Published by SL Advisors, LLC

SL ADVISORS

In Pursuit of Value

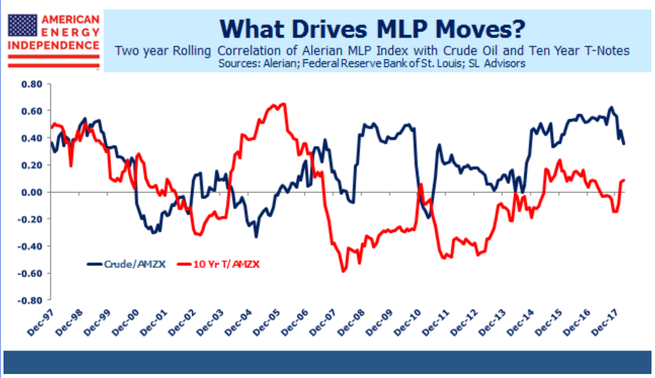
May, 2018

AMERICAN ENERGY INDEPENDENCE

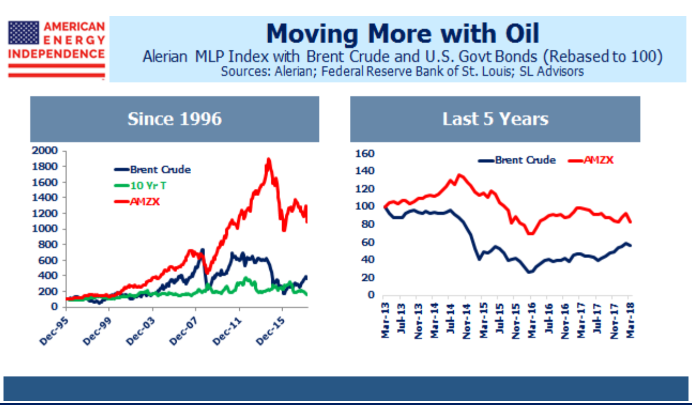
Interest Rates, Crude Prices and MLPs

Since ten year treasury yields recently broke above 3%, a common question from clients has been how we think rising interest rates will affect energy infrastructure valuations. Regardless of the historic relationship, when rates rise it matters whether they're rising with inflation, or without it. If rates rise but inflation is stable, the increase in the real rate (nominal minus inflation) should reduce the present value of any future cashflow, regardless of from where it's derived. However, if inflation is rising at the same time, it's likely that economic activity is also strong which creates demand for myriad products and services including the hydrocarbons handled by MLPs.

Over the past twenty years, interest rates have no visible connection with energy infrastructure. Rising rates offer income-seeking investors more investment choices, and MLPs were once a plausible substitute for high yield bonds. REITs and Utilities traditionally experience weakness when bond prices are falling, and in the past that has included MLPs for short periods of time. But the two year rolling correlation of monthly returns shows that there's no discernible relationship.

