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In Pursuit of Value

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Preparing for Higher Rates

In the Summer of 2013, I published *Bonds Are Not Forever; The Crisis Facing Fixed Income Investors.* In spite of a title suggesting bond avoidance as an investment strategy, it didn't sound the alarm for a pending crash in fixed income. While that would be dramatic and is always a possibility, I didn't believe it was a serious likelihood and still don't today.

The problem with bonds remains their pygmy yields which provide scant return (especially after inflation and taxes) and little protection against negative surprises (however unlikely they may seem). You don't need to believe the Federal Reserve's $4.5 trillion balance sheet is a step on the road to currency debasement to deem present yields inadequate. Since the best predictor of your holding period return on a bond is the yield at which you buy it, returns on bonds bought now are unlikely to help anybody retire with an increased purchasing power in the future. To a substantial degree, today's fixed income investors are insensitive to return. The central banks that own significant portions of U.S. Federal debt are clearly not commercially driven. Many private investors hold bonds because of asset allocation requirements that rigidly impose some bond holdings. Some wistfully hope that future returns will be similar to those of the past, in willful denial of the Math, and others simply can't face any additional risk in public equities. 2008 remains a searing memory for many.

Bond returns in recent years have benefitted from a healthy dose of capital appreciation caused by falling yields. High yield bonds last had a losing year in 2008, and while AAA bonds haven't been as consistent, they've still managed a five year annualized return of 3.2%. The preponderance of forecasts remains for higher rates, even though this has been a persistently wrong call. Even the Federal Reserve's own projections, published four times a year and used in their deliberations on interest rates, have been too high. If the people who set rates can't predict them, what chance do the rest of us have?

Nonetheless, even the most bullish bond investors are conceding that short term rates will rise later this year. Whether that headwind causes bond yields to simply stop falling, or to rise remains to be seen. However, one must consider the possibility that simply achieving a total return on bonds equal to the coupon (i.e. not suffering any price loss) will have to pass for success in the future. While the Fed is likely to be extremely gentle as it embarks on its first tightening since 2006, bond investors may increasingly find they're left to fend for themselves as central bank largesse recedes.

Bonds Are Not Forever made the case that income seeking investors need to look farther afield than fixed income to satisfy their need. Since 2008, the public policy response has included a steady transfer of real wealth from savers to borrowers as a time-tested solution to an economy over-burdened with debt. Although the public outcry at this financial repression has been muted, today's bond investors are passive facilitators of a steady diminution of their inflation-adjusted purchasing power. When government policy is to render bonds unattractive, thoughtful investors respond by taking their money elsewhere. The book showed how it's possible to create a balanced portfolio using the right combination of public equities (both long-only and hedged) and cash.

Master Limited Partnerships (MLPs) were recommended as a good substitute for High Yield Bonds, although junk bonds and REITs have both been part of the solution for many investors. Which is why the number one question for a substantial number of investment professionals concerns market performance through the new monetary policy regime. Since numbers provide context to such an enquiry, here is some historic data on asset class relationships.

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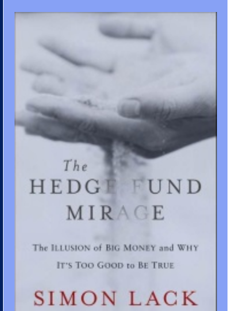

