HOLT CAPITAL
PARTNERS, L.P.

SECOND QUARTER FINANCIAL MARKET COMMENTARY

"NINETY DAYS IN NINETY SECONDS"

JUNE 30, 2014

THE FEDERAL RESERVE CALLS IT "STATISTICAL NOISE"

- A new phrase was coined at the most recent Federal Reserve press conference when the uptick in prices for goods and services was minimized and referred to as simply "statistical noise." To most consumers, who are experiencing higher prices for groceries, rent, travel and health care, the accelerating prices are clear evidence of inflation. An increasing number of corporations are citing upward pressure on wages and the unemployment rate for the short term unemployed, typically a more highly skilled group, is likely to drop below four percent in the coming months. Federal Reserve policies have thus far been successful in lowering unemployment and moving inflation closer it its stated policy goal of two percent. Rather than continuing to worry about downside risks to the economy, the Fed may need to focus on the risk of a broadening of wage and price inflation. In prior cycles, inflation has been bearish for bond prices and bullish for corporate profits.

MERGER ACTIVITY ACCELERATES

- Corporate merger announcements hit a record pace during the first half of the year. Investment bankers have not only been busy with traditional takeover transactions, but spin-offs, split-offs and conversions to REIT structures have also increased. We have been expecting merger activity to pick up for quite a while and believe that activity will remain at an elevated level for an extended period of time. Corporate managements that hesitate to participate in these trends are increasingly likely to have corporate activists or private equity firms force their hand.

INTEREST RATES

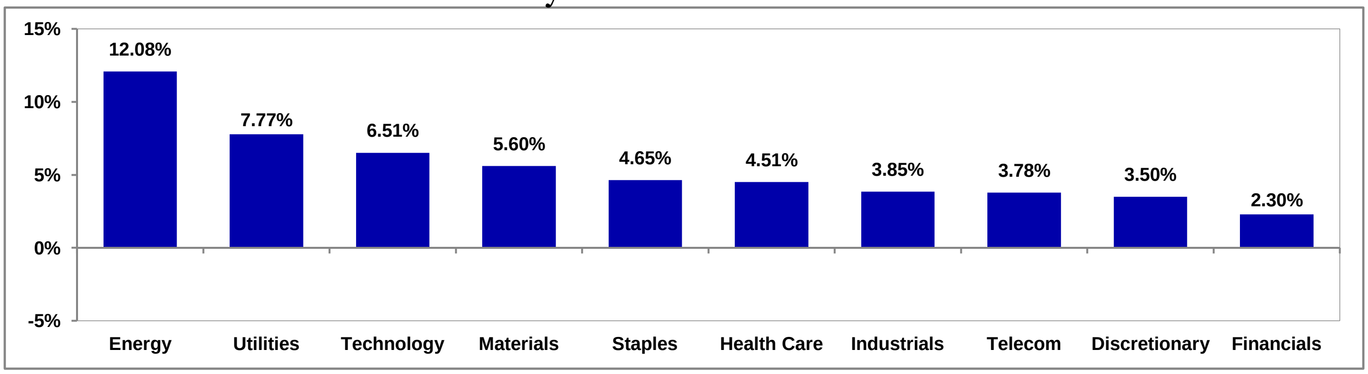
- One of the biggest surprises of the year has been the decline in intermediate and long term interest rates. After rising steadily in 2013, the yield on ten year government bonds has dropped from 3.03% to 2.53% at mid-year. Demand for bonds has been partly a function of foreign buyers seeking a safe haven amid geopolitical uncertainty around the globe. Disinflation in Europe and an interest rate cut by the ECB have also contributed to bond prices moving higher and yields falling in the U.S. The biggest near term risk to the bond market would be an acceleration in domestic inflation, which we believe is likely to become increasingly visible in future economic data.

DIVIDEND INVESTING

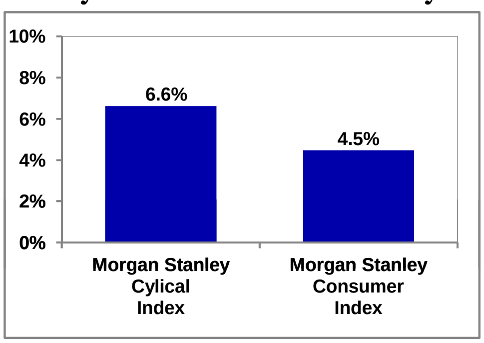
- Lower bond yields provided support for dividend-paying stocks as investors continued to broaden their search for reliable sources of income. Not only have stocks with higher dividend yields been good performers, but the number of companies that have announced meaningful increases in their dividends continues to grow. Large, market-dominant companies such as Caterpillar, Target, Lowe's, UnitedHealth, and Williams Companies have recently announced dividend increases in excess of 20%.

