



In Pursuit of Value

December, 2017

Limited Partners, Limited Rights

Investors in Master Limited Partnerships (MLPs) have more limited rights than most equity investors in corporations. They're called Limited Partners (LPs) for a reason. There's often a General Partner (GP) who runs the business on behalf of the LPs. GPs have preferential economics, governance and information rights, and we concluded many years ago that the GP/MLP relationship looks a lot like the one between a hedge fund manager and his hedge fund (see [MLPs and Hedge Funds Are More Alike Than You Think](#)). GPs earn Incentive Distribution Rights (IDRs) rather than the ubiquitous "2 & 20" that has financed so many hedge fund and private equity fortunes. But the result is similar, since IDRs pay the GP more as the profits of the MLP grow.

Most of the big MLPs have simplified their structure in recent years. IDRs have come to be viewed as an unnecessary drag on LP returns, and it's turned out that MLP investors aren't a great source of capital (see [Why the Shale Revolution Hasn't Yet Helped MLPs](#)). Simplification usually results in a collapsing of the GP/MLP dual entity into a single one. In such cases the result is often a corporation with no IDRs. The objective is to gain access to a far wider investor base in order to fund growth. Kinder Morgan began this trend in 2014 (see [What Kinder Morgan Tells Us About MLPs](#)).

Energy Transfer Partners (ETP) is the largest of the remaining MLPs that retains the old structure, with Energy Transfer Equity (ETE) as its GP. CEO Kelcy Warren understands better than most how lucrative the GP/MLP structure is, since it's created the bulk of his personal wealth which is invested in ETE. The market price of ETP reflects some skepticism that the current arrangement will persist, as reflected in ETP's 13% yield. Consistent with Kelcy's swaggering posture on such issues, ETP recently raised its payout so as to convey just how confident they are in the safety of the distribution. A merger of the two entities with ETE as the surviving entity would result in ETP LPs receiving ETE units which yield "only" 7%. ETP's high yield presumably reflects the view of many that such a transaction is possible. And yet, we calculate that ETE's 2018 Distributable Cash Flow will jump from \$1BN to over \$1.8BN, due to the expiry of previously granted IDR waivers and contribution from two major projects being moved into production. This could support a substantial jump in ETE's cash available for payouts, so ETP investors have less to fear in a combination of the two.

One analyst recently suggested that ETP's owners could band together and fire ETE as the GP, thereby unlocking substantial value for themselves at the expense of ETE. Kelcy is not a sympathetic character, and has demonstrated before that he has no fiduciary obligation to ETP, nor even to other ETE investors. The convertible preferreds that ETE issued to insiders in early 2016 are the subject of an ongoing legal challenge in Delaware court (see [Is Energy Transfer Quietly Fleecing Its Investors?](#)). This transaction showed that even investing directly alongside management in ETE carries some risk of self-dealing.

In fact, investing with Kelcy is like sitting at a high-stakes poker game with a good hand drawn from a deck of marked cards. You have valuable, well-positioned assets run by a talented management team, and have to balance those against the possibility of Kelcy screwing you if he can get away with it. All these factors need to be considered in sizing your stake. ETP yields 13% because investors don't trust the dealer.

Although the notion of ETP LPs rising up in rebellion and overthrowing their monarch holds some understandable appeal, it faces some substantial challenges. Apart from the requirement that 2/3rds of the ETP LPs vote to fire the GP, a recent ETP registration [statement](#) included this language:

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to the partnership securities for any partnership purpose at any time and from time to time to such persons, for such consideration and on such terms and conditions as our general partner determines, all without the approval of any limited partners.

ETE can always dilute a hostile group of LPs below the threshold. ETP's attempted regicide would likely trigger a debilitating response.



Such language is not uncommon across the industry. A 2016 [prospectus](#) filed by NuStar (NS) is similar:

NuStar Energy's partnership agreement authorizes NuStar Energy to issue an unlimited number of additional partnership securities for the consideration and on the terms and conditions established by the general partner in its sole discretion without the approval of any limited partners.

In [The Limited Rights of Some MLP Investors](#) last year we listed further examples of this type of GP protection.

