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# In Pursuit of Value

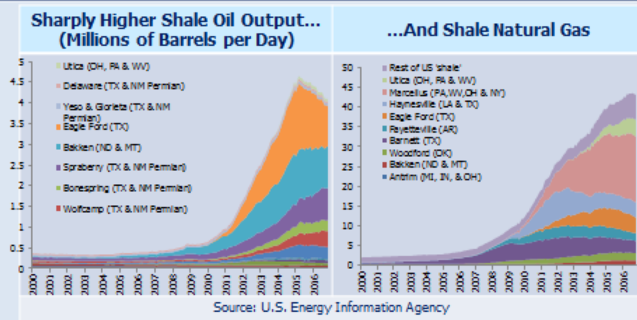
January, 2017

**America Is Great!**

Back in 2014 they were unlikely adversaries. Saudi Energy Minister Ali Al-Naimi, and Pioneer Natural Resources (PXD) CEO Scott Sheffield (pictured below) had both made their careers in the oil business. They had each spent formative years abroad, with Al-Naimi attending Lehigh University and Sheffield going to high school in Iran (his father worked for Atlantic Richfield). Both were dedicated to maximizing the value of the fossil fuels they controlled, and had hunted together (a common pastime for oilmen).

But the success of horizontal drilling and hydraulic fracturing ("fracking") in the U.S. was releasing increasing amounts of crude oil from hitherto impenetrable porous rock. A consequence was that from 2011-2014 fully all of the increase in global demand for crude oil had been met by North American production (see Listen to What The Oil Price is Saying). This was hurting prices and reducing OPEC's market share. Al-Naimi concluded that the interlopers were vulnerable to a drop in prices that would expose their high cost structure. Pioneer was one of the biggest producers of shale oil. They had been deemed "The Motherfracker" by hedge fund manager David Einhorn who likened their low return on capital to, "…using $50 bills to counterfeit $20s." Scott Sheffield's business and others like it were increasingly at odds with OPEC, and Al-Naimi decided they needed to be stopped.

So it was that in late 2014 the Saudis shocked the oil market by promising to increase production into an already oversupplied market, rather than adopt their familiar role of swing producer, modifying their own output to smooth price swings. They calculated that lower prices would bankrupt large swathes of the U.S. shale oil industry, eventually cutting production and allowing prices to return to the $100+ levels necessary to support Saudi Arabia's budget. "We are going to continue to produce what we are producing, we are going to continue to welcome additional production if customers come and ask for it," al-Naimi said.




What followed over the next two years is one of the most extraordinary stories of private sector innovation in the biggest, most dynamic economy the world has ever seen. Crude prices plummeted, falling as low as $26 a barrel on February 11th, 2016. Facing an existential threat to their businesses, Pioneer and many companies like it drove production costs down relentlessly, bringing break-evens down to levels few had thought possible.

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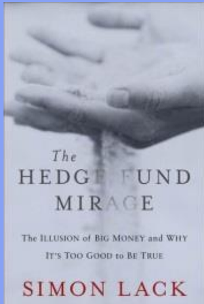


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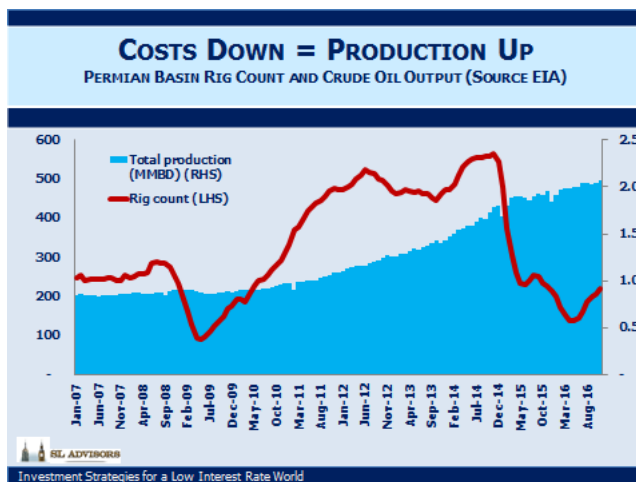
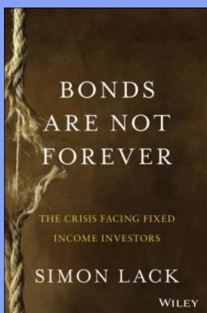
This is most obvious in metrics such as the rig count, whose 75% fall led to only a relatively modest drop in production as the best rigs were employed for shorter periods at lower rates. Moreover, individual well productivity improved as longer laterals focused on sweet spots increased output. The composition of proppant was refined. Sand keeps the cracks open that fracking creates, and finer grains in greater volumes further increased output. Service providers were squeezed to reduce their costs and idle less efficient equipment. The industry staggered for a while under the body blow of lower prices, and many overleveraged companies failed. But overall it stayed on its feet, adapted to the new world and maintained oil production at levels substantially higher than prior to the Shale Revolution.