Second Quarter Investment Performance (including income)

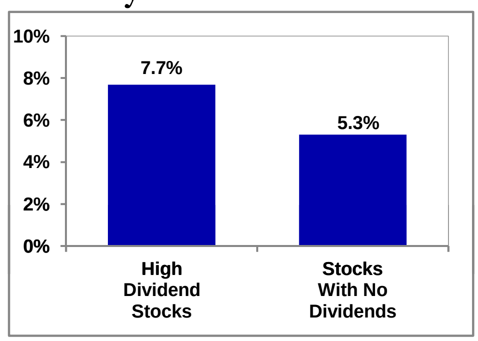
By Economic Sector



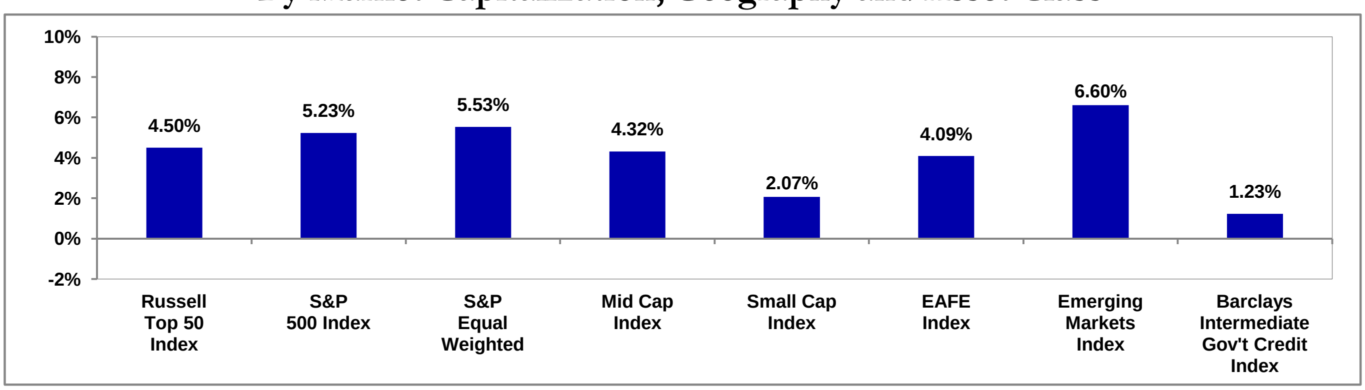
By Economic Sensitivity



By Dividend Yield



By Market Capitalization, Geography and Asset Class

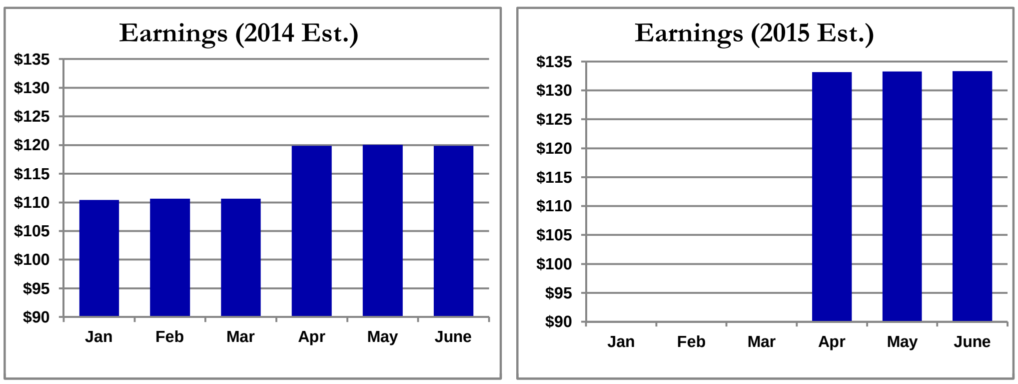


- It was a good quarter to be an investor in financial assets. Every asset class, economic sector and category illustrated in these graphs generated positive returns during the second quarter. The same statement also applies to returns on a year-to-date basis.
- Although there were some exceptions, stock market leadership was generally concentrated in the shares of large cap dividend paying companies. The bond market has surprised most investors this year and produced positive returns in both the first and second quarters.

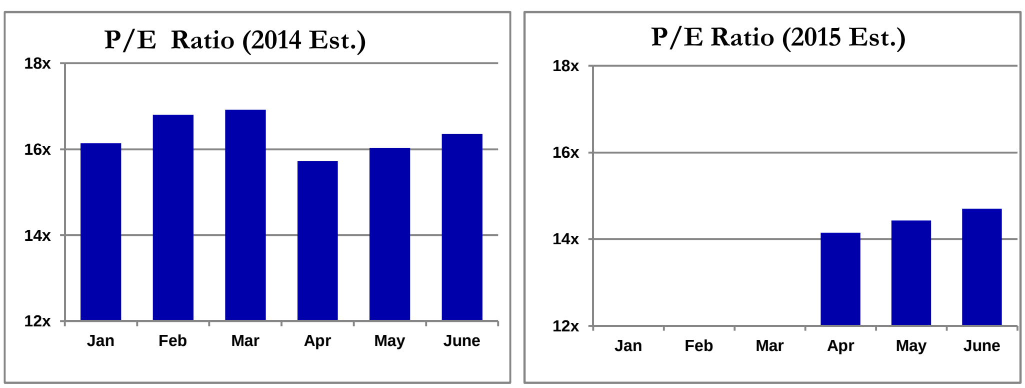
EARNINGS AND VALUATIONS

- Earnings estimates were largely unchanged during the second quarter. However, those estimates imply an 8% growth rate for 2014 and 11% higher earnings in 2015. Valuations continue to be slightly below the long term average with price-to-earnings ratios of 16.4x this year's earnings estimate and 14.7x next year's forecast.

S&P 500 Earnings Estimates



S&P 500 P/E Ratios



CONCLUSION

- Although short term volatility can impact stock and bond prices at any time, it is more important to focus on long term trends. Short term interest rates remain near zero and central bank policies remain stimulative across the developed world. The federal budget deficit continues to shrink, household debt is at levels last seen in 2002 and unemployment is falling. These macroeconomic factors are in addition to the positive backdrop of rising corporate profits and dividends, as well as the accelerating trends of merger activity and shareholder activism.