Third Quarter Letter 2016

PERSPECTIVE

Interest rates are at some of the lowest levels ever. Since the 2008 financial crisis, central banks around the globe have intervened in financial markets at extraordinary levels to restore economic growth and credit by lowering interest rates through purchasing government bonds. The U.S. Federal Reserve has made itself an outsized player in the Treasury debt markets by purchasing almost $4.5 trillion worth of debt, equal to one-fourth of the U.S. economy and nearly five times its pre-crisis level of debt purchases.

The Fed is not the only central bank engaging in such an exceptional market intervention. The Bank of Japan, the European Central Bank and several smaller European monetary authorities have ventured into the unchartered territory of negative interest rates. As envisioned by central banks, negative interest rates will lead banks to charge for accepting cash instead of paying depositors for the use of their money. Governments and corporations can issue bonds with a promise to pay back investors less than it borrowed from them.

Excessively low rates may also drive investors and lenders to take unsound risks by reaching for yield leading to the mispricing of assets.

The envisioned goal of negative rates is to induce savers into spending, borrowing and investing by lowering the return they get on conservative investments, such as savings accounts and short-term government bonds. Negative rates can also give countries or common currency regions an edge in trade by suppressing the value of their currencies and thereby the prices of goods and services exported.

Critics state that super-low and negative rates are self-defeating because savers will become even thriftier to achieve their nest egg targets. Excessively low rates may also drive investors and lenders to take unsound risks by reaching for yield leading to the mispricing of assets. Noted bond investor Bill Gross has stated that the economy is at the end of a decades-long cycle of expanding credit, culminating in negative rates, which in turn is creating unsustainable asset bubbles.

Japan's Central Bank has been at the forefront in experimenting with negative interest rates. The world's third largest economy has been mired in a cycle of disinflation and low growth since the 1990s. Japan's working age population peaked around 1995, and its productivity has slowed. Since 1990, growth has averaged just under 1%. Unfortunately since the start of the

policy, industrial production has fallen. The Japanese have added another $360 billion in savings since the beginning of the year when Japan's Central Bank instituted negative rates.

What are the implications for investors in an extended ultra-low interest rate environment? Even at today's paltry yields, bonds remain a hedge against volatility in the stock market. At Delta, we've generally shortened the average maturity range of our bond portfolios. We invest across a fairly broad maturity spectrum to cushion risk from any material yield curve changes. With few exceptions, only investment grade bonds are purchased. Our approach is to produce a consistent income flow commensurate with existing yields while protecting principal. Our bond portfolios are also diversified by market sector, credit type and issuer.

Our equity approach seeks high quality companies, which have competitive advantages that should provide a good risk / return trade-off over the long term. Some attribute high valuations in the stock market to this cycle of low interest rates. We've maintained our discipline in only initiating new names into our model portfolio that trade at a discount to their normalized economic value. Delta's portfolio of mature companies generally allocates a portion of cash flows to dividends and share repurchases. The current yield on our equity portfolio provides an attractive return relative to bonds with the opportunity for growth.

At some point the Fed will begin to increase short-term interest rates and reduce the amount of debt it holds. At Delta, we believe a well-diversified portfolio of companies with strong balance sheets, positive cash flows, competitive advantages and competent management teams purchased at a discount to long-term value, along with investment grade bonds, is best positioned to meet the challenges of potential shifts in Fed policy and economic cycles.

September 29, 2016

COMPANY COMMENTS

Comments follow regarding common stocks of interest to clients with stock portfolios managed by Delta Asset Management. This commentary is not a recommendation to purchase or sell but a summary of Delta's review during the quarter.

Caterpillar Inc. { CAT }

Founded in 1925, Caterpillar (CAT) is the world's largest manufacturer of construction and mining equipment, with 2015 sales of over $47 billion. The company also manufactures and sells diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. The company's products are used in road building, mining, logging, agriculture, petroleum and general construction. Specific products include tractors, scrapers, graders, compactors, loaders, off-highway truck engines and pipe layers. The company's global reach is evidenced in its workforce with over 58,000 of its more than 105,700 employees located outside the U.S.

Today, CAT controls almost 19% of the global new construction equipment market. The company has built its product portfolio and significant scale through a combination of organic initiatives and acquisitions. CAT is the largest or second-largest manufacturer of virtually every product it makes. It generates a high return on capital. We believe the CAT brand, manufacturing scale and vast dealer network will help lead to market share growth, healthy global expansion and high profitability.

