Holt Capital
Partners, L.P.

Third Quarter Financial Market Commentary

"Ninety Days in Ninety Seconds"

September 30, 2015

The Federal Reserve Throws The Markets A Curve Ball

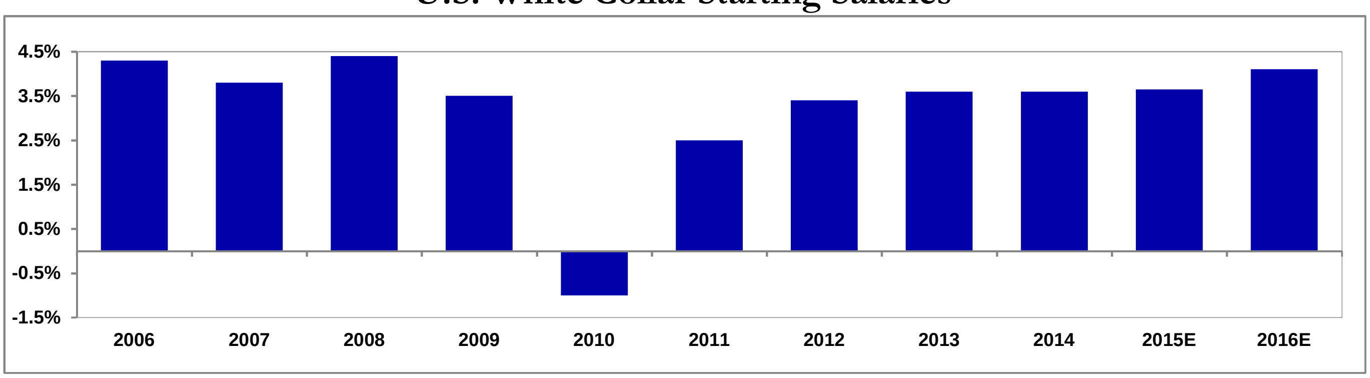
- Investors were ready for a modest rate hike and held the view that action by the Federal Reserve would be a validation of domestic economic growth. The markets were disappointed by the Fed's dovish commentary and the immediate negative reaction reflected unsubstantiated fears that the Fed was aware of material on non-public economic data.
- Our firm's long-held view has been that the initial rate hike would be bullish for stocks and would indicate that the economy could be taken off of "life support" from the Fed's zero interest rate policy. We maintain this viewpoint and expect the first rate increase prior to year end.

China Slowing Economic Growth

- Fears of a slowdown in China rattled the emerging markets, as well as developed markets during the third quarter. As the world's largest importer of most raw materials, slower growth in China has pummeled commodity prices and disproportionately impacted emerging market economies.
- While domestic financial markets have reacted negatively to events in China, the devaluation of the yuan makes imports cheaper and exports to China only account of for about 1% of U.S. GDP.

