Holt Capital Partners, L.P.

First Quarter Financial Market Commentary

"Ninety Days in Ninety Seconds"

March 31, 2016

Bear Market Fears Recede

- The stock market began the year with its worst five-day start in history. Investors were unnerved by worries about a slowdown in China's economy and the relentless decline in crude oil prices. In hindsight, those legitimate fears were magnified in the financial markets by emotional selling, negative investor sentiment, and a lack of reliable fundamental data.
- As the quarter unfolded, China's economic growth rate appears to have stabilized and oil production has continued to slow, which has allowed prices to recover. Investor attention also shifted to domestic data points, which have been more positive, including strong job creation, positive consumer sentiment, and solid corporate profit reports.

Federal Reserve Policy Is A Moving Target

- The Federal Reserve has often described the direction and magnitude of policy shifts as being "data dependent". That was certainly the case during the past three months. While the Fed is still likely to raise short term interest rates this year, foreign central banks increasingly have had to resort to negative interest rates in order to stimulate their respective economies. In addition, global economic uncertainty has periodically been thrown into the Fed's decision matrix as a factor that has influenced policy decisions.
- Last year ended with policy makers at the Fed expecting four rate hikes in 2016, but at the March meeting those expectations had fallen to only two rate increases. The dual mandates of the Federal Reserve, job growth and price stability, both appear on track for solid progress this year. How the Fed deals with a growing domestic economy and fluctuations in the value of the dollar, while other developed economies grapple with stimulus measures, will be the critical macroeconomic variable for the balance of the year.