Although prices bounced from $26, they remained persistently lower than many OPEC countries (including most notably Saudi Arabia) needed to balance their budgets. In 2015 the Saudis ran a deficit equal to 15% of GDP and resorted to issuing bonds to fund expenses. Sharp spending cuts followed. Drilling budgets around the world were slashed, and an estimated $1TN was cut from planned capex out to 2020. As the failure of Al-Naimi's strategy became apparent, he was replaced in May of 2016. The Saudis still plan to sell shares in their giant oil company Saudi Aramco, so in choosing its chief, Khalid Al-Falih, as their next Oil Minister, they picked someone acutely sensitive to the need for a higher price.




OPEC's recently announced production cutbacks, whether or not they are in fact implemented, are an admission of defeat. As many of the world's biggest oil producers gathered in Vienna to plot global output and prices, the biggest disruptor was absent. America has no view on global oil production. Crude oil prices remain around half of their highest levels in 2014. Scott Sheffield heads into retirement with PXD's stock close again to its all-time high, and claims to have production costs as low as $2 per barrel for Permian Horizontal wells.

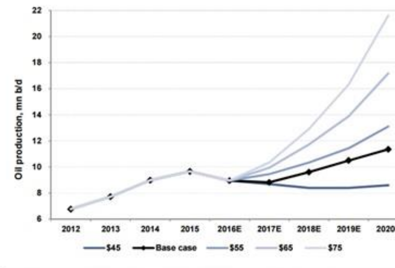
*SL Advisors, LLC focuses on investment strategies that provide income without relying on fixed income securities*

Shale oil and gas production are upending the energy markets. The U.S. is not just the leader in this new technology, it's virtually the only game in town. Oil, natural gas liquids and natural gas are known to exist in porous rock all over the world, notably in China and Argentina. America's dominant position reflects many inherent free market advantages in the world's biggest economy which are not sufficiently present elsewhere.

Start with a large energy sector already adept at exploiting conventional resources, with a deep pool of skilled labor and long history of technological improvement. Add to this: access to capital from the world's biggest capital market; a strong entrepreneurial culture; existing energy infrastructure that can be modified and enhanced to service these new regions of output; ample water and specific grade sand supplies (needed for fracking), often conveniently located; mineral rights that belong to property owners, unknown in other countries but taken for granted in the U.S., which builds community acceptance of drilling activity that creates local wealth.

Natural gas from U.S. shale was developed under a much higher price regime which allowed time for scale that could lower costs as global Liquified Natural Gas supplies weighed on prices. Similarly, the development of crude oil sourced from shale started when prices were higher, so the industry was subsequently mature enough to adapt to falling prices. Horizontal drilling and hydraulic fracturing of rock could not have developed as they did under today's hydrocarbon price regime. OPEC's strategy was correct but several years too late. There is no going back.

Only the U.S. combines all these advantages. The result is that cheap natural gas now produces more electricity than coal, and in November for the first time we became a net exporter of natural gas. We've even shipped it to the United Arab Emirates (see Coals to Newcastle), because it's cheap enough to cover the transportation costs. Crude oil production has turned back up, and the Permian Basin in west Texas (Pioneer's main area of production) may lead the U.S. to being the world's biggest oil producer, with both Goldman Sachs and JPMorgan forecasting meaningful increases in output over the next five years at current prices. The world needs U.S. supply. Global consumption is currently around 95MMBD (Million Barrels Per Day). Existing plays suffer annual depletion of around 5% (around 5 MMBD) and new demand is another 1-1.5MMBD. So 6-6.5MMBD of new supply is needed, and the $1TN of capex reductions noted earlier mean it will be coming from fewer places.