Caterpillar's equipment is distributed through a worldwide network of independent dealers, of which 48 are located in the U.S. and 127 are located in 182 countries. The strong dealer support network is a key component to Caterpillar's success and is a competitive advantage. Many equipment customers state that responsive after-market product support is a key differentiator in the purchasing decision. Equipment downtime on a schedule-driven project can cost millions of dollars.

Caterpillar's wholly owned finance subsidiary (CAT Financial) provides wholesale and retail financing alternatives to customers and dealers around the world. CAT Financial issues debt with a similar interest rate maturity profile to its receivables. It also employs interest rate swap agreements to manage interest rate risk and in some cases lower its cost of borrowed funds. Lending decisions are based on a customer's credit history, financial strength and intended use of equipment. While only a small part of revenues (approximately 5%), this segment typically contributes double its weight in terms of operating profit.

The strong dealer support network is a key component to Caterpillar's success and is a competitive advantage. Many equipment customers state that responsive after-market product support is a key differentiator in the purchasing decision.

The company faces a range of operational and financial risks. Performance can be impacted by rising interest rates, unfavorable exchange rate movements, declining commodity prices and economic weakness. Longer-term challenges include regulatory emissions standards requiring CAT to make significant investments in R&D to meet stricter requirements. In addition, CAT faces more competition in its faster-growing international markets.

The company's direct exposure to China is less than 6% of revenues; nonetheless, it has a significant impact on Caterpillar's overall stock performance. China's appetite for commodities is a key driver of global commodity prices. Construction made up 19% of Chinese gross domestic product (GDP) in contrast to a more mature country, such as the United States, where normalized construction spending is only 7% of GDP. With construction and resource segments making up 52% of Caterpillar's sales, shares have tended to move with commodity prices, which have recently been under pressure. Continued infrastructure improvements globally should bode well for Caterpillar over the long term. The company continues to expand its manufacturing facilities in emerging markets and is increasing its exposure to the mid-tier markets through simpler, non-Caterpillar branded equipment to appeal to the cost conscious buyer.

We believe the company has sustainable long-term competitive advantages and can grow revenue in the low, single digits over the next decade. Efficiencies gained through leaner manufacturing processes and competitive returns from research and development spending should enable the company to experience cash flow margins in the upper teens. Based on these assumptions, our financial model indicates that at the current stock price Caterpillar's stock offers a potential long-term annual return of close to 8%.

National Oilwell Varco Inc. { NOV }

National Oilwell designs, manufactures and sells oil rig equipment and a range of products used to extract oil and gas. The company offers a wide spectrum of products and components for both land-based and offshore drilling rigs. The firm has operations in over 835 facilities across six continents. Approximately 65% of the company's revenue is derived from operations outside of the U.S.

National Oilwell has a number of competitive and cost advantages that smaller competitors are unlikely to achieve. The firm's product portfolio is one of the broadest in the oil service industry – ranging from complete systems for drilling rigs, blowout preventers, wireline trucks and equipment to pressure pumping units and coiled tubing equipment. National Oilwell has a product for nearly every aspect related to drilling and generally has the first or second market position in every product line it sells. The firm's installed base combined with the reach of its global repair and maintenance facilities provide a good base of recurring revenue from aftermarket services.

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National Oilwell's business depends on activity levels in the oil and gas industry, which can be volatile. The demand for its services depends on the number of oil rigs in operation, the number of oil and gas wells being drilled, the depth and condition of those wells, production volumes and well completions. It is also dependent upon operator capital spending, which in turn is largely dependent on commodity prices.

Oil service stocks have sold off considerably since OPEC's November 2014 meeting. OPEC elected to maintain its existing production quotas, which dampened the market's hope that OPEC would cut production and remove excess oil supply from the market. National Oilwell is heavily exposed to the deep-water market at a time when many energy producers are favoring shorter-cycle projects and are facing pricing pressures due to an oversupply of deep-water rigs. The greatest risk facing the oil services industry is lower oil prices for a prolonged period. In the case of National Oilwell, lower oil prices would immediately constrain oil producers' capital spending that would translate into fewer wells drilled and rig orders. Our belief is that at some point oil supply and demand will rebalance leading to higher future oil prices.

During the downturn, the company has focused on operational efficiency, cost control, service quality and the rollout of new technology, which should allow it to play a key role in defining the next upcycle. National Oilwell has avoided large scale acquisitions and targeted small technology-oriented acquisitions, such as the recent purchase of Trican's Completion Tools. The goal is to grow newly acquired technologies across its global footprint, while filling unabsorbed manufacturing capacity. At the same time, NOV is rolling out new technology, internally developed, such as its low cost rotary steerables and rotating controls for managed pressure drilling.

