Holt Capital
Partners, L.P.

Fourth Quarter Financial Market Commentary

"Ninety Days in Ninety Seconds"

December 31, 2014

Surprises of 2014...Crude Oil and Interest Rates

- Drilling success in domestic shale plays created a win-win situation for energy stocks in the first half of the year, as rising volumes were able to be sold at high prices. The second half of the year was a completely different story. In addition to booming shale oil production, OPEC has been producing about 700,000 barrels per day more than expected (largely from Libya) and the International Energy Agency has cut its forecast for global energy demand four times. This supply-demand imbalance has had a dramatic impact on crude oil prices, since production levels are relatively inelastic in the short run. Crude oil ended the year at $53 a barrel, which represented a 46% decline for the twelve month period and the lowest price since the 2008 financial crisis.

- Twelve months ago the consensus expectation among investors was that 2014 would mark the second consecutive year of rising interest rates on intermediate and long term government bonds. The Federal Reserve was expected to withdraw various stimulus programs and begin to implement a more normal monetary policy. As 2014 unfolded, the Federal Reserve maintained its policy language of keeping interest rates near zero for "a considerable time", inflation remained below the Fed's target and major central banks around the world pushed foreign interest rates to new lows. This combination of factors resulted in yields on ten year U. S. government bonds falling from 3.03% to 2.17% at year end.

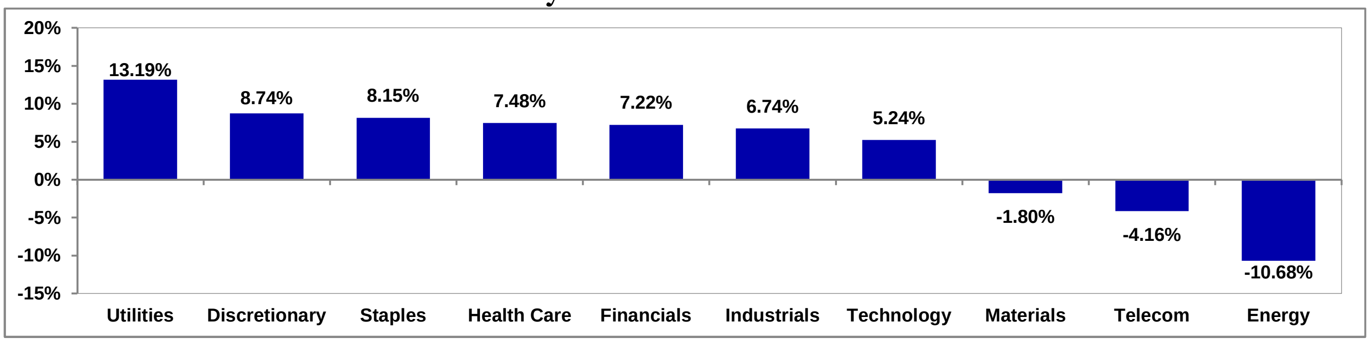
The Consumer is a Big Winner

- In the midst of the dislocations that lower crude prices are having in the energy industry, there is a bright side for other areas of the economy. The decline in energy prices is functioning like an immediate tax cut for consumers. Estimates of the benefits of lower gasoline and heating costs are in the range of $500 to $750 per household on an annual basis. Lower energy prices are also likely to boost GDP by as much as one-half of one percent in 2015. In addition, cheap energy is helping to keep inflation and interest rates low, thereby boosting consumer spending, especially for housing-related expenditures.

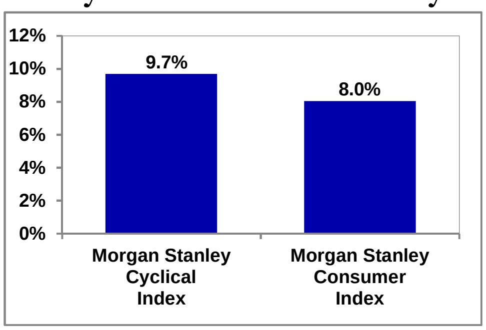
- Lower oil prices also have strong geopolitical implications. Beneficiaries include oil importing regions such as Europe, China and Japan, all of which experienced declines in the rate of economic growth last year. Lower energy prices should provide some economic stimulus in these regions. In addition to the positive impact on these U. S. allies, the biggest losers are oil producing countries with budgets that are dependent on oil exports, such as Russia, Venezuela and Iran.

