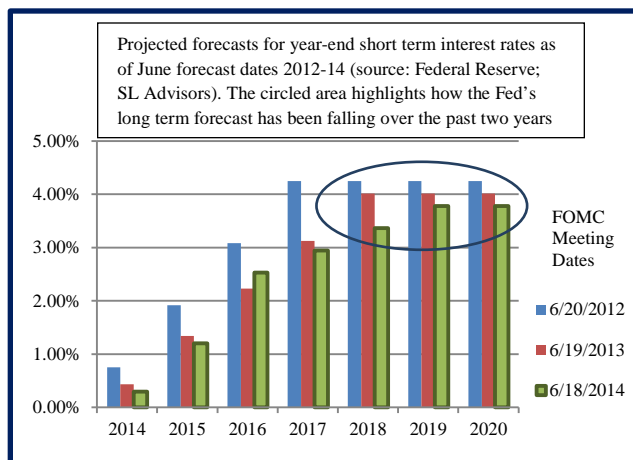


Quarterly Outlook

During the second quarter SL Advisors and our clients enjoyed strong absolute performance that was the best in our five year history in terms of outperforming respective benchmarks. Our MLP Strategy and related versions of this (not all included on the Performance page) were particularly strong. Positive surprises handily outnumbered negative ones among our individual holdings, and thematically the ideas reflected across our strategies were in favor. Most notable was a growing recognition that MLP General Partners represent a compelling way to invest in the development of America's shale energy resources and the attendant need for substantial new energy infrastructure. It provided a pleasant underscore to the five year anniversary of the founding of SL Advisors.

The outlook appears broadly unchanged; interest rates remain low and equities continue to look far more attractive than bonds while the 5.2% 2Q return on the S&P500 pushed valuations slightly higher. The market's P/E rose somewhat while interest rates fell a little so the Equity Risk Premium (defined here as the earnings yield, which is the reciprocal of the P/E, minus the yield on ten year treasury notes) hardly changed during the quarter.

An unheralded but nonetheless very interesting revelation from the recent Federal Open Market Committee (FOMC) meeting concerned their long term interest rate outlook. We've noted before how the Federal Reserve has been moving towards a more open communication strategy. Long gone are the interminable monologues of Alan Greenspan that left his Congressional interlocutors dumbfounded and the public no wiser about monetary policy. The Fed provides fairly clear guidance on their thinking across all plausible investment horizons, and while their forecasts can change like anybody else's, we're better off for knowing their perspective.



The long term equilibrium level for short term rates is a reasonable guide to what bond yields should be when the current period of temporary and extraordinary (although it no longer seems like either) low interest rates comes to a close. The Fed's most recent set of projections brought that long term rate lower, to 3.75% from 4%. Since they've been making such public forecasts their equilibrium rate has been between 4% and 4.25% but this is the first time it's dipped this low. The chart above shows the median forecast of voting FOMC members as of their most recent meeting in June and compares it with June meetings over the past two years.

Each voting member provides their own estimate, and as Chairwoman Janet Yellen noted, changes in the committee's composition can also affect this median forecast. But the participants don't change that much and so for a long term investor considering their strategic allocation to investment grade fixed income (as opposed to a short term trader figuring out the next move in bonds, or a high yield investor whose returns are linked to equity markets) this information is pretty important.

Many considerations play a role in assessing an equilibrium rate, including long-run inflation, the economy's sustainable growth rate, returns on other assets and no doubt many more. It probably reflects a more modest view of how fast the economy can grow, and indeed their long-run forecast for GDP is 0.2%-0.3% lower than it was last Summer. What this says to us is that although short term rates will most likely start rising next year (as the Fed has indicated) there need not be much urgency to raise them quickly. While that might sound like good news for today's bond investors who apparently find pigmy rates acceptable, for the more discriminating bond buyer holding out for a fairer return, that day is farther out than before. While few investors are hoping for a crash in bonds, something a lot like that is required before yields are can provide a positive after-tax, real return.