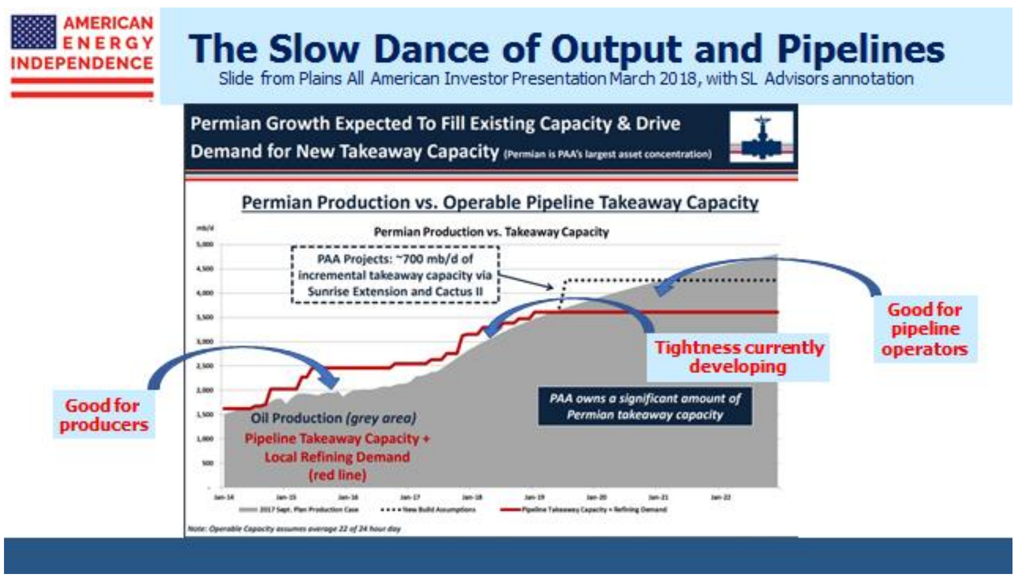


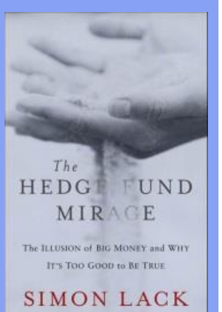
As we've noted regularly, the Shale Revolution has changed the MLP business model by creating growth opportunities that require financing. Balance sheet leverage has been coming down as management companies absorbed how poorly this was received – but it's not clear that this should have altered the relationship between the sector and the bond market. Our conclusion on this issue continues to be that energy infrastructure is broadly correlated with economic activity, so modestly rising rates driven by faster growth ought not to matter that much. In an inflation shock, the sector should be no more sensitive than equities broadly. Moreover, many pipeline contracts include regular repricing at a spread over the Producer Price Index, providing some additional inflation protection.



The relationship with crude oil has been the subject of regular dialogue in recent years and has been more frustrating. Many investors were attracted to energy infrastructure because they understood the companies move, process and store hydrocarbons but don't produce them. This "toll" model, whereby volumes rather than commodity prices drove earnings, was attractive. The 2014-15 collapse in prices for crude oil and MLPs caused a reassessment. Perhaps most disappointing was the latter part of 2017, when rising crude didn't drive MLPs higher.

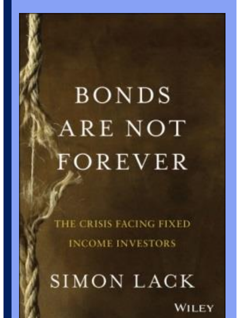
Over the past decade, the two big drops in the Alerian index have coincided with lower crude oil but for different reasons. The 2008 Financial Crisis led to the Great Recession, when everything was down. The 2014-15 downturn was even more severe than in 2008, although the non-energy economy did fine. Subsequent developments confirmed altered sensitivity to crude oil prices. The growth in energy infrastructure investments induced by the Shale Revolution led to concerns about underused facilities for an industry that had modestly increased leverage. The speed at which new pipeline capacity gets used continues to be an important consideration today.





Plains All American (PAA) is the largest crude oil pipeline operator in the Permian. The above chart from their recent investor presentation highlights the issue. Permian oil production is growing rapidly, and new pipeline availability will become operational next year (not soon enough for some, see Dwindling Pipeline Capacity Causes FOMO). Takeaway capacity arrives in discrete steps. A pipeline that's 90% completed between A and B still isn't much use until it's finished, at which point it's fully available. Oil and gas production tends to increase (or decrease) more smoothly, as countless tactical decisions feed through to production. The gap between capacity and production drives the marginal cost of transportation. Currently, there's more oil produced than can either leave the Permian by pipeline or be consumed by local refineries. This is bad for oil producers, since moving crude by rail or truck costs more, and is good for pipeline operators. Too much pipeline capacity causes the reverse. The sensitivity in energy infrastructure relates in part to the rate at which the two lines in the chart move. Both sides work hard to maintain approximate alignment, but the biggest external factor is price, which can quickly alter production plans, while infrastructure projects are multi-year endeavors.

Since the Shale Revolution has driven expansion in our energy infrastructure network, the increased sensitivity to commodity prices will likely continue. If higher prices are expected to stimulate production, midstream operators should benefit. While MLPs don't produce oil or natural gas, their fortunes are more closely linked with prices than in the past. It's a consequence of the move to American Energy Independence.