Relatively weak governance rights are by no means unique to that portion of the \$300BN publicly traded MLP sector that retains the GP/MLP structure. Around \$3TN of capital invested in hedge funds has few rights and certainly worse liquidity. At least you can sell your MLP units if you're unhappy. Hedge funds often respond to adversity by further limiting withdrawals. Private equity offers even less liquidity than hedge funds. Investor attempts to fire such managers are rare because they're futile (see [The Hedge Fund Mirage](#), Chapter 7: The Hidden Costs of Being Partners).

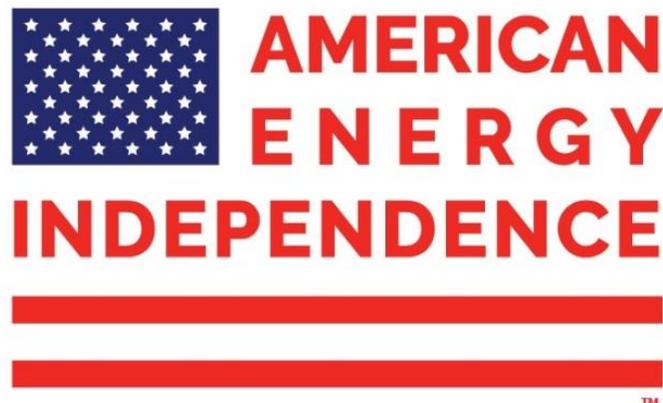
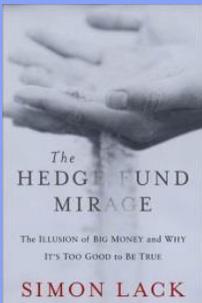
Alphabet (GOOG) has long had three share [classes](#), with super-voting powers attached to founders' shares that have the practical result of ensuring minority control even if a substantial majority of aggregate shares are voted in a certain manner. Facebook, Alibaba, Volkswagen and even Berkshire Hathaway are [among](#) the large global companies that have multiple classes of equity investor. The Economist recently opined on this (see [How tech giants are ruled by control freaks](#)).

The GP/MLP structure can be thought of as providing a preferred return to the LPs with the GP class sitting below them in the capital structure from an economic perspective. This is because the GP's IDR take is linked to distributions paid to LPs, and starts out at 2%. So if distributions to LPs are cut, that can disproportionately lower the GP's IDR take as they fall back down to the lower % splits. Moreover, recent history includes many examples of GP's temporarily waiving IDRs, which benefits LPs over the GP at least in the near. We prefer to own GP's because we believe their superior governance rights translate into better long term value creation, a view widely shared by their management teams. But investors routinely commit capital to equity vehicles that afford them junior rights, from MLPs to the large public companies listed above as well as the entire hedge fund and private equity sectors. It's an imbalance that isn't going away.

We are invested in ETE, and NuStar GP Holdings (NSH, GP of NS)

American Energy Independence Index

The [American Energy Independence Total Return Index](#) (AEITR) is being updated daily by S&P Dow Jones Indices. Because energy infrastructure is about far more than MLPs, we believe this index is the best measure of businesses that will benefit from America's evolving energy independence. Energy security is taking on a new dimension in the U.S. because of the Shale Revolution, which is why many large MLPs have converted to regular corporations, so as to access a far larger pool of capital. A new energy future demands a new index. Investment opportunities linked to this index will soon be available.



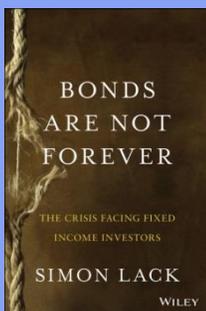
Performance Tables
Midstream Energy Infrastructure
(General Partner Focused)