Fourth Quarter Investment Performance (including income)

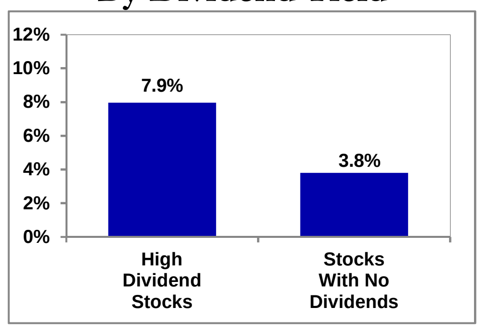
By Economic Sector



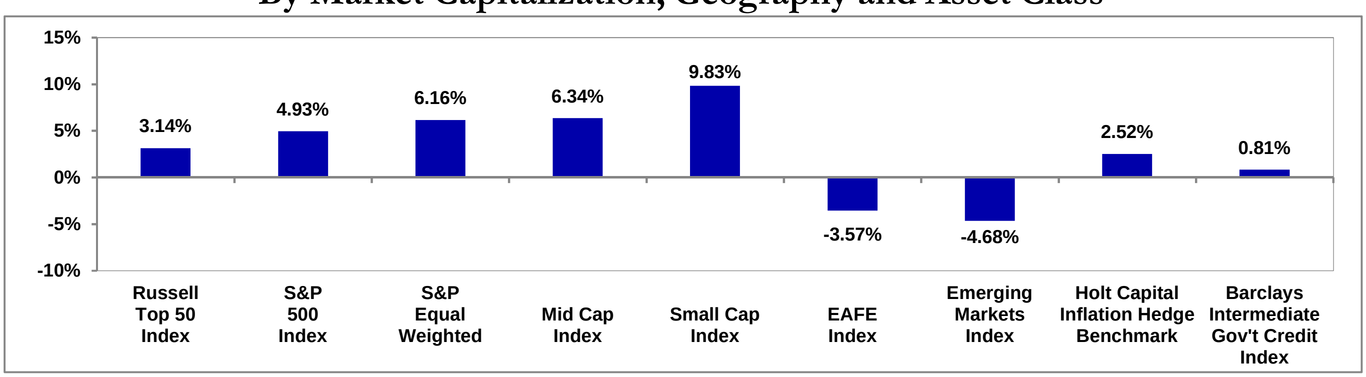
By Economic Sensitivity



By Dividend Yield



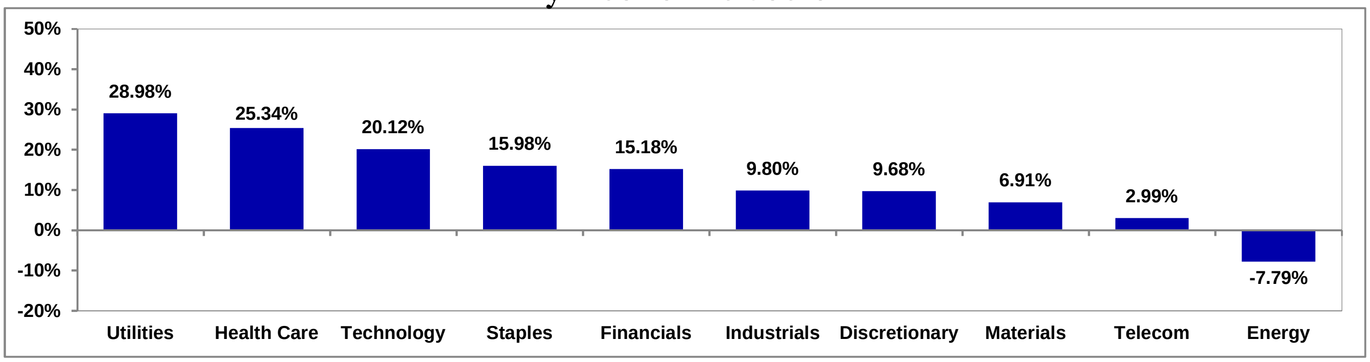
By Market Capitalization, Geography and Asset Class