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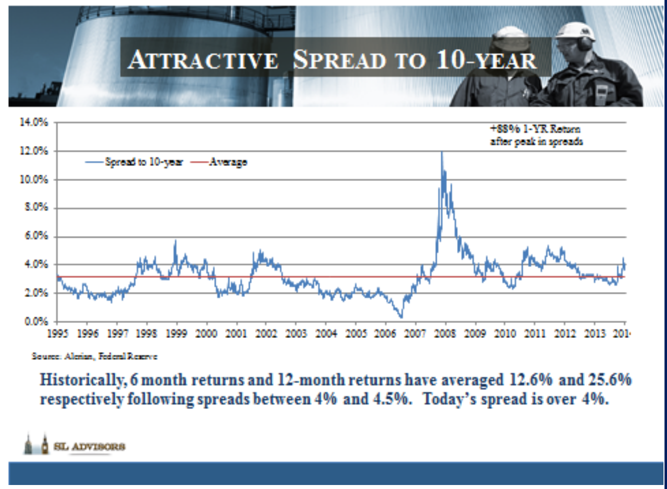
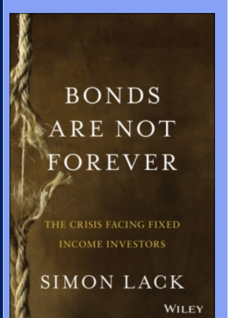
Analyzing monthly returns back to 1996 (the inception of the Alerian MLP Index) reveals that in months when bonds (defined here as AAA industrial bonds) were down, High Yield and REITs were both modestly positive (+0.3% and +0.4% respectively). However, when bonds had a bad month (defined as a negative return of -1% or more, equivalent to on average a 0.15% jump in yields), HY and REITs become decidedly more rocky (-0.5% and -1.3% respectively).

By contrast, monthly MLP returns are +1.4% in the regular down market for bonds and +1.1% during the more robust type. Now it's true, MLPs have generated strong returns for many years, so these statistics are somewhat flattered by the fact that $1 invested in the Alerian Index on January 1st, 1996 was worth $16.37 by the end of last year. Even $1 invested at the end of 2008 had reached $3.82 just six years later. A more robust analysis adjusts for the strong secular performance of MLPs, by comparing returns adjusted down by their long term average. MLPs have on average returned 1.3% a month since 1996. Subtracting this long term return from their performance when bonds are falling leaves MLPs with adjusted returns of +0.1% and -0.2% respectively; not that much affected by rising rates. Their relatively low correlation with Bonds of 0.26 reflects this. In addition, distributions that regularly grow provide further protection, by contrast with bonds whose payouts are fixed at inception.



SL Advisors, LLC focuses on investment strategies that provide income without relying on fixed income securities



Gently rising rates is certainly the Fed's desired path, and the historical record suggests this need not be traumatic for MLPs. However, a bumpy ride is certainly possible. Memories of the "Taper Tantrum," triggered in May 2013 when then Fed chair Bernanke mentioned the eventual end of Quantitative Easing (QE) led to a 1% jump in bond yields. Although the ultimate phase-out of QE was far less impactful, a jump in bond yields when the Fed raises short term rates ought not to be a big surprise in spite of its widespread anticipation. Excluding 2008 for a moment, there have been four other episodes since 1996 of AAA bond yields increasing by more than 1%. Of note, the late stages of the dot.com (1999-2000) bubble saw REITs suffer an eventual 25% loss of value. MLPs lost 16% while High Yield bonds dropped as much as 12% a couple of years later during the bear market for equities.

Although 2008 probably represents the worst financial environment any of us will experience, as a measure of how bad things can get I'd note the following Peak-to-Valley falls: S&P500 (51%); High Yield (33%); REITs (68%) and MLPs (41%). Moreover, S&P dividends as well as payouts on High Yield bonds and REITs all fell, while MLPs in aggregate managed a modest distribution increase.

So where does that leave us today? Although High Yield Bonds, REITs and MLPs are to some degree regarded as substitutes for one another by income seeking investors, they offer quite different valuations. HY and REITs are close to their highs, while MLPs dropped 14% from last Summer to the end of 2014 because of the collapse in oil. Since MLP distributions have generally continued to grow, the yield on the benchmark Alerian Index recently reached 6.4% before a subsequent firming in MLPs brought the yield down somewhat. At more than 4% above the ten year treasury, MLP yields offer some potential to absorb increasing rates without suffering a substantial drop in prices. When MLP yields have been more than 4% higher than treasuries, subsequent 6 and 12 month returns have averaged +12.6% and +25.6% respectively.

Though history doesn't repeat, some think it rhymes. Income-seeking investors must consider how their yield-oriented investments are likely to perform once short term rates begin rising and long term rates at a minimum stop falling. The more attractive an asset's valuation, the better able it is to withstand the impact of rising interest rates, which will affect every asset class.

Performance Tables (Net of fees)

MLP Strategy							Since Inception 240%				*Index*		*143%*
	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**	**5.0**									**6.8**
Index	*-3.1*	*2.1*	*-4.2*	*6.2*									*0.6*

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.

