

# Market Commentary

## U.S. Equity

As of December 31, 2011

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 portfolio beat the Russell 1000 Growth Index during October and November, but lagged the benchmark in the final month of the year, ending the quarter modestly behind the benchmark. The portfolio's underperformance during the quarter was due to weak relative stock selection in energy and health care and across several other sectors. This was partially offset by good selection in technology and financial services. Sector allocation was modestly favorable, mainly due to an overweight in energy, the best performing market sector during the quarter, and an underweight in health care, one of the weaker performing sectors.

Diverging trends in oil and natural gas prices resulted in weak relative stock selection in the energy sector. Oil prices have recently strengthened due to a tight market and worries about supply given concerns with Iran. The portfolio lacks exposure to many oil focused stocks in the benchmark that benefited from this trend and this hurt relative performance. However, the trend helped Occidental Petroleum. In addition the company beat Q3 guidance on better than expected growth and has been buying back stock because they believe it to be undervalued. Occidental was the portfolio's top performer and largest contributor. Exxon Mobil also benefited, but an underweight in the name hurt relative performance. In contrast to oil prices, very warm weather and continuing supply growth have pushed natural gas prices lower. This has caused investors to turn sour on a 2012 gas recovery and hence gas related stocks such as Southwestern Energy sold off. Range Resources was able to offset the negative impact as growth in its Marcellus property is booming, causing larger companies to view it as one of the most attractive

assets in the space.

Yum! Brands and NIKE, in consumer discretionary, were among the portfolio's top contributors. Yum! reported solid Q3 results with robust comparables in China. Management raised Q4 guidance and provided solid 2012 and long-term guidance during their analyst day. NIKE reported strong results in the U.S., China, and emerging markets. Future orders remain strong and recent price increases should enable gross margins to begin to reverse direction over the coming quarters. Amazon was a detractor, showing weakness since reporting Q3 earnings, although on-line holiday sales have been solid and share gains continue. Hospira, in health care, was also a detractor, missing Q3 earnings on lower production in a manufacturing facility that has been plagued by quality control issues.

In financial services, Visa rose as card spending trends remain solid. As the impact of the Durbin legislation was less negative than feared, the company is set to grow earnings in the mid-teens in 2012. Roper Industries and Honeywell International, in producer durables, also continued to show good results. Within technology, Citrix had a solid final quarter overall based on positive earnings results during the year, continued proliferation into new markets, and a secular tailwind aiding core business. Cisco performed strongly after lackluster prior periods, with the company making solid moves to remove non-core businesses and refocus on core. The street is viewing the moves positively and is paying attention to the company's low valuation levels, and strong financial position. QUALCOMM continues to perform well based on recent operating results combined with solid growth in smartphones and other devices utilizing its technologies. A proliferation of devices and global growth of units is aiding the shares. And, although Microsoft and Apple performed well,

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underweighted positions resulted in a negative relative contribution.

A new position in NeuStar was initiated during the quarter. NeuStar provides the North American communications industry with clearinghouse services, operating the authoritative directories that manage telephone area codes and numbers, and enabling the routing of calls of competing communications service providers (CSPs) in the United States and Canada.

### *For the Year-to-Date*

The portfolio ended the year considerably ahead of the Russell 1000 Growth Index. This performance resulted from favorable stock selection. Technology and consumer discretionary holdings performed nicely overall. And, despite volatility in the energy complex throughout the year, energy holdings performed quite well on a relative basis. Stock selection across a number of other sectors was also additive, including good selection in producer durables, materials & processing, and consumer staples. Weak spots were the poor relative performance of several holdings in financial services and health care.

## Market Review

The U.S. stock market's momentum waned in both November and December. However, the market's tremendous surge higher in October was more than enough to keep the major U.S. equity market indexes in double-digit territory during the 4<sup>th</sup> quarter, with the S&P 500 Index returning +11.8% in the final quarter of the year. The momentum and price swings during the quarter were not dissimilar to what occurred throughout most of 2011 as investors regularly reacted to economic, geopolitical, and other news and events. Those seeking investment returns alternated between buying and selling risk assets, depending

on their perception of how the events of the day would impact the fragile domestic economic recovery and the stock market overall.

Investors began 2011 hopeful that the global economy recovery was gaining traction. Yet, by mid-year the U.S. economy had hit a soft patch as higher oil prices and the Japanese tsunami and earthquake impacted growth and investors feared that the economy would slip back into recession. Then, investors became annoyed with U.S. political wranglings, the government's near default on its debt payment, a credit downgrade by S&P, and heightened visibility of the debt problems in Europe. And while the U.S. experienced reasonably good corporate earnings throughout the year and economic news seemed to be trending a bit better, unemployment remains high, housing is still weak, emerging markets are slowing, and the magnitude of the problems in Europe will take some time to sort out and to fix. The anxiety created by these issues resulted in a year fraught with much volatility. And while the S&P 500 Index produced +2.1% on a total return basis, on a price basis the index ended the year right where it began the year - flat.