| MLP Strategy (K-1s) | | | | | | | Since Inception 134% | | | | Index 72% | | |
|---------------------|--------------|-------------|-------------|-------------|-------------|--------------|----------------------|-------------|--------------|-------------|--------------|--------------|--------------|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | YTD |
| 2008 | -0.6 | 3.1 | -0.7 | 2.0 | 4.2 | -10.6 | -1.9 | 0.7 | -14.9 | -1.0 | -22.0 | 2.9 | -35.5 |
| <i>Index</i> | <i>-0.6</i> | <i>-0.5</i> | <i>-6.3</i> | <i>7.3</i> | <i>1.0</i> | <i>-4.9</i> | <i>-1.7</i> | <i>1.7</i> | <i>-17.2</i> | <i>-0.1</i> | <i>-17.1</i> | <i>-3.7</i> | <i>-36.9</i> |
| 2009 | 15.5 | -2.0 | 5.1 | 5.9 | 10.0 | -1.0 | 10.2 | 0.2 | 1.1 | 2.3 | 6.3 | 5.1 | 75.0 |
| <i>Index</i> | <i>15.3</i> | <i>-4.2</i> | <i>0.7</i> | <i>11.0</i> | <i>9.3</i> | <i>-1.7</i> | <i>12.4</i> | <i>-3.2</i> | <i>4.8</i> | <i>2.9</i> | <i>6.4</i> | <i>6.6</i> | <i>76.4</i> |
| 2010 | 0.8 | 5.5 | 2.1 | 2.5 | -4.4 | 5.2 | 5.9 | -1.5 | 5.1 | 2.1 | 3.3 | 2.8 | 33.0 |
| <i>Index</i> | <i>0.6</i> | <i>4.6</i> | <i>2.9</i> | <i>3.4</i> | <i>-5.4</i> | <i>5.6</i> | <i>7.5</i> | <i>-2.5</i> | <i>6.1</i> | <i>5.4</i> | <i>1.9</i> | <i>1.7</i> | <i>35.9</i> |
| 2011 | 1.3 | 5.2 | 0.1 | 2.7 | -4.2 | 1.9 | -2.4 | -0.2 | -3.3 | 9.2 | 0.2 | 6.9 | 17.6 |
| <i>Index</i> | <i>3.0</i> | <i>3.5</i> | <i>-0.6</i> | <i>3.3</i> | <i>-5.0</i> | <i>1.1</i> | <i>-1.9</i> | <i>-1.1</i> | <i>-4.1</i> | <i>10.3</i> | <i>-0.2</i> | <i>5.8</i> | <i>13.9</i> |
| 2012 | 1.7 | 5.3 | -3.6 | 0.9 | -7.0 | 3.3 | 5.8 | 3.2 | 2.3 | -0.8 | 0.3 | -3.0 | 7.8 |
| <i>Index</i> | <i>1.9</i> | <i>4.2</i> | <i>-4.0</i> | <i>2.2</i> | <i>-7.5</i> | <i>3.3</i> | <i>5.1</i> | <i>1.6</i> | <i>2.0</i> | <i>0.5</i> | <i>-0.8</i> | <i>-3.1</i> | <i>4.8</i> |
| 2013 | 12.9 | 1.8 | 5.8 | -0.5 | -1.1 | 2.7 | 0.3 | -0.3 | 1.4 | 2.4 | 4.1 | 3.5 | 37.3 |
| <i>Index</i> | <i>12.6</i> | <i>0.9</i> | <i>5.4</i> | <i>0.9</i> | <i>-2.0</i> | <i>3.1</i> | <i>-0.5</i> | <i>-2.5</i> | <i>2.3</i> | <i>2.7</i> | <i>0.9</i> | <i>1.6</i> | <i>27.6</i> |
| 2014 | 1.5 | 2.6 | 3.9 | 2.4 | 5.6 | 9.6 | -4.0 | 7.5 | -1.5 | -4.0 | 0.4 | -3.0 | 21.9 |
| <i>Index</i> | <i>0.6</i> | <i>-0.2</i> | <i>1.5</i> | <i>4.3</i> | <i>3.4</i> | <i>5.9</i> | <i>-3.5</i> | <i>8.2</i> | <i>-1.6</i> | <i>-4.6</i> | <i>-2.6</i> | <i>-5.6</i> | <i>4.8</i> |
| 2015 | -3.0 | 5.8 | -0.9 | 4.9 | -2.5 | -4.8 | -4.9 | -6.1 | -17.4 | 6.1 | -8.2 | -14.3 | -39.0 |
| <i>Index</i> | <i>-3.1</i> | <i>2.1</i> | <i>-4.2</i> | <i>6.2</i> | <i>-3.6</i> | <i>-8.3</i> | <i>-3.2</i> | <i>-5.0</i> | <i>-15.3</i> | <i>9.7</i> | <i>-8.1</i> | <i>-3.6</i> | <i>-32.6</i> |
| 2016 | -11.9 | 1.0 | 8.5 | 14.8 | 4.5 | 4.8 | 1.0 | 3.5 | 5.6 | -6.8 | 7.4 | 5.1 | 40.8 |
| <i>Index</i> | <i>-11.1</i> | <i>-0.5</i> | <i>8.3</i> | <i>11.0</i> | <i>2.5</i> | <i>5.1</i> | <i>0.6</i> | <i>-1.3</i> | <i>1.9</i> | <i>-4.5</i> | <i>2.3</i> | <i>4.4</i> | <i>18.3</i> |
| 2017 | 0.7 | 0.2 | 0.9 | -2.9 | -5.7 | 1.2 | 0.8 | -3.4 | 2.1 | -6.4 | -2.1 | | -14.1 |
| <i>Index</i> | <i>4.9</i> | <i>0.4</i> | <i>-1.3</i> | <i>-1.3</i> | <i>-4.5</i> | <i>-0.6</i> | <i>1.3</i> | <i>-4.9</i> | <i>0.7</i> | <i>-4.1</i> | <i>-1.4</i> | | <i>-10.8</i> |

