Holt Capital
Partners, L.P.

Second Quarter Financial Market Commentary

"Ninety Days in Ninety Seconds"

JUNE 30, 2013

The Golden Age Of Dividends

- The record level of cash on corporate balance sheets is driving a dramatic increase in dividends and share repurchases. While yields on U.S. Treasury debt traded near record lows during the second quarter, dividend payments from companies in the S&P 500 Index increased 18.2% last year. We expect that dividends will increase 8 to 9% this year, as well as next year. This series of increases produces an expected three year dividend growth rate of about 40%. Large company stocks are clearly providing an outstanding level of income growth in a yield-starved world. At many companies, corporate cash is also being used for share buybacks which reduces the number of shares outstanding. This is another way that companies are returning cash to shareholders by shrinking the number of shares outstanding and thereby increasing the relative ownership of the remaining shareholders.

The Market's Big Misunderstanding

- In June, the Federal Reserve released its latest assessment of the economy and concluded that it "sees the downside risks to the outlook for the economy and the labor market as having diminished since the fall". This is good news! Unfortunately, in late June when this news was released the financial markets chose to focus on the negative impact of the inevitable rise in interest rates. This is in direct contrast to the positive view of the Federal Reserve that economic growth is beginning to be strong enough to be self-sustaining, without extraordinary and artificial help from monetary policy.

Housing, Autos And Energy Are Driving The Economic Rebound

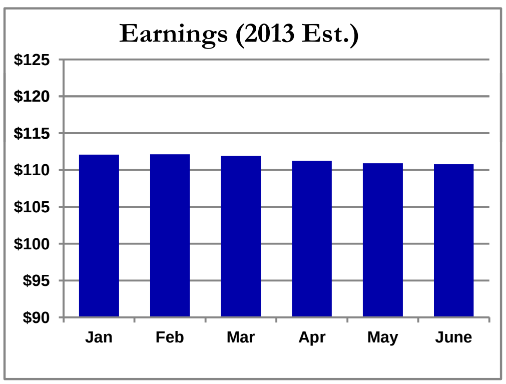
- The residential real estate recovery is sustainable, geographically widespread and positively impacts a broad range of spending and hiring activities. Domestic auto and truck sales have risen to the highest level since 2007 and reflect the combination of replacement demand, attractive financing and an improving economy. The shale gas and shale oil revolution is still in the early phases of driving an industrial manufacturing renaissance in the U.S. These low cost natural resources should provide the U.S. with a long-lived global competitive advantage. The negative factors impacting the economy are well known and largely revolve around the slowdown in government spending and the recessionary conditions in Europe. While European economies are facing major headwinds, the level of economic activity in that region is probably near a bottom and growth expectations on the part of investors are very low.

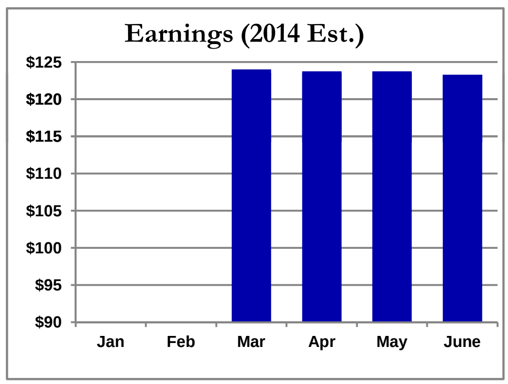
EARNINGS AND VALUATIONS

- More companies "preannounced" weaker than expected earnings during the second quarter than any quarter since 2009. However, even with these reduced expectations, second quarter earnings should be approximately unchanged from the first quarter and up about four percent from the second quarter of 2012.

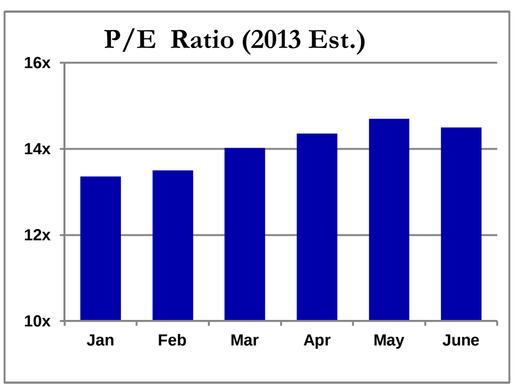
- The S&P 500 Index ended the second quarter just below its all-time high, but evaluating price, without earnings, only tells half of the story. As shown in the graphs below, the price/earnings ratio is 14.5x estimated earnings for 2013 and 13.0x for the 2014 earnings estimate. Both of these figures remain attractive, and are well below the average P/E ratio of the past twenty-five years.