The company continues to have a very strong balance sheet with cash at year end totaling $2.0 billion and net debt comprising less than 10% of total capitalization. During the third quarter of 2015, the company completed its share repurchase program. In all, the company repurchased 55.5 million shares, or 13% of its outstanding stock.

Longer-term, we believe that National Oilwell's rig and production segments will produce steady growth as the world increasingly seeks oil production from offshore and unconventional reservoirs. Based on our assumptions, our financial model indicates that at the current stock price, National Oilwell's stock offers a potential long-term annual return of approximately 16%.

Eaton Corporation { ETN }

Eaton, formed in 1911 as a manufacturer of truck axels, has transformed its portfolio through a stream of acquisitions in the past two decades. It is a diversified global industrial company that manufactures components, systems and services that manage electrical, hydraulic and mechanical power. Eaton is a virtual pure-play on the industrial economy, primarily selling to and servicing original equipment manufacturers (OEMs). The company offers energy efficient products and services in a wide variety of markets, including agriculture, data centers, military contracting, manufacturing, aviation, commercial and residential construction and healthcare. Eaton generates nearly 50% of its revenues in international markets.

Over many years, Eaton has either innovated or acquired many forms of power management and distribution, focusing on highly engineered motors, drives and hydraulic systems used in various industrial-end markets. Its industrial businesses (aerospace, hydraulics, vehicle), which make up 40% of total company revenue, are market leaders with competitive advantages such as its manufacturing scale, cost advantages and high customer switching costs. These businesses enjoy vast installed bases that grow primarily through innovation. Eaton's installed bases require significant customer capital investment, which leads to good recurring aftermarket revenue streams. Eaton's aftermarket services also serve to protect long-term customer relationships.

The company's exposure to its strong but cyclical niche businesses (aerospace, automotive and trucking) is mitigated by its wide range of electrical products and services. After the acquisition of Cooper Industries, Eaton's Electrical Group now makes up 60% of total revenues. Though its electrical businesses have a slower growth profile versus its industrial businesses, Electrical

provides stability to its more cyclical businesses. Long-term, we believe the electrical equipment market has good growth opportunities due to the need for power capacity, regulatory changes driving energy efficiency and power quality and safety. Management is also driving stronger through-the-cycle profitability and free cash flow through product line optimization, multi-year productivity plans and raising the overall level of operational excellence.

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Eaton, along with its industrial peers, is facing some near-term operating headwinds. The capital spending environment is being weighed down by uncertainty, with heightened geopolitical risks, along with volatile commodity prices and currency exchange rates. Oil and gas end markets make up about 10% of Eaton's total company revenues. If the downturn in these end markets deepens, earnings will be negatively impacted and reduce the company's return on invested capital. We believe these challenges to be mostly cyclical, and management's current strategy focused on structural cost reduction throughout the organization will lead to higher long-term operating profitability as these end markets recover.

We believe the company's leadership position, extensive installed base and long-term customer relationships should provide support for long-term growth and higher average profitability. We expect Eaton will grow revenues in the low, single digits on average with cash flow margins of 16% over our 10-year modeling period. Based on these assumptions, our stock valuation model indicates Eaton's current stock price offers an average annual long-term rate of return of approximately 10%.

Lowe's Companies, Inc. { LOW }

Lowe's is a leading home improvement retailer with nearly 1,800 stores located primarily in the U.S. Lowe's also owns 80 Orchard Supply Hardware stores in California and nearly 500 RONA Home and Garden stores in Canada. The company's stores offer a wide selection of home improvement products and services aimed at do-it-yourself and do-it-for-me customers as well as commercial business clients.

Lowe's has proven to be a very efficient retail operator with a culture built on exceptional customer service. Over many years, the company has developed a highly automated distribution system that links its suppliers, distribution centers and company stores on a single network driving operating efficiency. Lowe's significant scale combined with its efficient distribution system creates a cost advantage. The company has been very proficient at using this cost advantage for maintaining low prices to generate higher sales volumes while producing solid free cash flow.

The U.S. home improvement retail market is mature and has become fully saturated with stores. After years of rapid expansion, Lowe's new store growth has slowed as quality locations are

increasingly limited. To help drive incremental growth and improve profit margins, the company has redoubled efforts to improve in-store execution and operating efficiency. Lowe's has added customer-facing employees, improved inventory management and reduced its cost structure. These efforts have helped spur increased sales per square foot and profit margins. The company also plans to increase its proprietary products and further penetrate the professional market. With Lowe's and Home Depot together controlling approximately 40% of industry market share, the retail home improvement industry remains fairly fragmented. Lowe's competitive strengths and new products and services should drive further market share gains from smaller competitors.