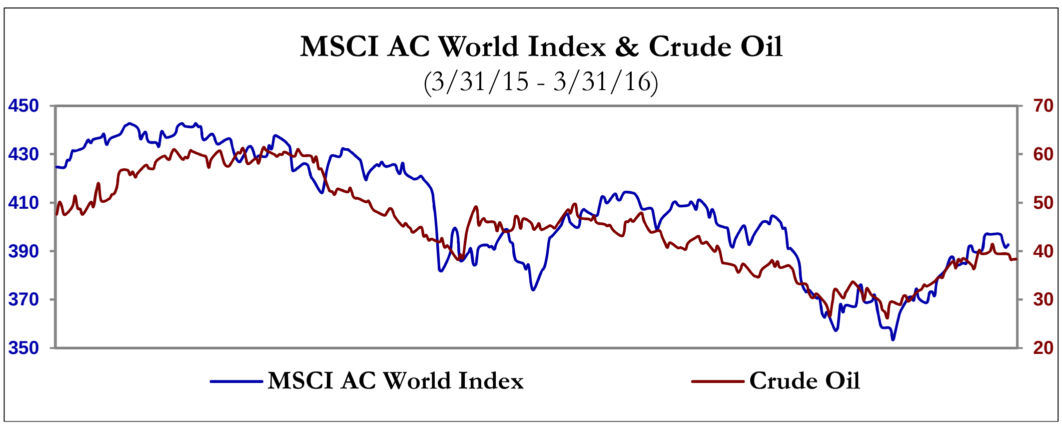
Presidential Politics

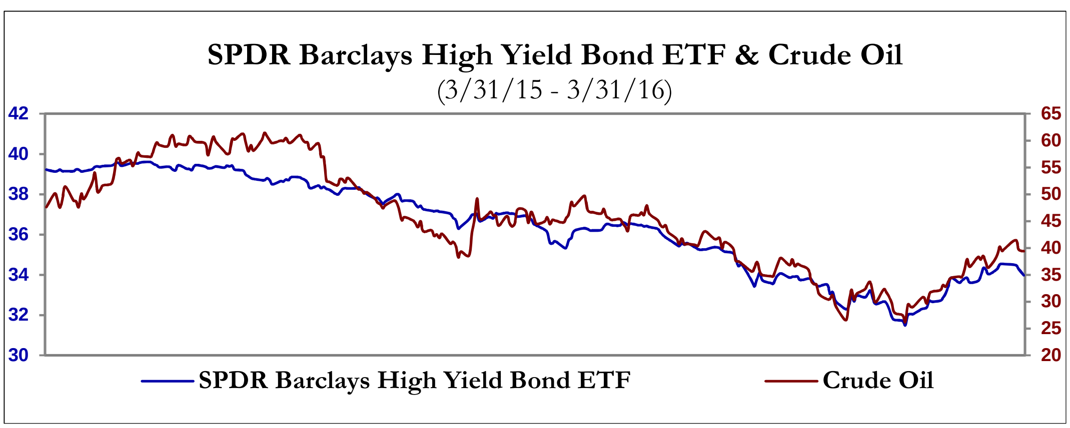
- Most economic and financial data point to a domestic economy that is the envy of our major trading partners. However, a large block of voters do not feel that they are fully participating in that growth and they are vocal about driving the nation's presidential politics in a different direction. From Bernie Sanders to Donald Trump, the historically dominant center-left coalition of Bill Clinton and the conservative coalition of Ronald Reagan are both being tossed aside.
- The resolution of these shifting political winds will not be known until November. However, large turnouts by voters that are unhappy with the status quo could result in the election of a non-traditional candidate as our next president. The only "winner" in November could be more gridlock in our nation's capital. That might end up being the only familiar position to emerge from the election.

EVERYTHING IS LINKED TO CRUDE OIL

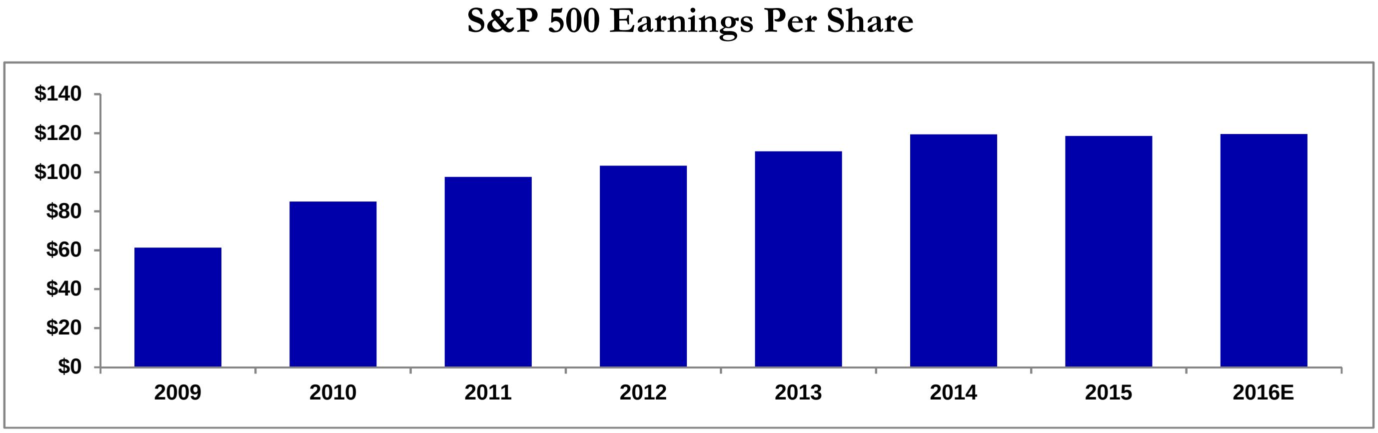
- Domestic oil production continued to fall during the first quarter. The sharp cuts in drilling budgets that have been announced by energy producers of all sizes provide good visibility into a continuation of that trend. Recent operational issues at pipelines in Iraq and Nigeria have also reduced the supply of crude entering the world market. Collectively, these three sources of production are now producing about one million barrels/day less than in January. The combination of less supply growth than expected and solid demand has turned the oil price rout into a surprisingly robust rally.