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

| Energy Infrastructure Strategy (1099s) | | | | | | | Since Inception -8% | | | | Index -20% | | |
|--|--------------|-------------|-------------|-------------|-------------|-------------|---------------------|--------------|--------------|-------------|--------------|--------------|--------------|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD |
| 2013 | | | | | | | | 1.2 | 0.8 | 4.2 | -0.3 | 6.2 | 12.5 |
| <i>Index</i> | | | | | | | | <i>-0.5</i> | <i>2.3</i> | <i>2.7</i> | <i>0.9</i> | <i>1.6</i> | <i>5.3</i> |
| 2014 | 0.9 | 1.6 | 0.1 | 4.3 | 5.0 | 10.1 | -2.6 | 6.7 | -4.1 | -2.2 | -2.8 | -1.1 | 16.1 |
| <i>Index</i> | <i>0.6</i> | <i>-0.2</i> | <i>1.5</i> | <i>4.3</i> | <i>3.4</i> | <i>5.9</i> | <i>-3.5</i> | <i>8.2</i> | <i>-1.6</i> | <i>-4.6</i> | <i>-2.6</i> | <i>-5.6</i> | <i>4.8</i> |
| 2015 | -6.7 | 5.7 | 1.8 | 4.2 | -5.3 | -2.0 | -6.8 | -10.2 | -15.5 | 5.4 | -12.8 | -18.3 | -48.3 |
| <i>Index</i> | <i>-3.1</i> | <i>2.1</i> | <i>-4.2</i> | <i>6.2</i> | <i>-3.6</i> | <i>-8.3</i> | <i>-3.2</i> | <i>-5.0</i> | <i>-15.3</i> | <i>9.7</i> | <i>-8.1</i> | <i>-3.6</i> | <i>-32.6</i> |
| 2016 | -4.5 | -0.7 | 10.8 | 12.2 | 5.7 | 6.9 | 0.1 | 6.1 | 10.6 | -5.4 | 6.2 | 2.1 | 60.5 |
| <i>Index</i> | <i>-11.1</i> | <i>-0.5</i> | <i>8.3</i> | <i>11.0</i> | <i>2.5</i> | <i>5.1</i> | <i>0.6</i> | <i>-1.3</i> | <i>1.9</i> | <i>-4.5</i> | <i>2.3</i> | <i>4.4</i> | <i>18.3</i> |
| 2017 | -1.6 | -1.0 | 0.8 | -3.2 | -6.7 | 1.9 | 3.7 | -4.3 | 2.8 | -6.3 | -0.4 | | -14.0 |
| <i>Index</i> | <i>4.9</i> | <i>0.4</i> | <i>-1.3</i> | <i>-1.3</i> | <i>-4.5</i> | <i>-0.6</i> | <i>1.3</i> | <i>-4.9</i> | <i>0.7</i> | <i>-4.1</i> | <i>-1.4</i> | | <i>-10.8</i> |

The Index is the Alerian MLP Index, AMZX. August 2013 was a partial month. Past performance is not indicative of future returns



Performance Tables (Continued)