During the 4<sup>th</sup> quarter, equity indexes across all capitalization ranges and styles turned in low double-digit returns. Small cap indexes performed better than mid and large cap indexes. Value beat growth.

During 2011, the large cap equity indexes were modestly positive. However, the small and mid cap indexes were negative. In addition, growth outperformed value in the large and small cap ranges, but growth performed better than mid cap value.

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### Market Outlook

The U.S. stock market exhibited a tremendous amount of volatility during 2011 as investors reacted to a confluence of economic and geopolitical news and events. Investor sentiment was affected by anxiety about the impact that these events would have on the global economic recovery. And despite mixed but improving economic data and a trend of good corporate earnings, the year ended with many of the major concerns not yet resolved. Unemployment remains relatively high, housing is still weak, overall debt levels are still being deleveraged and, in some cases, may remain high for some time, and political wranglings and inaction related to fiscal and other policies that impact corporations and individuals alike do little to increase confidence among investors. Moreover, the problems in Europe and slowing in other emerging economies are causing investors to question whether these issues may hurt a domestic economy that is still muddling along.

We cannot nor do we attempt to predict the direction or the level of the stock market, economic growth, or interest rates, or the outcome of geopolitical events or news. However, given the confluence of events and near-term headwinds that the economy still faces, we continue to believe the domestic recovery will remain slow. In addition, given the anxiety that these dynamics continue to cause, we would expect stock market action to

remain reactive to financial, economic, and geopolitical news as it evolves.

We remain focused on our discipline of applying thorough, high quality, bottom-up research to identify companies that best meet our long-term fundamental investment criteria. We remain favorable toward companies with exposure to faster-growing products or markets, companies that are gaining market share, those with pricing power and/or with niche products or services, and companies whose bottom lines can still leverage increased demand as the economy recovers. We continue to focus on high quality companies, with good managements, and solid balance sheets and free cash flow. We are committed to maintaining a portfolio positioned to participate in sustained rising market environments and protect in extended market downtrends.

As we have indicated, we believe that as the economy further recovers and corporate earnings growth normalizes, investors will become more cautious of lower quality stocks whose valuations are not supported by high quality, sustainable earnings. Rather, we expect investors to shift their focus toward stocks of high quality companies with strong balance sheets and good managements, with the ability to generate high quality, sustainable earnings with achievable estimates, metrics consistent with our bottom-up fundamental investment criteria.

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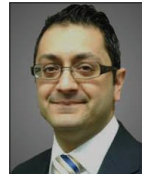
## Portfolio Managers



**Monica L. Walker, CPA**  
*Chief Executive Officer  
& Chief Investment Officer - Equity*

Ms. Walker is a founding partner of the Holland Capital Management. As Chief Executive Officer, she oversees the overall business and financial operations of the firm.

With over 31 years of financial services experience, including 24 years of investment management experience, Ms. Walker also serves as Chief Investment Officer — Equity, responsible for execution of the firm's large cap growth and mid cap growth equity strategies with a team of equity research analysts. She has worked as a member of the firm's equity team and Investment Policy Committee since the firm's inception over 20 years ago. Ms. Walker received a B.B.A. in accounting from the University of Texas at Arlington in 1980 and is a CPA licensed in Texas and Illinois. She serves as a board member Chicago Children's' Choir and of Chicago United. Ms. Walker is a member of the CEO Council of Chicago United and the International Foundation of Employee Benefit Plans' Investment Management Committee. She is a member of the CFA Society of Chicago, the Illinois CPA Society, the Texas Society of CPAs, the American Institute of CPAs, the National Association of Securities Professionals (NASP), the Executive's Club of Chicago, Women Investment Professionals (WIP), Alliance of Business Leaders & Entrepreneurs (ABLE) and the Economic Club of Chicago. In 2011, Ms. Walker was recognized as one of Chicago United's Business Leaders of Color. In October 2011, she was named as one of Black Enterprise's "75 Most Powerful Blacks on Wall Street" and in February 2010, as one of Black Enterprise's "75 Most Powerful Women in Business." Ms. Walker was honored by the Chicago chapter of NASP in July 2008 as one of five "Chicago Women Blazing the Path to Power."



**Carl R. Bhatena**  
*Co-Portfolio Manager - Equity  
& Senior Equity Analyst (Technology)*

Mr. Bhatena is Co-Portfolio Manager of the firm's large cap and mid cap growth equity strategies. As a Senior Equity Analyst, Mr. Bhatena is responsible for fundamental research and valuation analysis within the technology and telecom sectors of the market. He joined Holland Capital in 1998 and has 19 years of industry experience. He began his career with EVEREN Securities Inc. (formerly Kemper Securities Inc.) as an associate analyst in the company's investment strategy group. Mr. Bhatena was promoted to Vice President – Investment Strategist and performed aggregate fundamental qualitative and quantitative analysis on global financial markets, sectors, industry groups, and specific companies as well as economic and interest rate forecasting. Mr. Bhatena holds a M.B.A. with honors from the University of Hartford's Beatrice Auerbach School with an investment finance concentration, and earned a B.A. in economics from Baldwin-Wallace College.