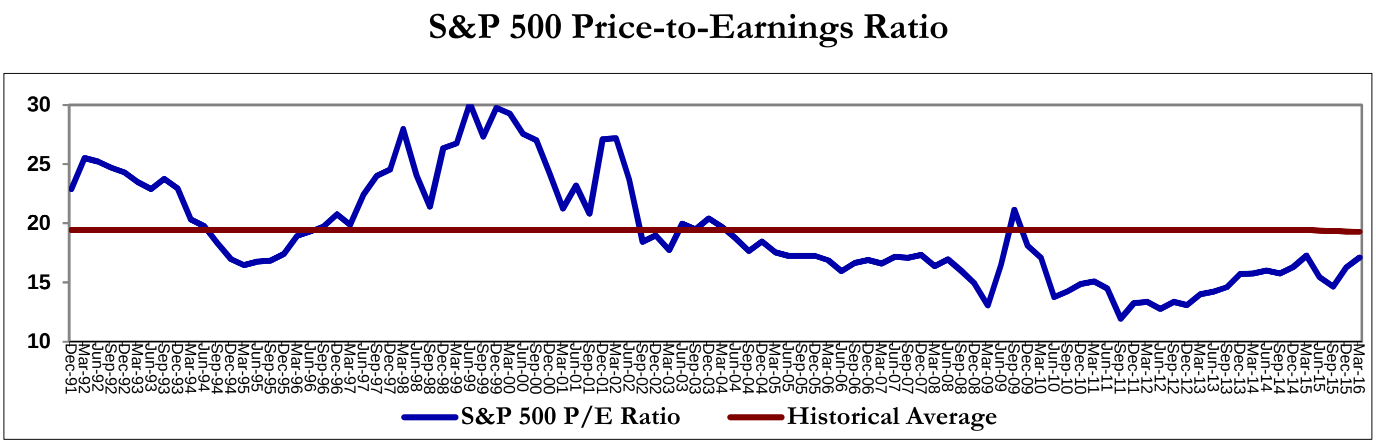
- Crude oil has been inappropriately catapulted into the role of a real time measure of global economic activity. This has resulted in global stock markets and high yield bonds becoming very correlated with daily movements in crude oil prices.





EARNINGS AND VALUATION



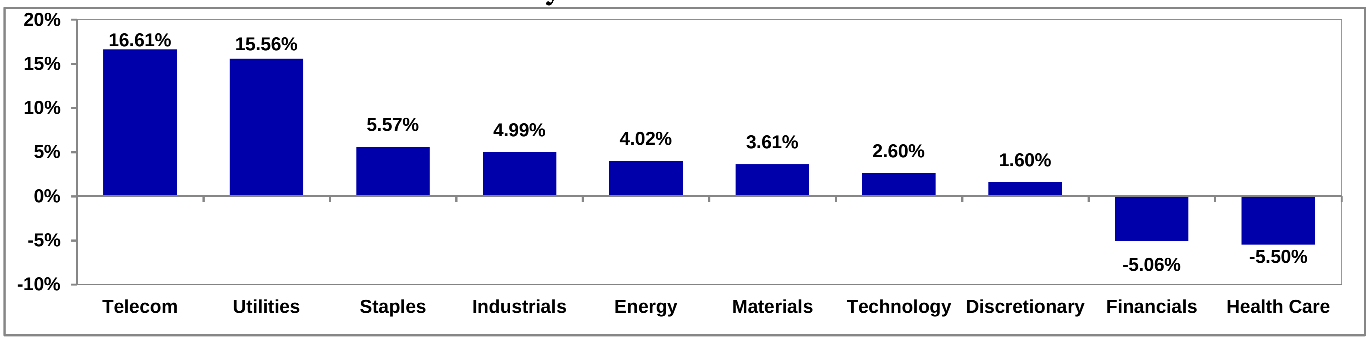


- The combination of low energy prices and a strong dollar has put downward pressure on earnings in 2015 and 2016. However, investors usually de-emphasize the impact of currency translation effects on earnings and focus on operational metrics when valuing a company. Earnings growth trends, on a constant currency basis, at most non-energy companies are better than what is implied by the aggregate data for the S&P 500.