Low Volatility Strategies

| Low Vol Long Only | | | | | | | Since Inception | | | | 87% | Index | | | 98% |
|-------------------|-------------|------------|-------------|-------------|-------------|-------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|--|-----|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD | | |
| 2012 | | | | | | | | 0.2 | 1.9 | 0.0 | 1.0 | -0.2 | 2.9 | | |
| <i>Index</i> | | | | | | | <i>-0.9</i> | <i>1.7</i> | <i>-0.1</i> | <i>-0.2</i> | <i>-0.5</i> | <i>0.0</i> | | | |
| 2013 | 5.8 | 4.0 | 5.7 | 1.9 | -2.0 | 0.2 | 4.1 | -4.3 | 1.0 | 5.4 | 0.8 | 1.1 | 25.9 | | |
| <i>Index</i> | <i>5.0</i> | <i>2.7</i> | <i>4.9</i> | <i>3.8</i> | <i>-3.4</i> | <i>0.6</i> | <i>4.2</i> | <i>-4.8</i> | <i>2.0</i> | <i>4.6</i> | <i>1.2</i> | <i>1.1</i> | <i>23.6</i> | | |
| 2014 | -3.5 | 2.7 | 2.0 | 2.8 | 1.4 | 0.9 | -2.5 | 5.1 | -0.8 | 2.2 | 2.5 | -0.1 | 13.3 | | |
| <i>Index</i> | <i>-2.5</i> | <i>3.7</i> | <i>2.1</i> | <i>1.9</i> | <i>1.0</i> | <i>2.2</i> | <i>-3.8</i> | <i>3.8</i> | <i>-0.9</i> | <i>4.9</i> | <i>3.2</i> | <i>0.9</i> | <i>17.5</i> | | |
| 2015 | -1.4 | 2.9 | 1.8 | -1.2 | -0.6 | -2.2 | 2.7 | -4.4 | -1.0 | 6.0 | -2.1 | -0.4 | -0.2 | | |
| <i>Index</i> | <i>-0.4</i> | <i>1.5</i> | <i>-0.3</i> | <i>-2.0</i> | <i>0.9</i> | <i>-1.8</i> | <i>4.3</i> | <i>-4.9</i> | <i>-0.4</i> | <i>6.8</i> | <i>1.1</i> | <i>-0.1</i> | <i>4.3</i> | | |
| 2016 | 1.5 | 1.6 | 5.4 | 0.1 | 2.4 | 7.5 | -0.7 | -2.0 | 0.5 | -2.4 | 1.4 | 2.7 | 19.1 | | |
| <i>Index</i> | <i>-1.7</i> | <i>1.0</i> | <i>6.0</i> | <i>-0.7</i> | <i>1.7</i> | <i>5.7</i> | <i>0.3</i> | <i>-1.9</i> | <i>-1.0</i> | <i>-2.2</i> | <i>0.5</i> | <i>2.6</i> | <i>10.4</i> | | |
| 2017 | 0.8 | 3.7 | 0.5 | -0.5 | 0.9 | -0.5 | 2.2 | -1.6 | 0.5 | -0.9 | 2.2 | | 7.3 | | |
| <i>Index</i> | <i>0.7</i> | <i>4.5</i> | <i>-0.1</i> | <i>1.1</i> | <i>2.7</i> | <i>-0.3</i> | <i>1.4</i> | <i>0.9</i> | <i>0.8</i> | <i>1.9</i> | <i>3.9</i> | | <i>18.7</i> | | |

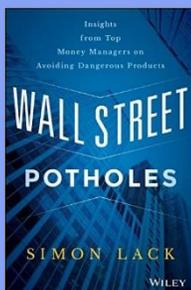
The Index is the S&P 500 Low Volatility Index including dividends. Past performance is not indicative of future returns