Bear in mind that this all happened with an Administration regarded as hostile to domestic production of fossil fuels, at least by the senior executives in that industry. The strong growth in production during Obama's eight years in office either disproves this view or demonstrates resilience in spite of it. Nonetheless, it's hard to imagine a more supportive scenario than the one presented by the incoming Administration. Kelcy Warren, Energy Transfer Equity (ETE) CEO, can't wait for Trump to lift the remaining obstacles to completion of the $3.6BN Dakota Access Pipeline, held up by protests and a late White House intervention in the permitting process.

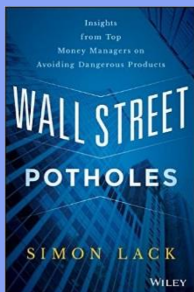
Connections with the energy industry are conspicuous among Trump's early cabinet picks. Former Texas governor Rick Perry is a director of Energy Transfer Partners (ETP), a position he will no doubt relinquish as he heads up the Department of Energy. As a presidential candidate four years ago Perry planned to close the department. It was one of three Federal agencies he planned to close, and in a delicious twist was the one he famously forgot during a debate (his "Oops" moment). As its head, once he finds his way there he will presumably exercise a light touch in overseeing the energy sector. America's foreign policy will be led by Exxon Mobil (XOM) CEO Rex Tillerson. After these and other cabinet picks are approved by the Senate, the shift in public policy at the Federal level in support of domestic energy could be dramatic.

Moreover, in crude oil the U.S. is now the global swing producer. To see why, consider the thinking behind the $1TN in cuts to exploration budgets (see Why Oil Could Be Higher for Longer). Conventional oil projects involve a large up front capital commitment with a long payback period, during which the overall profitability will be exposed to oil prices. Since the futures market only offers liquidity out to 2-3 years, oil drillers are basically long the oil market.

Assessing this risk now includes the 2014-16 oil price collapse which damaged the IRR on many prior investments. A previously uncontemplated oil price is preventing many new projects from being funded, because it might repeat. Yet the U.S. shale producer, ostensibly the instigator of the excess supply, pursues many small projects with minor upfront expense (a horizontal well now costs on average less than $5MM) mitigating individual risk. U.S frackers may forego the significant cost of completing a drilled well in response to lower prices, resulting in an inventory of DUCs (Drilled UnCompleted wells) awaiting higher prices. High initial production rates and faster depletion mean output can be hedged.

These producers are better able to protect themselves from the very swings in price that they themselves might create. The other end of the spectrum is Canadian Tar Sands (the Canadians prefer to call it Oil Sands), where production continued even at February's lows. This generated operating losses before adding in corporate overhead and an appropriate return on capital. Shutting down a tar sands project, with its buried pipes carrying steam to heat the bitumen, risks the infrastructure freezing and cracking. They had little choice but to continue production. New tar sands projects are unlikely. The nimble producer is the swing producer.

*A book written by Wall Street insiders that reveals how unsuspecting individual investors are often steered towards high-fee investment products that deliver poor*

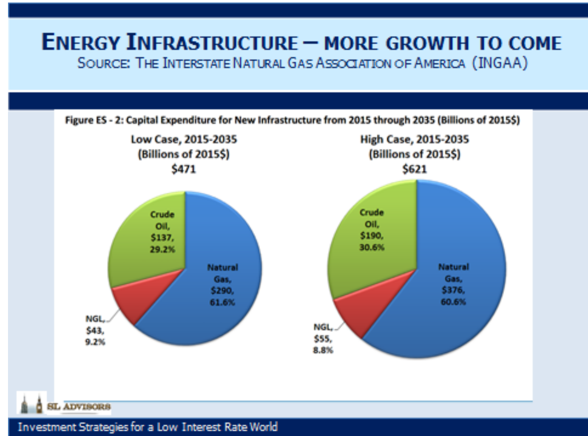



*results.*

*Everyone who relies on others for financial advice should read this book so they can ask the tough questions that will help them achieve better investment results at less cost.*

U.S. Energy Independence in both natural gas and crude oil are within sight. Furthermore, natural gas liquids (such as Ethane and Propane) are supporting a new spurt of growth in Chemicals as cheap domestic inputs drive production of plastics for clothing, electronics, food packaging and aerospace equipment.