Hedged Dividend Capture Strategy ("DivCap")						Since Inception			25%	*Index 1%*		
	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**									**0.5**
Index	*0.1*	*0.4*	*1.2*	*-1.3*									*0.4*

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

Energy Infrastructure Strategy							Since Inception			37%	*Index*		*11%*
	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**	**4.3**									**4.8**
Index	*-3.1*	*2.1*	*-4.2*	*6.2*									*0.6*

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)

High Dividend Low Beta Strategy ("HighDiv")							Since Inception			74%	*Index*		*75%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011										**5.9**	**0.1**	**4.0**	**10.3**
Index										*5.9*	*1.2*	*3.2*	*10.5*
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	*-0.5*	*1.9*	*2.8*	*1.1*	*-1.6*	*4.2*	*2.1*	*-0.9*	*1.7*	*-0.1*	*-0.2*	*-0.5*	*10.3*
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	*5.0*	*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**	**2.5**	**2.0**	**2.9**	**1.3**	**0.8**	**-2.4**	**5.1**	**-0.9**	**2.2**	**2.4**	**-0.2**	**12.7**
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	**-1.3**	**2.7**	**1.8**	**-1.0**									**2.1**
Index	*-0.4*	*1.5*	*-0.3*	*-2.0*									*-1.3*

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

Deep Value Strategy							Since Inception			182%	*Index*		*156%*
	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**	**-2.3**	**6.3**	**-5.6**	**-1.4**	**-0.7**	**-1.8**	**2.7**
Index	*-3.5*	*4.6*	*0.8*	*0.7*	*2.3*	*2.1*	*-1.4*	*4.0*	*-1.4*	*2.4*	*2.7*	*-0.3*	*13.7*
2015	**-6.0**	**9.1**	**1.2**	**0.7**									**4.4**
Index	*-3.0*	*5.7*	*-1.6*	*1.0*									*1.9*

Returns do not include cash balances prior to November 2009. The Index is the S&P 500 including dividends

SL Advisors runs a variety of strategies focused on generating attractive risk-adjusted returns using public equities in long-only and long-short format.
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Low Beta Long/Short Strategy ("LBLS")							Since Inception			119%	*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*
2014	**-5.6**	**-0.6**	**1.2**	**3.0**	**-1.0**	**3.6**	**-0.7**	**5.1**	**-0.6**	**-0.9**	**2.3**	**1.3**	**6.8**
Index	*-0.1*	*1.6*	*-0.2*	*-0.7*	*0.5*	*0.9*	*-0.9*	*1.1*	*-0.8*	*-1.3*	*0.3*	*-0.8*	*-0.4*
2015	**-1.2**	**-0.1**	**2.0**	**-1.2**									**-0.4**
Index	*-0.3*	*2.0*	*0.3*	*0.5*									*2.5*

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 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 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 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 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 attempts 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 what we believe are 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 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 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.

Hedged Dividend Capture Strategy ("DivCap")

Returns for the Hedged Dividend Capture 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 Hedged Dividend Capture 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 DivCap which seeks to generate returns while remaining uncorrelated with equities. Thie DJ Corporate Bond Index is presented as the manager believes DivCap 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.

High Dividend Low Beta Strategy ("HighDiv")

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 High Dividend Low Beta Strategy reflect the performance of a representative account 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 High Dividend Low Beta strategy invests. Past performance is no guarantee of future results. You cannot invest directly in an index.

Deep Value Strategy

The objective of this strategy is to outperform the S&P500 Index with a similar level of volatility by investing in a portfolio of undervalued publically traded securities. Returns for the Deep Value Strategy reflect the performance of a representative account 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 index is shown for comparison purposes only. The S&P 500 index is comprised of stocks of large U.S companies and is widely recognized as a benchmark of U.S. stock market performance. This index tracks securities which most closely correlate to the securities in which the Deep Value strategy invests. Past performance is no guarantee of future results. You cannot invest directly in an index.

Low Beta Long/Short Strategy ("LBLS")

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 Beta Long Short Strategy reflect the performance of a representative account 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 LBLS 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.