

Market Commentary

U.S. Equity

As of March 31, 2008

H O L L A N D
C A P I T A L M A N A G E M E N T

Portfolio Performance

For the quarter

The Russell 1000 Growth Index had negative returns for each month during the first quarter of 2008, largely as a result of investors attempting to process the effects of the global credit crunch and the housing downturn in the U.S. The portfolio performed true to our conservative growth style during this volatile period and outperformed the Russell 1000 Growth Index by a sizeable margin. This good relative performance was driven by strong stock selection, while sector allocation was a minor drag. Stock selection was particularly strong in other energy, technology, and consumer discretionary, while notably weak in producer durables. The overweight in technology and underweight in materials & processing were the main contributors to modest negative sector allocation.

Within other energy, XTO Energy, Southwestern Energy, Halliburton, and BJ Services all appreciated considerably as natural gas and oil prices continued to rise during the quarter. While natural gas and oil prices have risen significantly in recent years, we still maintain a favorable outlook in this area as the supply and demand imbalance has yet to be alleviated. While technology was the worst performing market sector, several of the portfolio's more defensive technology holdings performed well, namely IBM and Affiliated Computer Services, contributing to the strong relative stock selection in the sector. This performance more than offset weakness in Citrix Systems, Microsoft and Apple. Citrix Systems moved lower on concerns of slowing adoption rates of their prod-

ucts given the softness in the adoption of Microsoft's Vista enterprise operating system. Microsoft was affected disproportionately by general investor concern about their proposed acquisition of Yahoo! and Apple retreated in part due to its rich valuation and concerns that a slowdown in U.S. consumer spending would restrain their stellar growth rate in the months ahead. Lastly, Wal-Mart, a market laggard in recent years, made a positive contribution in the consumer discretionary sector as the current economic environment has made Wal-Mart's low price strategy very appealing to consumers.

The only sector within the portfolio with noticeably unfavorable security selection was producer durables where Suntech Power ADR fell significantly after slightly missing Q4 2007 earnings estimates and on concerns that a shortage of silicon will impair their ability to grow and improve their profit margins. We believe that the silicon supply shortage will likely be a transitory issue as rapid expansion of silicon supply is coming on line over the next few years. We added to the Suntech position as we felt that its recent pull back provided a good opportunity to increase exposure to the company and the burgeoning solar industry.

In the past quarter, several high quality growth names were added to the portfolio. In particular, we were fortunate to initiate a position in Visa during its recent initial public offering (IPO). We participated in the IPO because we felt that at the offering price the stock's valuation was very compelling especially relative to close peer Mastercard. While

Market Commentary

U.S. Equity

As of March 31, 2008

H O L L A N D
C A P I T A L M A N A G E M E N T

we were not able to establish a full position due to high demand for the equity issuance, we look to build a position by adding to this strong and growing company when the stock price stabilizes and/or falls back from its post IPO run-up. Yum! Brands and Southwestern Energy were also among the new positions established during the quarter.

A number of positions were exited including American International Group which had performed poorly due to concerns about their remaining credit exposure. Additionally, Sprint was sold because of continued weak subscriber metrics and our view that it is becoming increasingly unlikely that they would generate double-digit earnings growth over the next two years.

Market Performance

Unpleasant economic news continued to make headlines in March, fueling investors' concerns about a U.S. and global recession that have been prevalent over the past several quarters. The Federal Reserve, while initially slow to move, has responded to these concerns and to the mortgage and housing mess, and the liquidity and credit problems facing the financial markets, by reducing the federal funds rate and the discount rate by 300 and 375 basis points respectively, since August 2007. It has also opened the discount window to investment banks and has recently reduced the capital requirements for Fannie Mae and Freddie Mac. Further, the Fed took the unique step of backing JPMorgan Chase's purchase of Bear Stearns, albeit for a fire sale price, as the investment bank faced a near collapse. While admirable, this move panicked investors won-

dering about the magnitude and longevity of the economic and financial turmoil. Consumers, businesses, and investors alike continue to lose confidence and as a result the major U.S. stock market indexes performed poorly during the quarter, experiencing the worst performance since the third quarter of 2002. On a price-only basis, the S&P 500 gave up -9.9% and the tech-laden NASDAQ fell -14.1% during the quarter. On March 10th the S&P 500 closed down -18.6% from its early October peak and the NASDAQ closed down -24.1% from its late October peak (a bear market reading according to the traditional calculation of down -20% from a peak).