Performance Tables
Midstream Energy Infrastructure
(General Partner Focused)

MLP Strategy (K-1s)							Since Inception 136%				Index		73%
	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**
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	**15.5**	**-2.0**	**5.1**	**5.9**	**10.0**	**-1.0**	**10.2**	**0.2**	**1.1**	**2.3**	**6.3**	**5.1**	**75.0**
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	**0.8**	**5.5**	**2.1**	**2.5**	**-4.4**	**5.2**	**5.9**	**-1.5**	**5.1**	**2.1**	**3.3**	**2.8**	**33.0**
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	**1.3**	**5.2**	**0.1**	**2.7**	**-4.2**	**1.9**	**-2.4**	**-0.2**	**-3.3**	**9.2**	**0.2**	**6.9**	**17.6**
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**	**5.3**	**-3.6**	**0.9**	**-7.0**	**3.3**	**5.8**	**3.2**	**2.3**	**-0.8**	**0.3**	**-3.0**	**7.8**
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**	**1.8**	**5.8**	**-0.5**	**-1.1**	**2.7**	**0.3**	**-0.3**	**1.4**	**2.4**	**4.1**	**3.5**	**37.3**
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**	**3.9**	**2.4**	**5.6**	**9.6**	**-4.0**	**7.5**	**-1.5**	**-4.0**	**0.4**	**-3.0**	**21.9**
Index	*0.6*	*-0.2*	*1.5*	*4.3*	*3.4*	*5.9*	*-3.5*	*8.2*	*-1.6*	*-4.6*	*-2.6*	*-5.6*	*4.8*
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**
Index	*-3.1*	*2.1*	*-4.2*	*6.2*	*-3.6*	*-8.3*	*-3.2*	*-5.0*	*-15.3*	*9.7*	*-8.1*	*-3.6*	*-32.6*
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**
Index	*-11.1*	*-0.5*	*8.3*	*11.0*	*2.5*	*5.1*	*0.6*	*-1.3*	*1.9*	*-4.5*	*2.3*	*4.4*	*18.3*
2017	**0.7**	**0.2**	**0.9**	**-2.9**	**-5.7**	**1.2**	**0.8**	**-3.4**	**2.1**	**-5.8**	**-2.2**	**6.8**	**-7.9**
Index	*4.9*	*0.4*	*-1.3*	*-1.3*	*-4.5*	*-0.6*	*1.3*	*-4.9*	*0.7*	*-4.1*	*-1.4*	*4.8*	*-6.5*
2018	**3.0**	**-11.1**	**-4.0**	**6.8**									**-6.1**
Index	*5.8*	*-9.7*	*-6.9*	*8.1*									*-3.9*

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.

Midstream Energy Infrastructure (Continued)

Energy Infrastructure Strategy (1099s)							Since Inception			-9%	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**
Index								*-0.5*	*2.3*	*2.7*	*0.9*	*1.6*	*5.3*
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**
Index	*0.6*	*-0.2*	*1.5*	*4.3*	*3.4*	*5.9*	*-3.5*	*8.2*	*-1.6*	*-4.6*	*-2.6*	*-5.6*	*4.8*
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**
Index	*-3.1*	*2.1*	*-4.2*	*6.2*	*-3.6*	*-8.3*	*-3.2*	*-5.0*	*-15.3*	*9.7*	*-8.1*	*-3.6*	*-32.6*
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**
Index	*-11.1*	*-0.5*	*8.3*	*11.0*	*2.5*	*5.`1*	*0.6*	*-1.3*	*1.9*	*-4.5*	*2.3*	*4.4*	*18.3*
2017	**-1.6**	**-1.0**	**0.8**	**-3.2**	**-6.7**	**1.9**	**3.7**	**-4.3**	**2.8**	**-6.1**	**-0.6**	**5.8**	**-9.1**
Index	*4.9*	*0.4*	*-1.3*	*-1.3*	*-4.5*	*-0.6*	*1.3*	*-4.9*	*0.7*	*-4.1*	*-1.4*	*4.8*	*-6.5*
2018	**-0.2**	**-9.4**	**-2.5**	**5.2**									**-7.3**
Index	*5.8*	*-9.7*	*-6.9*	*8.1*									*-3.9*