The current policy of maintaining artificially low interest rates to steadily reduce the burden of public and private sector debt at the expense of fixed income investors looks set to continue. It's almost six years since short term rates reached near-zero (December 2008, three months after Lehman's failure). Whether you think the Fed's \$3.5 trillion balance sheet will be unwound elegantly or will provoke another crisis, it seems unarguably true that as public policy it has been highly successful. While the stimulus will be unwound, it's unlikely to be done urgently. If the Fed was forced to retrace their steps following a too hasty removal of the monetary accommodation, it would represent a substantial setback.

The point of this interest rate assessment that is familiar to regular readers is to support our still constructive view on equities. Rates are the basic building block for valuing any cash generating asset, since future cashflows have to be discounted to today using something. Therefore, an assessment of equities that doesn't consider bond yields is missing a critical input. The Equity Risk Premium is roughly unchanged over the past three months. Although the market's P/E rose modestly (thereby driving down its reciprocal, the earnings yield), long term interest rates similarly fell slightly, so the relative pricing of one asset class to another barely moved. While we don't try to time the market, it still seems to us that achieving acceptable returns ahead of inflation and taxes is only possible with various forms of equities, in combination with holding cash to mitigate risk and provide some optionality should other attractive opportunities present themselves.

Are MLP's Hedge Funds?

This is the pointed question that's now part of my *Hedge Fund Mirage* presentation (amazingly still in demand more than two years since publication). It remains thematically our biggest bet, reflected to varying degrees across all our strategies and of course fully in our MLP strategy. To recap: MLPs *are* like hedge funds, in that investors have limited rights and their investment is controlled by a manager for whom asset growth is invariably profitable. In this regard, MLP managers (known as General Partners, or GPs) *are* like hedge fund managers and their Incentive Distribution Rights (IDRs) are the hedge fund's 2% management fee and 20% incentive fee. Consequently, if you like the idea of investing in hedge fund *managers* (which you really can't unless you run one or seed one) you'll like investing in MLP GPs (which has become possible in recent years as more of them have gone public). For someone who wrote a book noting that substantially all the profits generated by hedge funds have gone to the managers, the analogy has proved irresistible.

I won't repeat the entire case here (available in our January 2014 newsletter) but in June Williams Companies (WMB), the owner of one and a half MLP GPs, bought the half it didn't own at an attractive price and thereby showed where some of the best alignment of interests can be found in investing. We think there will be ongoing M&A activity in this sector spurred by the shale-induced development of infrastructure, low interest rates, consolidation, large commodity price discrepancies, and strong cashflow growth at many firms. Kinder Morgan (KMI) remains one of our largest holdings, as we agree with founder Rich Kinder that the stock price does not adequately reflect the cash generating power of his company.

Meanwhile, we'll regard our recent investment results as we would a successful forty foot putt; undoubtedly the result of work on the putting green, but also incorporating a measure of luck; always strived for and occasionally, unexpectedly, achieved.

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 Monthly Returns (%)							Since Inception				18%	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	1.9	2.5	0.1	-0.1							2.9		
Index	0.7	0.7	0.6	0.6	-1.8	0.3							1.1		

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				60%	Index			84%
	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	2.0	2.9	1.3	0.8							6.1		
Index	-3.5	4.6	0.8	0.7	2.3	2.1							7.1		

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				186%	Index			137%
	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	0.3	2.3	1.3	4.7							9.0		
Index	-3.5	4.6	0.8	0.7	2.3	2.1							7.1		

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				231%	Index			168%
	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	3.8	2.5	5.5	9.5							28.1		
Index	0.6	-0.2	1.5	4.3	3.4	5.9							16.3		

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				107%	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	1.3	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	1.2	3.0	-1.0	3.6							0.3		
Index	-0.1	1.6	-0.2	-0.7	0.5	0.8							1.8		

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 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](http://www.amazon.com).***

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

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