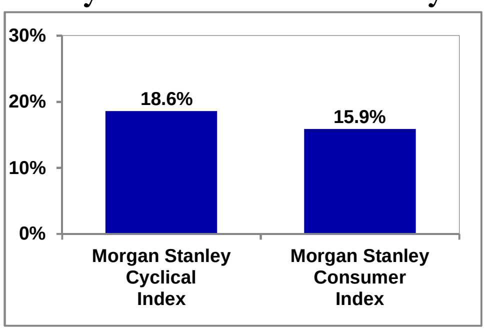
- Although the stock market rallied during the fourth quarter, the biggest story was the double digit decline in energy stocks. After posting the second best performance in the first six months of 2014, the energy sector was the worst performer in both the third and fourth quarters.
- Utilities and other stocks with high dividend yields generated strong returns in the fourth quarter as investors continued to search for reliable sources of income.
- After lagging their large cap peers in the first three quarters of the year, small and mid cap stocks rallied sharply in the fourth quarter.

2014 Investment Performance (including income)

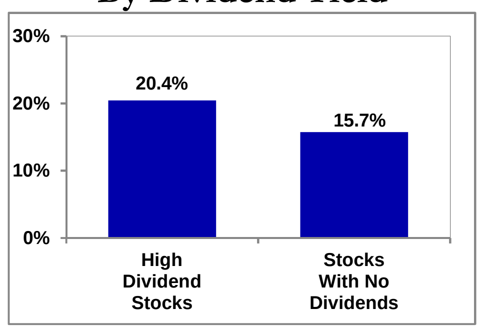
By Economic Sector



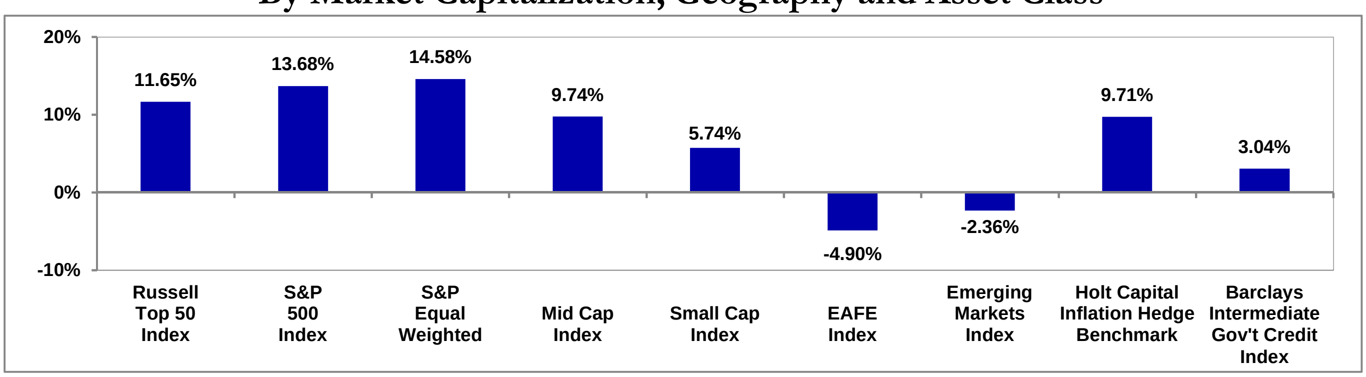
By Economic Sensitivity



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- The best performing sectors in 2014 presented quite a dichotomy in terms of earnings growth. The utilities sector, which is characterized by consistent dividends, but low earnings growth, was the top performer. The health care sector was the second best performer, partially driven by the strength of rapidly growing biotechnology stocks, which now represent almost 20% of health care sector.

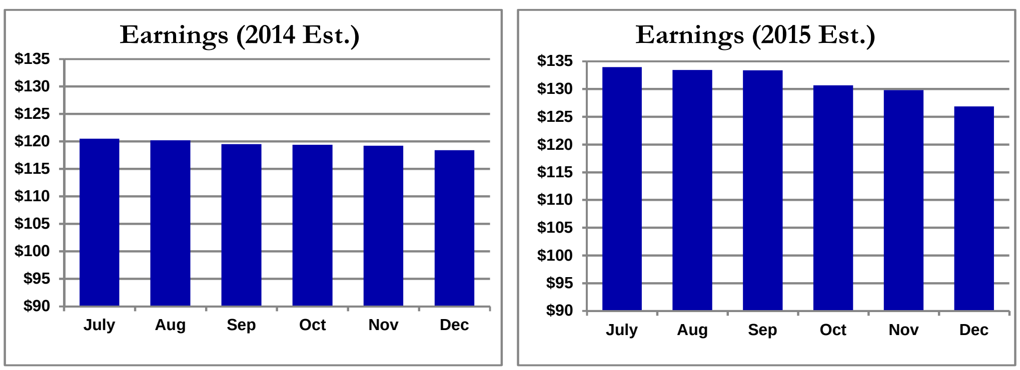
- Domestic economic growth outpaced most foreign economies in 2014 and that strength was also reflected in the returns of domestic stocks versus foreign equities.