Wage Inflation Is Starting To Emerge

U.S. White Collar Starting Salaries



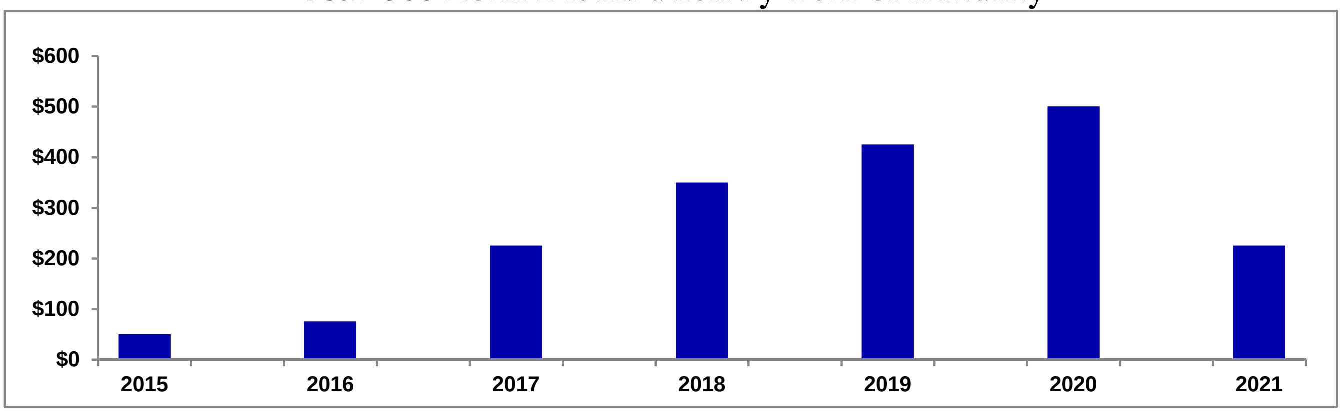
Source: Robert Half

- Starting salaries for professional jobs are expected to rise at an accelerated rate in 2016. Since the financial crisis, salary gains for white collar jobs have experienced a rate of growth that is roughly double the average hourly earnings that are reported in the government's monthly jobs report.
- The number of job openings recently rose to a new record high. This shortage of qualified workers can be interpreted as another precursor of future wage inflation.

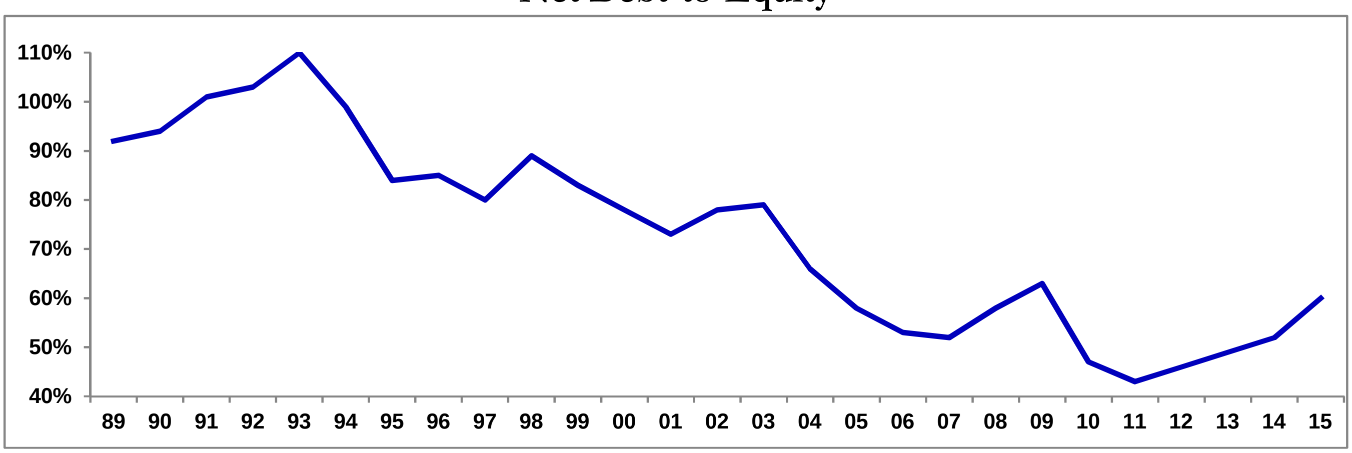
The Importance Of Balance Sheets In The Stock Market

- Most investors think of stock prices in relation to earnings per share and that is certainly an important factor. However, balance sheets act as a shock absorber for risk. One reason that our firm has been consistently positive about the prospects for domestic stocks is the structure of corporate balance sheets. Cash positions are historically high, debt maturities have been extended and shareholders equity continues to rise. The following charts are illustrative of the financial strength of corporate America.

