



# In Pursuit of Value

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*SL Advisors, LLC specializes in publicly listed closed end funds.*



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

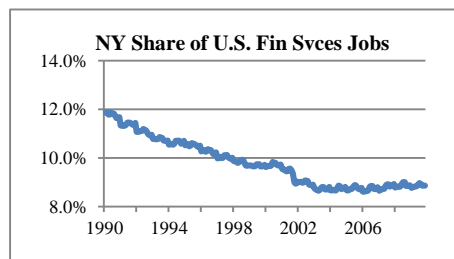
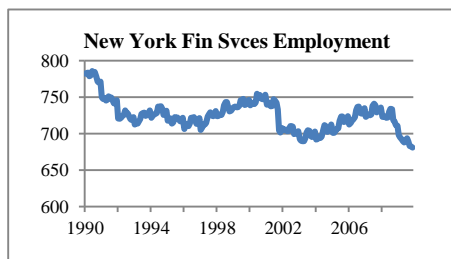
## A U.S. Employment Vignette

SL Advisors recently entered the job market in search of a Research Analyst. The experience provides an interesting snapshot of employment in the U.S., job searches and the available candidate pool.

Employment in virtually every sector excluding government has of course fallen over the past two years. Financial services is experiencing this more than most industries; New York's share of financial services employment since 1990 shows steady deterioration, with some more recent stability. In spite of the growth of Greenwich, CT as a hedge fund center, this loss in employment has not been the gain of either Connecticut or New Jersey. As in so many cases, the internet has changed the rules, and New York's lost jobs are scattered across the U.S.

The successful candidate was expected to have a Finance degree, 2-5 years relevant employment experience and preferably hold a CFA certification. Such jobs are routinely advertised online nowadays (ask any newspaper publisher). The position was duly posted on eFinancialCareers.com.

There are evidently some job seekers who spend their days glued to this website, no doubt constantly refreshing the page as responses began arriving within minutes of the position being listed. Westfield, NJ is not, at least for now, the first choice of many for paid employment in Finance (even though it is a first-rate place to live). Nonetheless, in the course of one month a total of 162 applications were received. The U.S. labor market is often described as the most flexible and dynamic of any large country; such attributes were on full display amongst the pool of applicants for this position. Of note was the large numbers of first generation immigrants. Chinese and Indian groups were heavily represented, and in conversations frequently recounted sacrifices their parents had made to reach the U.S. as well as the pressure this placed on their offspring to succeed in school. While much is made of the Asian work ethic and its long term threat to the U.S., immigration is bringing a healthy dose of those same qualities here.



Source: U.S. Department Bureau of Labor Statistics

The U.S. is also held to have a relatively mobile labor force; internal migration to where the jobs are has often helped to ameliorate regional slowdowns. William Frey of the Brookings Institution pointed out that such flexibility has recently been reduced as falling house prices are dissuading many from selling at a loss in order to relocate. Nonetheless, SL Advisors received applicants from all over the NY metropolitan area and as far afield as Canada, California and even India. One candidate flew up from Florida for an interview. A quite sobering conversation was had with the 53-year-old Director of Trading at a hedge fund whose fortunes had not recovered in 2009. Unable to even be interviewed for many interesting positions, he claimed analyst compensation would be fine. However he was, he conceded, "a little slow on the computer."

An interesting journey through the U.S. labor market had to end, and it did happily. A fine young man from North Carolina, the sixth in his family to attend Duke University, a very strong analyst whose former supervisors and colleagues recall him in rapturous terms, was the first choice among some very strong candidates. Henry Hoffman joined SL Advisors in January.

*SL Advisors runs three separate strategies: Fixed income, Deep Value and Discount Arbitrage. Contact us for more information, or go to our website: [www.sl-advisors.com](http://www.sl-advisors.com)*

### **What's a Name Worth?**

"Though Shall Not Buy at a Premium" is the 1<sup>st</sup> Commandment of Closed End Fund investing for many investors. It's often a useful rule to follow although it can sometimes make sense to relax it. PIMCO recently crossed the \$1 trillion threshold in AUM, and while the \$6BN in closed end bond funds they run are probably not what gets Bill Gross excited every day, virtually all of them trade at a healthy premium to net asset value. In fact, around 12% of the \$6.7BN in market cap represented by these funds is premium, so in this sector alone PIMCO's name is worth \$800MM. The holders of these premium bond funds must hope that PIMCO will be more discriminating in its investment decisions than they've been in theirs (although it should be noted that like many money managers, Bill Gross is invested in his own funds).

### **What We Own**

**The Adams Express Company (NYSE:ADX)** is one of the oldest closed end funds in existence. It can trace its roots back to 1854 when Alvin Adams incorporated his express delivery business with eight others. They operated package and delivery service up and down the U.S. east coast. Shrewd railroad investments led to a growing investment portfolio, and in October 1929 the company relinquished its operating businesses and became a closed end fund.

Douglas Ober is the current CEO and therefore manages the portfolio. His demeanor is what one would like in a CIO – thoughtful and knowledgeable with a healthy respect for risk. ADX is an equity fund, and Douglas describes its philosophy as conservative, focused on reasonable income with capital appreciation. It's also a frugal spender of its investors money, with one of the lowest expense ratios in its sector. At around a 16% discount to NAV, it's attractively priced. In our Discount Arbitrage strategy we trade more actively than our other strategies, but this is a current holding.

**MVC Capital (NYSE:MVC)** is a Business Development Company ("BDC") which began life at the height of the internet bubble in 1999 as meVC Draper Fisher Jurvetson Fund I, focused on venture capital investments in IT. Over the next three years the then-current management succeeded in losing around half the \$330MM they'd raised. Shareholder agitation eventually led to the replacement of management with The Tokarz Group Advisers founded by Michael Tokarz (formerly a general partner with KKR) and a revised investment strategy. The new management team raised additional capital, sought to salvage what they could from the internet investments and pursued a more traditional strategy.

MVC's investment approach is hard to categorize; they hold an eclectic portfolio of investments both in the U.S. and in Europe. They look for middle market companies generating free cashflow and will structure their investments almost anywhere in the capital structure, from senior debt to equity (currently 67% of their portfolio is common equity). Typically, there is some prior business connection with Michael Tokarz that initiates the dialogue.

As with any BDC investment, asset valuation is a key risk. MVC has debt equal to only 12% of its assets, and recently sold an investment for a modest profit versus its carrying value. Its very low leverage and current price of around two thirds of book value provide decent protection against its investment portfolio being overvalued. MVC is a holding in our Deep Value strategy.