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

Low Volatility Strategies

Low Vol Long Only							Since Inception		79%	*Index*		*93%*
	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**
Index								*-0.9*	*1.7*	*-0.1*	*-0.2*	*-0.5*	*0.0*
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**
Index	*5.0*	*2.7*	*4.9*	*3.8*	*-3.4*	*0.6*	*4.2*	*-4.8*	*2.0*	*4.6*	*1.2*	*1.1*	*23.6*
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**
Index	*-2.5*	*3.7*	*2.1*	*1.9*	*1.0*	*2.2*	*-3.8*	*3.8*	*-0.9*	*4.9*	*3.2*	*0.9*	*17.5*
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**
Index	*-0.4*	*1.5*	*-0.3*	*-2.0*	*0.9*	*-1.8*	*4.3*	*-4.9*	*-0.4*	*6.8*	*1.1*	*-0.1*	*4.3*
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**
Index	*-1.7*	*1.0*	*6.0*	*-0.7*	*1.7*	*5.7*	*0.3*	*-1.9*	*-1.0*	*-2.2*	*0.5*	*2.6*	*10.4*
2017	**0.8**	**3.7**	**0.5**	**-0.5**	**0.9**	**-0.5**	**2.2**	**-1.6**	**0.5**	**-0.9**	**2.3**	**2.6**	**10.1**
Index	*0.7*	*4.5*	*-0.1*	*1.1*	*2.7*	*-0.3*	*1.4*	*0.9*	*0.8*	*1.9*	*3.9*	*-1.1*	*17.4*
2018	**2.2**	**-6.1**	**-0.7**	**-1.9**									**-6.5**
Index	*2.7*	*-4.2*	*0.9*	*-0.6*									*-1.4*

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

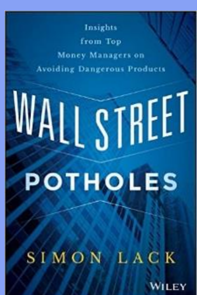
Low Vol Hedged						Since Inception			29%	*Index 4%*			
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011										**0.3**	**0.3**	**3.6**	**4.3**
Index										*0.6*	*-0.2*	*0.2*	*0.6*
2012	**-3.5**	**-2.0**	**1.2**	**1.7**	**1.2**	**2.2**	**1.1**	**-1.3**	**0.5**	**0.8**	**0.6**	**-0.6**	**1.8**
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	**2.9**	**3.5**	**4.1**	**0.9**	**-2.8**	**1.1**	**1.4**	**-3.0**	**-0.4**	**3.2**	**-0.7**	**-0.4**	**10.0**
Index	*0.4*	*0.2*	*0.0*	*0.5*	*0.2*	*-0.6*	*0.6*	*-1.6*	*-0.1*	*1.4*	*0.6*	*0.2*	*1.7*
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**
Index	*0.7*	*0.7*	*0.6*	*0.6*	*-1.8*	*0.4*	*0.2*	*0.9*	*0.3*	*1.0*	*-0.1*	*0.0*	*3.6*
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**
Index	*0.1*	*0.5*	*1.0*	*-1.5*	*-0.4*	*1.1*	*1.4*	*0.2*	*2.0*	*1.1*	*-0.5*	*0.3*	*5.5*
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**
Index	*-0.2*	*-1.5*	*-0.8*	*-1.9*	*0.4*	*-1.0*	*1.2*	*-0.4*	*0.4*	*-0.1*	*0.0*	*-1.1*	*-5.1*
2017	**-0.4**	**2.3**	**0.5**	**-1.0**	**0.1**	**-1.0**	**0.7**	**-1.9**	**-0.6**	**-1.9**	**1.3**	**2.4**	**0.0**
Index	*0.7*	*0.0*	*0.7*	*0.1*	*-1.5*	*0.6*	*0.5*	*0.9*	*0.6*	*-0.3*	*0.0*	*-0.8*	*1.7*
2018	**-0.4**	**-5.2**	**1.0**	**-3.3**									**-7.8**
Index	*1.2*	*-0.3*	*-0.2*	*0.2*									*0.9*

The Index is the HFRX Equity Market Neutral Index. 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.

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/

Follow us on **Twitter** @SimonLack

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.

Indexes and benchmarks may not directly correlate or only partially relate to portfolios managed by SL Advisors as they have different underlying investments and may use different strategies or have different objectives than portfolios managed by SL Advisors (e.g. The Alerian index is a group MLP securities in the oil and gas industries. Portfolios may not include the same investments that are included in the Alerian Index. The S & P Index and HFR Index do not directly relate to investment strategies managed by SL Advisors.)

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