S&P 500 Loan Distribution by Year of Maturity



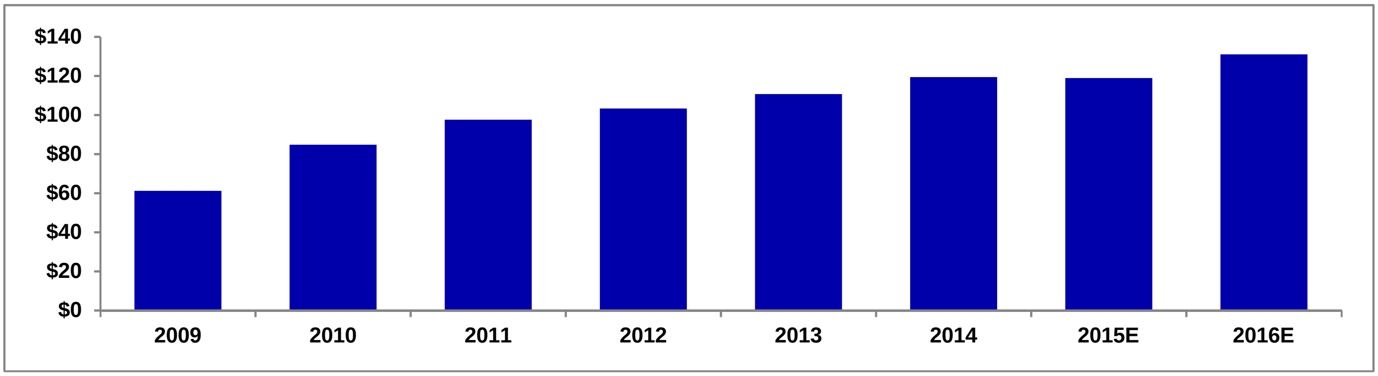
Top 1500 Stocks
Net Debt-to-Equity



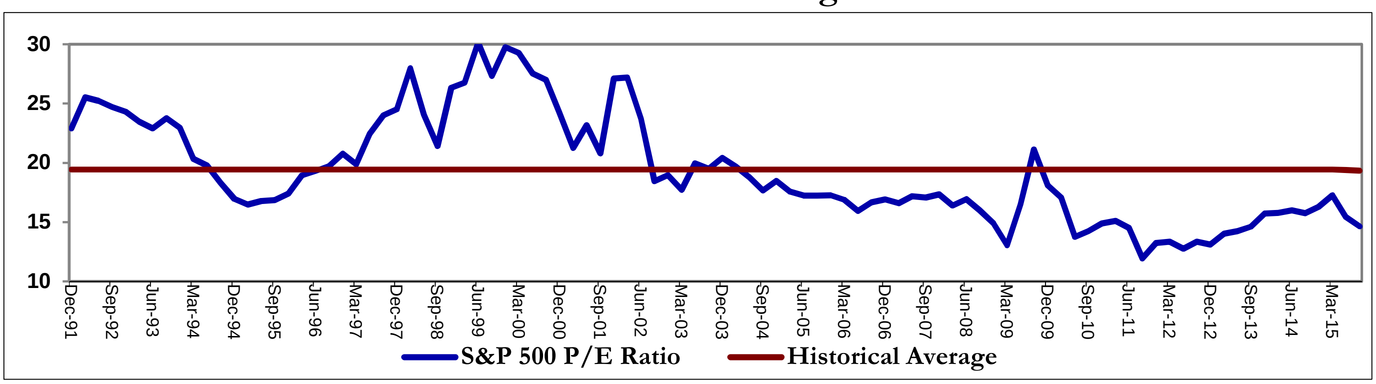
Growth Or Value . . . Or Both?

The Best House in the Global Neighborhood

S&P 500 Earnings Per Share



S&P 500 Price-to-Earnings Ratio



- Earnings in 2015 have been heavily impacted by the energy sector, where revenues are expected to decline over 30% and earnings to drop by 60%. An earnings drop of this magnitude offsets the collective strength of the other nine economic sectors. As a result, revenue and earnings growth for the entire S&P 500 is expected to be flat to down slightly for the year.

- Wall Street analysts and corporate managements are notoriously bullish regarding the prospects for growth "next year". However, at this point earnings and revenue growth is expected to return to all ten economic sectors, including energy, in the next calendar year and valuations are below their 25 year average. This should allow both ***growth metrics***, as well as ***value factors***, to be positive drivers for stocks in 2016.

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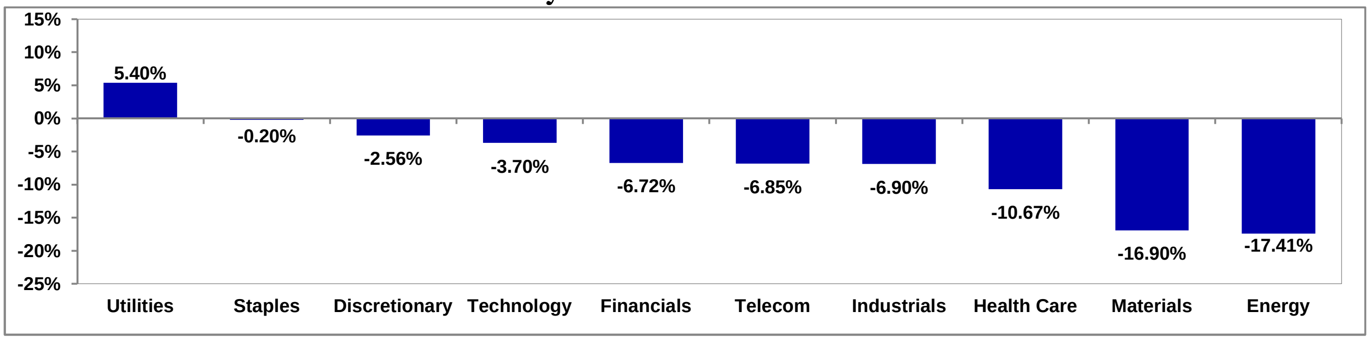
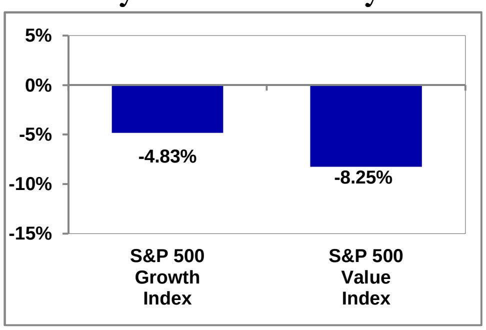
Third Quarter Investment Performance (including income)