| Low Vol Hedged | | | | | | Since Inception | | | | | 36% | Index 4% | | |
|----------------|-------------|-------------|-------------|-------------|-------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD | |
| 2011 | | | | | | | | | | 0.3 | 0.3 | 3.6 | 4.3 | |
| <i>Index</i> | | | | | | | | | | <i>0.6</i> | <i>-0.2</i> | <i>0.2</i> | <i>0.6</i> | |
| 2012 | -3.5 | -2.0 | 1.2 | 1.7 | 1.2 | 2.2 | 1.1 | -1.3 | 0.5 | 0.8 | 0.6 | -0.6 | 1.8 | |
| <i>Index</i> | <i>0.4</i> | <i>-0.8</i> | <i>-1.2</i> | <i>-1.5</i> | <i>-0.4</i> | <i>-1.5</i> | <i>-0.1</i> | <i>-0.1</i> | <i>-0.3</i> | <i>0.2</i> | <i>0.5</i> | <i>0.1</i> | <i>-4.7</i> | |
| 2013 | 2.9 | 3.5 | 4.1 | 0.9 | -2.8 | 1.1 | 1.4 | -3.0 | -0.4 | 3.2 | -0.7 | -0.4 | 10.0 | |
| <i>Index</i> | <i>0.4</i> | <i>0.2</i> | <i>0.0</i> | <i>0.5</i> | <i>0.2</i> | <i>-0.6</i> | <i>0.6</i> | <i>-1.6</i> | <i>-0.1</i> | <i>1.4</i> | <i>0.6</i> | <i>0.2</i> | <i>1.7</i> | |
| 2014 | -1.6 | 0.0 | 1.9 | 2.4 | 0.3 | 0.0 | -2.2 | 3.1 | 0.2 | 0.9 | 1.2 | 0.3 | 6.7 | |
| <i>Index</i> | <i>0.7</i> | <i>0.7</i> | <i>0.6</i> | <i>0.6</i> | <i>-1.8</i> | <i>0.4</i> | <i>0.2</i> | <i>0.9</i> | <i>0.3</i> | <i>1.0</i> | <i>-0.1</i> | <i>0.0</i> | <i>3.6</i> | |
| 2015 | -0.1 | -0.1 | 2.8 | -2.0 | -1.1 | -1.0 | 2.0 | -1.2 | 1.0 | 1.6 | -1.9 | 1.5 | 1.3 | |
| <i>Index</i> | <i>0.1</i> | <i>0.5</i> | <i>1.0</i> | <i>-1.5</i> | <i>-0.4</i> | <i>1.1</i> | <i>1.4</i> | <i>0.2</i> | <i>2.0</i> | <i>1.1</i> | <i>-0.5</i> | <i>0.3</i> | <i>5.5</i> | |
| 2016 | 3.6 | 1.4 | 2.2 | -0.6 | 1.2 | 7.5 | -2.7 | -2.5 | -0.1 | -1.4 | -0.9 | 2.3 | 9.9 | |
| <i>Index</i> | <i>-0.2</i> | <i>-1.5</i> | <i>-0.8</i> | <i>-1.9</i> | <i>0.4</i> | <i>-1.0</i> | <i>1.2</i> | <i>-0.4</i> | <i>0.4</i> | <i>-0.1</i> | <i>0.0</i> | <i>-1.1</i> | <i>-5.1</i> | |
| 2017 | -0.4 | 2.3 | 0.5 | -1.0 | 0.1 | -1.0 | 0.7 | -1.9 | -0.6 | -1.9 | 1.1 | | -2.5 | |
| <i>Index</i> | <i>0.7</i> | <i>0.0</i> | <i>0.7</i> | <i>0.1</i> | <i>-1.5</i> | <i>0.6</i> | <i>0.5</i> | <i>0.9</i> | <i>0.6</i> | <i>-0.3</i> | <i>-0.1</i> | | <i>2.3</i> | |