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Lowe's has accepted its maturity and permanently scaled down its store growth, prudently choosing to redouble its efforts toward in-store execution. The company has recently made two small acquisitions. Orchard Supply is a smaller format neighborhood hardware and backyard store, primarily located in densely populated markets where Lowe's is currently underpenetrated. RONA is a market leader in Canada and gives Lowe's a more formidable store base in a market the company is currently committed to growing. These smaller store bases potentially provide another long-term growth avenue.

Rival Home Depot has completed a companywide revamp that has improved its operating efficiency and customer service. Home Depot's investments in its distribution network and information technology systems target one of Lowe's key competitive advantages. Thus far, competition between the two rivals has been rational, and their increased industry dominance has come mainly at the expense of smaller competitors. Competition between Lowe's and Home Depot could intensify over time as growth and market share gains become increasingly difficult.

With minimal expected store expansion and better sales per square foot execution, we have assumed Lowe's can grow revenues 2.7% over the next decade. Given improving in-store execution, we believe average cash flow margins will gradually improve to 11.5% over this period. Based on these assumptions, our stock valuation model indicates Lowe's current stock price offers a long-term average annual rate of return of approximately 8.25%.

CSRA Inc. { CSRA }

CSRA is a leading pure-play provider of IT services to the U.S. federal government. CSRA's business has been focused on the public sector for more than 55 years, tracing back to the first government contract awarded in 1961 to its former parent, CSC. The company helps government entities use IT more efficiently to improve their operations, focus on core competencies and achieve improved business results. CSRA was formed through the merger of CS Government, a spin-out of Computer Sciences Corporation's National Public Sector (NPS) segment, and SRA International.

CSRA has strong, long-standing relationships with a diverse group of customers at all levels of the U.S. federal government. The Department of Defense (DOD) makes up about 50% of total company revenue. The company's federal contracts on sensitive projects require a high degree of security clearance, competency and the ability to navigate the labyrinth of governmental contracting standards. The public sector IT services industry has been difficult for new entrants to enter due to the scale and security clearance needed to operate highly sensitive federal IT projects. CSRA benefits from mostly long-term contracts that generate fairly stable and recurring revenue. Historically, the company's client retention rate is over 85%; thus, switching costs are apparent.

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The company's future growth is dependent on its ability to successfully bid and win new government contracts. The outlook has begun to improve with two-year budget announcements accommodating growing IT spend across all key areas. With a moderately improving federal budget IT spend, CSRA's current backlog of $15 billion, which is supported by an impressive 88% re-compete win rate for existing contracts, should give the company a solid platform to grow revenues. CSRA's longer-term growth focus will be on next-generation IT offerings. The federal government is expected to increase its spending to modernize its IT infrastructure in area of cyber security, cloud, big data and healthcare.

It is vital to CSRA's profitability that contracts are accurately estimated and properly bid for the cost of service and timeline for completion. The bid process is challenging, and the company has had challenges in this area in the past leading to unprofitable contracts. CSRA has since cut costs, improved efficiency, rationalized and standardized its service offerings and instituted an accountability-based management system. This organizational revamp has led to industry-leading profitability. Long-term, increasing competitive forces, particularly in the fast growing next-gen IT offerings, could hurt pricing and put pressure on CSRA's profit margin.

Overall, we expect growth to be in the low, single digit range during our forecast period. With this pace of growth combined with CSRA's exposure to higher margin contracts, we have modeled 13.5% cash flow margins on average. Based on these assumptions, our valuation model indicates a long-term average annual return of just over 9%.

Dated: September 29, 2016

Specific securities were included for illustrative purposes based upon a summary of our review during the most recent quarter. Individual portfolios will vary in their holdings over time in relation to others. Information on other individual holdings is available upon request. The information contained herein has been obtained from sources believed to be reliable but cannot be guaranteed for accuracy. The opinions expressed are subject to change from time to time and do not constitute a recommendation to purchase or sell any security nor to engage in any particular investment strategy. Any projections are hypothetical in nature, do not reflect actual investment results and are not a guarantee of future results and are based upon certain assumptions subject to change as well as market conditions. Actual results may also vary to a material degree due to external factors beyond the scope and control of the projections and assumptions.