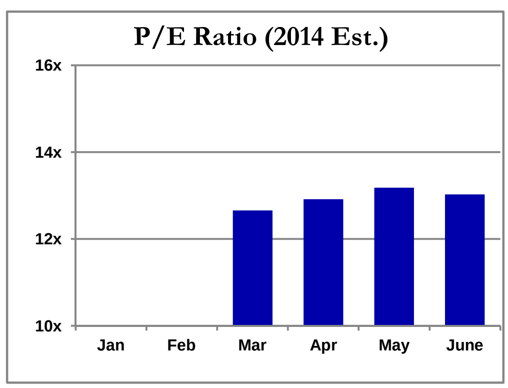
S&P 500 Earnings Estimates





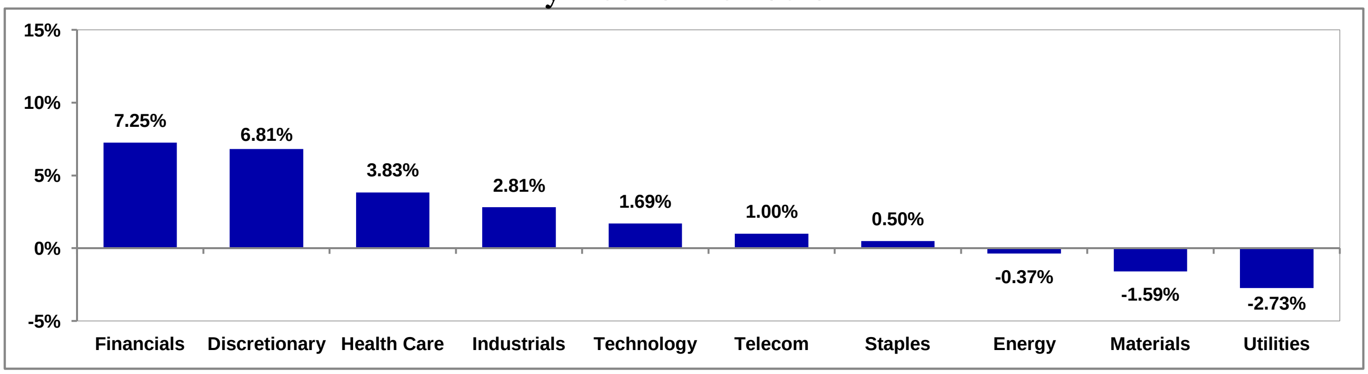
S&P 500 P/E Ratios



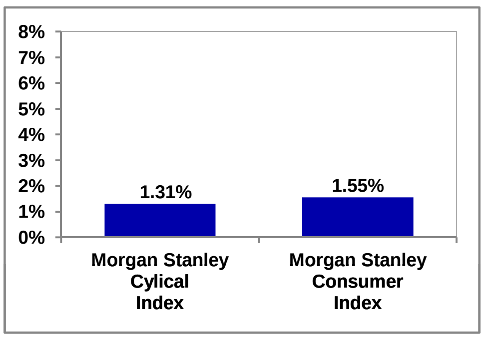


Second Quarter Investment Performance (including income)

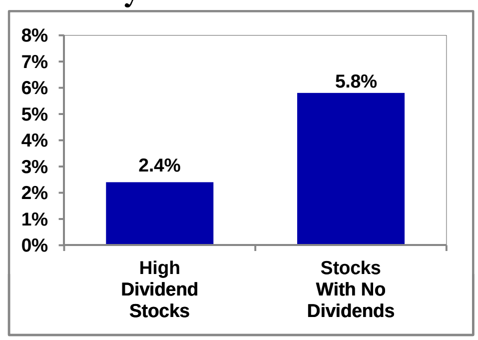
By Economic Sector



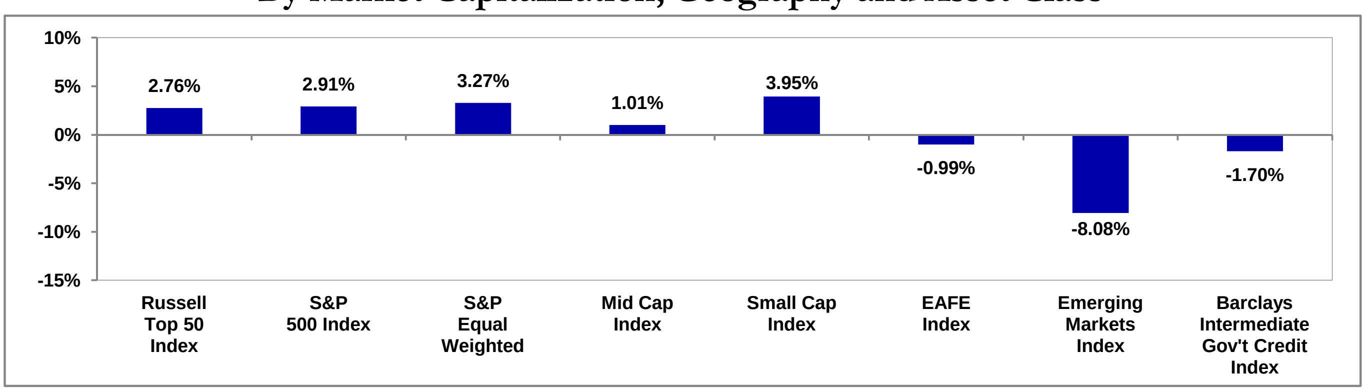
By Economic Sensitivity



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- Financial market performance usually exhibits a high degree of commonality across factors, such as economic sensitivity, company size or dividend yield. That was not the case in the second quarter. Sectors that tend to be cyclical (such as financial, consumer discretionary and materials), as well as non-cyclical sectors (such as health care and utilities) could be found near each end of the performance spectrum. Non-dividend paying stocks were big contributors to outperformance within the financial, consumer discretionary and health care sectors.

- A strong domestic economy was supportive of higher returns in the U.S. than in foreign developed markets. The weakness in emerging market stocks was generally a function of slowing economic growth, but low valuations should provide downside support from current levels.