EARNINGS AND VALUATIONS

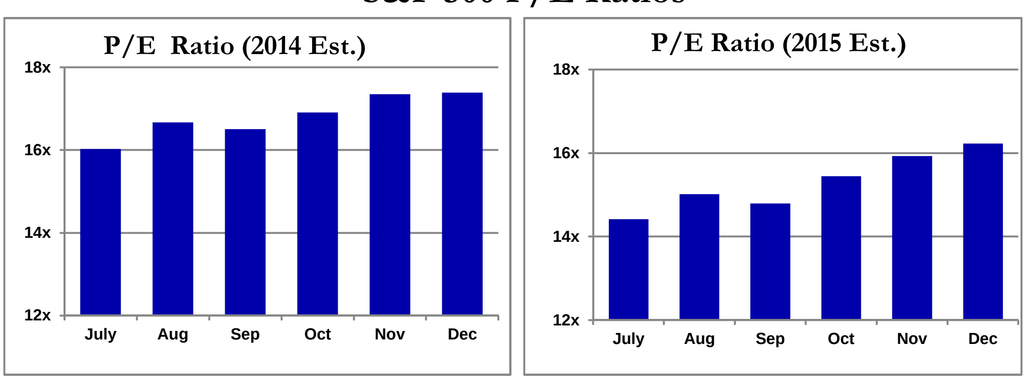
- S&P 500 earnings are on track to rise about 8% for calendar year 2014. This earnings growth is broad-based with all ten economic sectors expected to post higher year-over-year earnings. Although earnings estimates declined on a sequential monthly basis during the quarter, most of that decline is from reduced earnings estimates for companies in the energy sector. Current expectations for 2015 earnings reflect continued high single digit growth rates.

- Valuations for the S&P 500 Index continue to be reasonable at about 16x estimated 2015 earnings. The most interesting aspect of the current environment is how many companies have P/E ratios that are tightly clustered around this average. This valuation distribution means "cheap" valuations are difficult to uncover, but at the other extreme, we do not see any valuation bubbles. In the new year, it is likely that the average P/E ratio will remain fairly constant, but that the distribution around that average will get wider as investors differentiate between successful business models and those that produce inconsistent or disappointing results.

S&P 500 Earnings Estimates



S&P 500 P/E Ratios



Dividend Growth Continues

- Companies continued to boost cash dividend payments during 2014. Within the S&P 500, 375 constituents increased their dividends in the past year and the outlook for further increases in 2015 is good. These trends allow investors to create a growing stream of income that can provide some insulation from stock price volatility.

Looking Through the Valley of Crude Oil

- It is often said that the cure for low oil prices is low oil prices. Over the next several quarters, producers will begin to restrict new drilling to only the highest quality prospects. Additionally, production at older wells will naturally decline over time. Global economic growth will boost energy consumption and demand will slowly rise to come into balance with supply. The industry has always been cyclical and today's surplus will eventually turn into tomorrow's shortage. The over-leveraged owners of lower quality production will face dire consequences, while low cost producers with high quality assets located in the core regions of major basins will emerge from the cycle in a stronger strategic position. Good value is clearly being created in the energy sector for investors with appropriately long time horizons.

Conclusion

- Volatility is likely to return to the stock market in 2015 after three years of almost uninterrupted rallies. As an indication of how investor-friendly the stock market has been recently, the longest streak without four consecutive down days ended in early 2015 at 264 days. Measured in this manner, it was the longest streak of low volatility since 1928!

- The normalization of monetary policy, the positive as well as negative consequences of low energy prices, and the increasingly healthy state of the job market all have the potential to be catalysts for investor sentiment to swing rapidly between fear and greed as the year progresses.