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

| Low Vol Best Ideas | | | | | | | Since Inception | | | | 98% | Index | | | 3% |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------|-------------|-------------|-------------|-------------|-------------|--------------|--|----|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD | | |
| 2011 | | | -3.6 | 19.4 | 6.5 | 4.6 | 0.1 | 9.2 | -1.0 | 6.8 | 2.0 | 1.6 | 53.6 | | |
| <i>Index</i> | | | <i>-0.9</i> | <i>0.5</i> | <i>-1.4</i> | <i>-1.6</i> | <i>-0.1</i> | <i>-3.5</i> | <i>-3.0</i> | <i>0.8</i> | <i>-0.9</i> | <i>-0.4</i> | <i>-10.0</i> | | |
| 2012 | -4.9 | -1.5 | 5.8 | 3.4 | 1.2 | 2.5 | 3.3 | -2.1 | 0.0 | 3.1 | 0.3 | -1.2 | 9.8 | | |
| <i>Index</i> | <i>1.7</i> | <i>1.4</i> | <i>0.0</i> | <i>0.1</i> | <i>-1.7</i> | <i>-0.3</i> | <i>0.5</i> | <i>0.5</i> | <i>0.4</i> | <i>-0.5</i> | <i>0.4</i> | <i>0.9</i> | <i>3.5</i> | | |
| 2013 | 7.9 | 6.6 | 6.6 | 3.3 | -2.0 | -0.6 | 3.9 | -2.0 | 0.4 | 0.4 | -2.7 | 2.1 | 25.7 | | |
| <i>Index</i> | <i>2.0</i> | <i>0.4</i> | <i>0.7</i> | <i>0.6</i> | <i>0.7</i> | <i>-1.3</i> | <i>1.0</i> | <i>-0.9</i> | <i>1.0</i> | <i>1.2</i> | <i>0.6</i> | <i>0.4</i> | <i>6.5</i> | | |
| 2014 | -5.6 | -0.5 | 1.3 | 2.9 | -1.0 | 3.5 | -0.7 | 5.2 | -0.5 | -0.9 | 2.3 | 1.5 | 7.4 | | |
| <i>Index</i> | <i>-0.1</i> | <i>1.6</i> | <i>-0.2</i> | <i>-0.7</i> | <i>0.5</i> | <i>0.9</i> | <i>-0.9</i> | <i>1.1</i> | <i>-0.8</i> | <i>-1.3</i> | <i>0.3</i> | <i>-0.8</i> | <i>-0.4</i> | | |
| 2015 | -1.2 | 0.0 | 2.1 | -1.2 | -2.9 | -2.8 | 0.3 | -0.4 | -2.7 | -3.4 | -6.6 | -0.2 | -17.7 | | |
| <i>Index</i> | <i>-0.3</i> | <i>2.0</i> | <i>0.3</i> | <i>0.2</i> | <i>0.3</i> | <i>-1.3</i> | <i>0.0</i> | <i>-2.2</i> | <i>-2.1</i> | <i>1.5</i> | <i>-0.7</i> | <i>-1.3</i> | <i>-3.6</i> | | |
| 2016 | 2.1 | 3.5 | 2.9 | 1.2 | 2.1 | 7.4 | -1.5 | -0.1 | -3.2 | 0.4 | -1.5 | 2.6 | 16.5 | | |
| <i>Index</i> | <i>-2.8</i> | <i>-0.3</i> | <i>1.8</i> | <i>-0.1</i> | <i>0.5</i> | <i>0.2</i> | <i>1.5</i> | <i>0.2</i> | <i>0.6</i> | <i>-0.6</i> | <i>0.9</i> | <i>0.9</i> | <i>2.5</i> | | |
| 2017 | 0.4 | 1.7 | -1.1 | -1.7 | 1.0 | -2.6 | -0.7 | -3.4 | -0.9 | -2.9 | 0.5 | | -9.4 | | |
| <i>Index</i> | <i>0.5</i> | <i>1.2</i> | <i>0.0</i> | <i>0.4</i> | <i>0.2</i> | <i>0.2</i> | <i>0.9</i> | <i>0.3</i> | <i>0.5</i> | <i>0.4</i> | <i>-0.1</i> | | <i>5.1</i> | | |

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 for independent registered investment advisors in the U.S. with client assets of \$1.1 trillion (as of December 31, 2014). 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 MLP Strategy

This portfolio consists of approximately 15 investments in Master Limited Partnerships (MLPs) and publicly traded companies in energy infrastructure and related assets to receive a healthy and growing tax deferred income stream. MLPs are publicly traded interests primarily invested 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 steadily grown, and as such they can be suitable for investors seeking income generating investments with a tolerance for equity market exposure.

SL Energy Infrastructure Strategy

This strategy seeks to achieve its investment objective by primarily investing in the equity securities of the general partners of master limited partnerships ("MLPs") and the parent companies of general partners of MLPs (collectively, "GPs"). It holds some of the same names that are in the MLP Strategy but only invests in securities that generate 1099s for tax-reporting. As such, it may be appropriate for tax-deferred, tax-exempt and non-U.S. investors.

SL Advisors Low Vol Long Only Strategy

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. 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 attempts to take advantage of this persistent anomaly.

SL Advisors Low Vol Hedged Strategy

An alternative to bonds, this strategy combines the Low Vol Long Only Strategy 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 we believe 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 Low Vol Best Ideas Strategy

Low Beta Long-Short is more concentrated than Low Vol Hedged with added leverage and is not restricted to dividend paying stocks. It includes our best ideas from Low Vol 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.