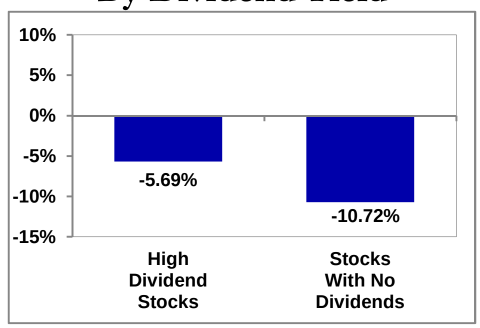
By Economic Sector



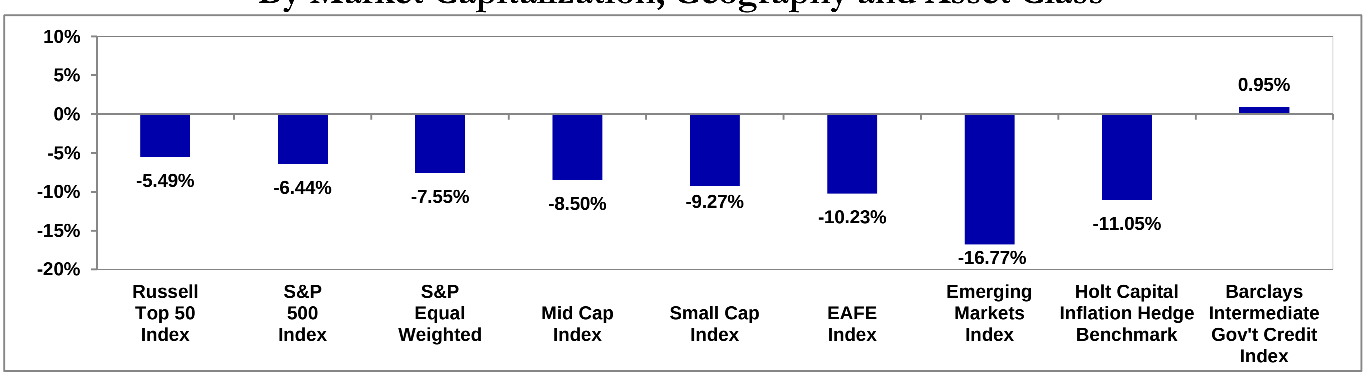
By Investment Style



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- The stock market experienced its steepest quarterly decline in four years during the third quarter. Crude oil fell 24% and most broad-based commodity indexes declined 15% or more.
- The impact of weak commodity prices can be seen in the performance of the materials and energy sectors, as well as the emerging markets index and our firm's Inflation Hedge benchmark. Intermediate maturity bonds produced a modest gain.