U.S. stock indexes were down across all market capitalization and style ranges during the quarter and are now down -8 to -10% during the year. And while growth stocks performed better than their value counterparts during 2007, growth stocks have lagged so far during 2008. During the quarter, autos & transportation, consumer staples, and materials & processing were the best performing Russell 1000 Growth Index sectors, while technology, financial services, and health care were the worst performing.

Market Outlook

The U.S. economy is experiencing a slowdown and, while too early to prove by mathematical calculation, a number of economic indicators point to and the stock market is behaving as though the economy is already in recession. The housing and financial markets are clearly in recession. The Federal Reserve has taken a number of traditional and nontraditional monetary steps to help avoid a

Market Commentary

U.S. Equity

As of March 31, 2008

HOLLAND
CAPITAL MANAGEMENT

recession and to ease the ongoing credit crunch and financial market turmoil. And while the uniqueness of some of their recent actions confirms their resolve to avert an economic and financial disaster, it is uncertain how soon their actions and other proposed fiscal stimulus will take effect. An overarching concern is whether their actions will ultimately result in any undue inflationary pressure.

We cannot predict the timing or extent of the slowdown or of a full blown recession. So, we remain cautious as we move into the 2nd quarter. Although the market will eventually begin discounting the slowdown/recession before we become aware of its end, we expect stocks to remain volatile in the near-term as investors continue to react to data and news flow. Stocks in general will likely remain vulnerable shorter term due to both the economic

malaise and continued fallout from the mortgage, credit, and liquidity issues, and we believe investors should remain selective.

Yet, we are optimistic about large cap growth stocks overall. In the near-term period of economic and stock market uncertainty, we expect investors to favor companies with the most stable and highest-quality earnings growth and to gravitate to companies with strong financial positions, good earnings growth potential, reasonable valuations, and low debt levels, measures consistent with our bottom up fundamental investment criteria. We see the current weak market environment as an opportunity to search for names that now fit our long-term growth at a reasonable price criteria.

PORTFOLIO MANAGER



Monica L. Walker, CPA

President and CIO – Equity

President of Holland Capital Management, Chief Investment Officer – Equity and President of The Lou Holland Trust, Ms. Walker is one of the founding partners of the firm. She is responsible for the firm's equity portfolio strategy and execution and shares the management of the firm with two additional founding partners. Ms. Walker has 27 years of financial services experience, including 20 years of investment management experience in securities, research and portfolio management. Ms. Walker received a B.B.A. in accounting from the University of Texas at Arlington and is a CPA licensed in Texas and Illinois. She is a board member of the YWCA Metropolitan Chicago and is a member of the CFA Society of Chicago, the Illinois CPA Society, the Texas Society of CPAs, the American Institute of CPAs and the National Association of Securities Professionals (NASP).

This commentary is prepared by Holland Capital Management LLC for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any security. The information contained herein is neither investment advice nor a legal opinion. The views expressed are as of the date of publication of this report, and are subject to change without notice. Holland Capital cannot assure that the type of investments discussed herein will outperform any other investment strategy in the future, nor can it guarantee that such investments will present the best or an attractive risk-adjusted investment in the future. Although information has been obtained from and is based upon sources Holland Capital believes to be reliable, we do not guarantee its accuracy. There are no assurances that any predicted results will actually occur. Past performance is no guarantee of future results.