To state the obvious, we believe the outlook for U.S. energy is very good. And yet, investing in the infrastructure to support this positive outlook is so much more attractive than holding E&P companies. PXD may well go on to make its owners increasingly wealthy, but is in a cyclical business in which financial disaster is one price collapse away. The safer bet is surely the owners of the pipelines, storage, processing facilities and related infrastructure without which none of this potential can be realized. Pipelines are often irreplaceable once built, as communities grow up around and over them. The imperative to connect to the existing network creates insurmountable barriers for would-be new entrants. The impact on midstream businesses from certain of their E&P customers going bankrupt was muted. Debtors taking possession of a defaulting borrower still want cashflow, and in most cases oil and gas production was maintained.




Williams Companies (WMB) is investing heavily in its Transco pipeline network to increase natural gas take-away capacity from the Marcellus and Utica shale regions in Pennsylvania & Ohio. Plains All American (PAGP) is the best placed to profit from increased oil output in the Permian Basin which will use up excess capacity on its pipeline network. Master Limited Partnerships (MLPs), which largely own and operate this infrastructure, will continue to make investments that grow their physical asset base.

As we have written many times before, an MLP's legal structure has much in common with a hedge fund; both have a General Partner (GP) who's in charge and gets preferential economics. Hedge fund managers have done spectacularly better than hedge fund clients (see *The Hedge Fund Mirage*). MLP GPs similarly stand to profit from asset growth in the MLPs they control (see Quarterly Report Cards Provide Comfort). We have invested for years with this outlook, a view that is clearly shared with the people who run MLPs who are overwhelming invested in the GPs.

Stocks are at all-time highs, while the benchmark Alerian Index remains 30% off its 2014 high. Energy infrastructure is in America, largely immune to a strong dollar or a trade war. Many oil and gas producing regions are politically unstable. Reducing our exposure to such regions through self-sufficiency has obvious national security benefits. The U.S. is a far more attractive trade partner than Russia's Gazprom for example, where maintenance is scheduled around politically-inspired supply disruptions. There is no more compelling sector in public equities today than American Energy Infrastructure.

We are invested in ETE, PAGP, and WMB.

**To Our Clients**

At SL Advisors it's important to us that your investments with us are aligned with your financial situation and objectives. If there have been any relevant changes from your perspective or any reasonable restrictions you wish to impose, please let us know and we'll be happy to discuss appropriate modifications. Of course, anytime you have any questions or concerns don't hesitate to contact us. We value your business, and never forget the faith you have placed in us as stewards of your capital.

## Performance Tables

## Midstream Energy Infrastructure

## (General Partner Focused)

| MLP Strategy (K-1s) | | | | | | | Since Inception 173% | | | | *Index* | *92%* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **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** | **5.0** | **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* |

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 | | 7% | | *Index* | | *-10%* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **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** | **1.9** | **60.3** |
| *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* |

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 | | 74% | *Index* | | *67%* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **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** | **19.0** |
| *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* |

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 | | | 39% | *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** | **-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** | **2.4** | **10.0** |
| *Index* | *-0.2* | *-1.5* | *-0.8* | *-1.9* | *0.4* | *-1.0* | *1.2* | *-0.4* | *0.4* | *-0.1* | *0.0* | *-0.9* | *-4.9* |

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

| Low Vol Best Ideas | | | | | | | Since Inception | | 119% | *Index* | | *-2%* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **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** |
| *Index* | | | *-0.9* | *0.5* | *-1.4* | *-1.6* | *-0.1* | *-3.5* | *-3.0* | *0.8* | *-0.9* | *-0.4* | *-10.0* |
| **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** |
| *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** | **6.6** | **6.6** | **3.3** | **-2.0** | **-0.6** | **3.9** | **-2.0** | **0.4** | **0.4** | **-2.7** | **2.1** | **25.7** |
| *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** | **-0.5** | **1.3** | **2.9** | **-1.0** | **3.5** | **-0.7** | **5.2** | **-0.5** | **-0.9** | **2.3** | **1.5** | **7.4** |
| *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** | **0.0** | **2.1** | **-1.2** | **-2.9** | **-2.8** | **0.3** | **-0.4** | **-2.7** | **-3.4** | **-6.6** | **-0.2** | **-17.7** |
| *Index* | *-0.3* | *2.0* | *0.3* | *0.2* | *0.3* | *-1.3* | *0.0* | *-2.2* | *-2.1* | *1.5* | *-0.7* | *-1.3* | *-3.6* |
| **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** |
| *Index* | *-2.8* | *-0.3* | *1.8* | *-0.1* | *0.5* | *0.2* | *1.5* | *0.2* | *0.6* | *-0.6* | *0.9* | *0.8* | *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 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*

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.

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

**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.