The Hedge Fund Mirage; The Illusion of Big Money and Why It's Too Good To Be True

Bonds Are Not Forever; The Crisis Facing Fixed Income Investors

and

Wall Street Potholes: Insights from Top Money Managers on Avoiding Dangerous Products

are all available at Amazon.com.

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

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DISCLOSURES

MLP Strategy

Returns for the MLP Strategy reflect the performance of the composite of all discretionary accounts invested in this strategy. The returns shown reflect the deduction of an annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. The performance of the Alerian MLP index is shown for comparison purposes only. The Alerian MLP is a float-adjusted, capitalization-weighted index, which tracks 50 large- and mid-cap energy Master Limited Partnerships (MLPs), capturing 75% of available market capitalization. This index tracks securities which most closely correlate to the securities in which the MLP strategy invests. You cannot invest directly in an index. Past performance is no guarantee of future results.

Energy Infrastructure Strategy

The Energy Infrastructure Strategy seeks to invest in the General Partners (GPs) of Master Limited Partnerships (MLPs) and other energy infrastructure businesses solely through C-corps rather than partnerships. Consequently, the tax reporting consists of 1099s rather than the K-1s common with MLPs. Returns for the Energy Infrastructure Strategy reflect the performance of a composite comprised of all fee-paying discretionary accounts invested in this strategy. The returns shown reflect the deduction of an annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. The performance of the Alerian MLP Index is shown for comparison purposes only. The Alerian MLP Index is a float-adjusted, market-capitalization weighted index of publicly traded MLPs. This index best reflects the universe of stocks from which the Energy Infrastructure Strategy seeks to invest. You cannot invest directly in an index. Past performance is no guarantee of future results.

Low Vol Long Only Strategy

The objective of this strategy is to: (1) generate equity market returns over full market cycle with lower volatility (2) outperform S&P500 during periods of significant stock market underperformance (3) generate higher dividend income than the S&P500. Returns for the Low Vol Long Only Strategy reflect the performance of a composite comprised of all fee-paying discretionary accounts invested in this strategy. The returns shown reflect the deduction of a 1% annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. The performance of the S&P 500 Low Volatility index is shown for comparison purposes only. The S&P 500 Low Volatility index measures performance of the 100 least volatile stocks in the S&P500. The index benchmarks low volatility or low variance strategies for the U.S Stocks market. This index tracks securities which most closely correlate to the securities in which the Low Vol Long Only strategy invests. Past performance is no guarantee of future results. You cannot invest directly in an index.

Low Vol Hedged Strategy

Returns for the Low Vol Hedged Strategy reflects the performance of the composite of all discretionary accounts invested in this strategy. The returns shown reflect the deduction of an annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. As stated above, part of the objective of the Low Vol Hedged Strategy is to outperform the HFRX EM Neutral Index. The performance of the HFRX EM Neutral Index and the DJ Corporate Bond Index are shown for comparison purposes only. The HFRX EM Neutral Index consists of hedge funds that employ quantitative techniques to construct portfolios which are intended to be uncorrelated with equity markets. The DJ Corporate Bond Index is an equally weighted index of investment-grade corporate bonds. HFRX EM Neutral Index is presented as it is a reasonable comparison for Low Vol Hedged which seeks to generate returns while remaining uncorrelated with equities. The DJ Corporate Bond Index is presented as the manager believes Low Vol Hedged can be an acceptable substitute for corporate bonds given its income generating objective. index You cannot invest directly in an index. Past performance is no guarantee of future results.

Low Vol Best Ideas

The objective of this strategy is to deliver absolute returns that are uncorrelated to traditional asset classes. It aims to generate capital appreciation while remaining Beta neutral by maintaining a net long position in low beta equities hedged with the S&P500 (using SPY) to deliver uncorrelated returns. It deploys gross leverage of typically < 2:1 and targets volatility similar to the S&P500. Returns for the Low Vol Best Ideas Strategy reflect the performance of a composite comprised of all fee-paying discretionary accounts invested in this strategy. The returns shown reflect the deduction of a 1% annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. The performance of the HFRX Global Hedge Fund Index is shown for comparison purposes only. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies. The Strategies are asset weighted based on the distribution of assets in the hedge fund industry. HFRX Global Hedge Fund Index is presented as it is a reasonable comparison for Low Vol Best Ideas which seeks to generate absolute returns while remaining uncorrelated with equities. You cannot invest directly in an index. Past performance is no guarantee of future results.