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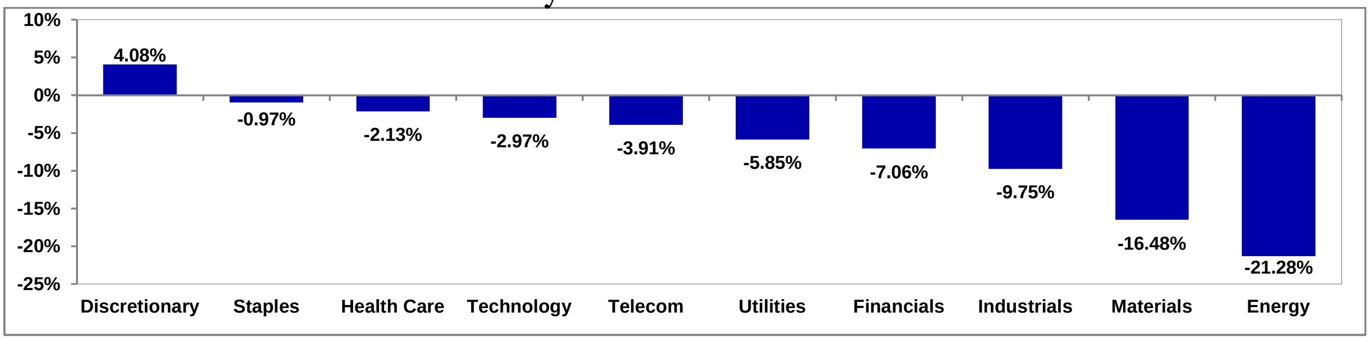
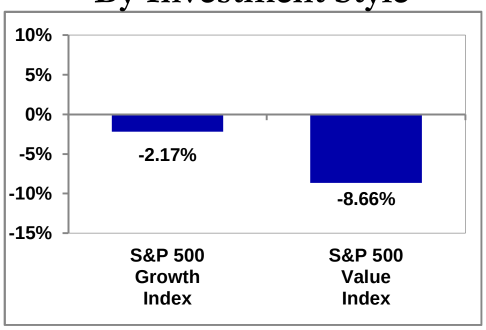
Year-to-Date Investment Performance (including income)

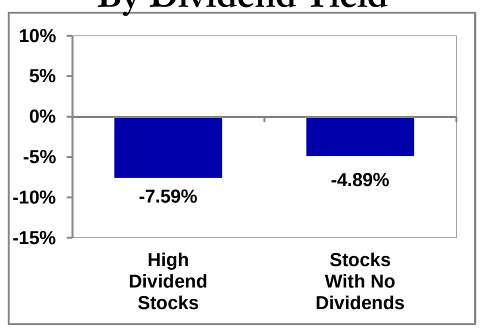
By Economic Sector



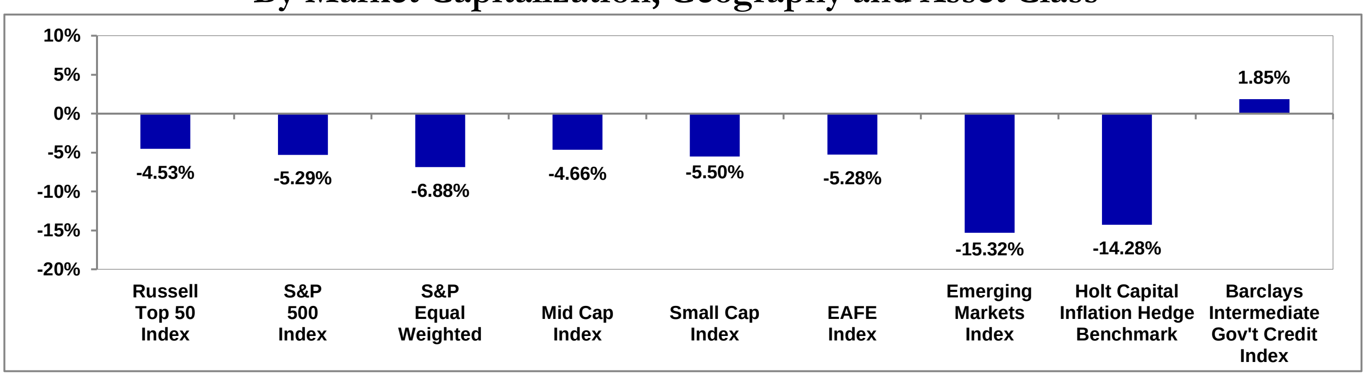
By Investment Style



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- The consumer discretionary sector benefited from lower energy prices and minimal exposure to the strengthening dollar. It was the only sector to generate positive returns on a year-to-date basis.

- Most indexes understate the severity of the decline. Within the S&P 500 Index, 34% of the constituents fell 15% or more during the year-to-date period.

- Growth stock indexes have outperformed value strategies this year. Most growth indexes are heavily concentrated in the consumer discretionary, health care and technology sectors. Value indexes typically are overweighted in financials, energy and industrials. On a year-to-date basis, the value-oriented sectors tended to be clustered on the right side of the sector return chart at the top of this page and the growth sectors were concentrated on the left side of the chart.