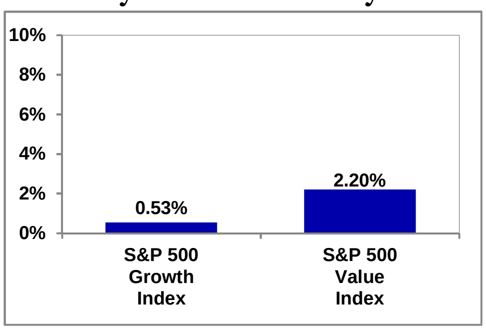
- The historical valuation range over the past 25 years has produced P/E ratios between 12x and 30x. The stock market is currently valued at a P/E ratio that is below the average of this diverse time frame.

First Quarter Investment Performance (including income)

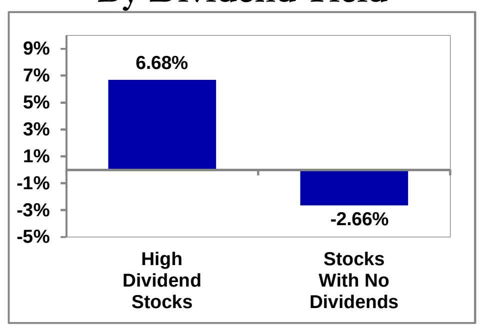
By Economic Sector



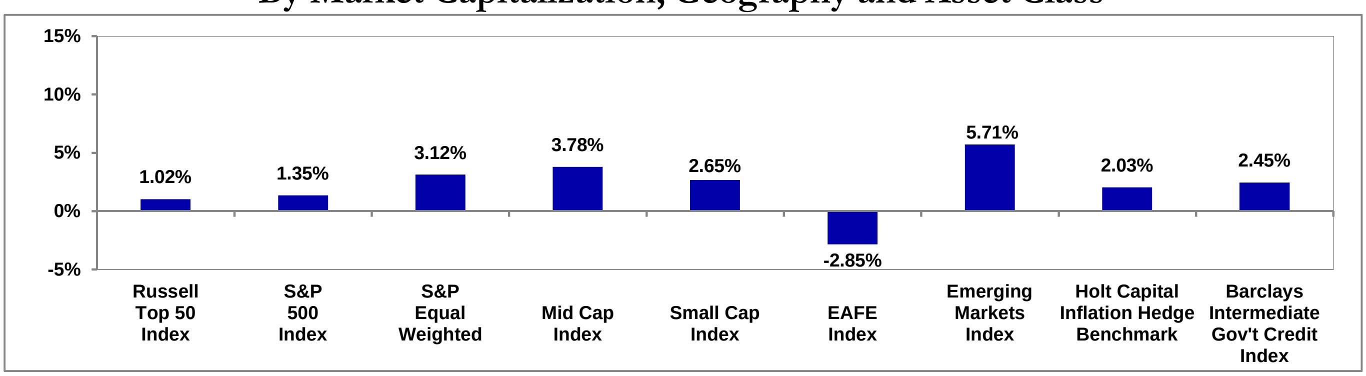
By Investment Style



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- The sharp decline in interest rates during the quarter provided a tailwind for the telecom and utilities sectors, both of which have historically been reliable sources of dividend income. The impact of lower interest rates was also evident in the wide spread between returns from high dividend stocks and non-payors.
- The health care sector has outperformed the S&P 500 for each of the past five years. During the first quarter these stock market darlings were negatively impacted by political rhetoric around drug pricing, which has been a popular topic for most of the presidential candidates.
- After the atypical results of 2015, the impact of company size on performance was more traditional during the quarter. Rising markets are usually led by small and mid cap stocks, which was the case in the first quarter.