First Quarter Letter 2015

PERSPECTIVE

Over the past five years investors have had reason to expect a lot from stocks. Since the beginning of 2009, the average time-weighted rate of return of the S&P 500 is over 17% per year. Since the beginning of 2012, the index's total return is the best three-year period since the tech bubble era of 1997 through 1999. A reasonable question in the midst of a six-year bull market is what is the long-term average historical return for stocks? How should an investor respond if the market experiences increased volatility or returns below recent or long-term averages?

Since 1928, stocks, as measured by the S&P 500, have experienced an annual return of 9.6%. During this long period there have been bouts of extreme volatility and negative returns. For example, in 2008 the S&P Index suffered a 37% decline and fell another 24% in 2009 before ending the year in positive territory. Had a discouraged investor forsaken equities and sold during the decline and invested in U.S. Treasury bills, one would have forgone one of the most robust bull markets ever, as the comparison below illustrates. Furthermore, Treasury bills subsequently underperformed inflation and, as a result, real returns (adjusted for inflation) were negative.

Annual Returns on Investments in:

Year	S&P 500	3 Month T-Bill
2008	-36.55%	1.59%
2009	25.94%	0.14%
2010	14.82%	0.13%
2011	2.10%	0.03%
2012	15.89%	0.05%
2013	32.15%	0.07%
2014	13.48%	0.05%

Investors are better served by setting return expectations based on a long-term view of the market and ignoring short- or intermediate-term market fluctuations. These expectations should be further adjusted by an investor's tolerance for risk. If risk reduction is desired, integrating bonds into a portfolio will have the effect of reducing volatility (risk) as an investor receives fixed interest payments and return of principal. The reduction of risk will result in a compensating reduction in return.

Delta's investment approach is to be a patient, long-term investor. Our intent, when we invest in a company, is to be a long-term owner of the stock. Our objective is to realize an attractive compounded return over many years further enhanced by minimizing trading costs and taxes. This approach is different from speculating on short-term events or attempts to predict and time future economic trends or investment cycles.

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Delta recently invested in the long-term with the addition of William Gates to our team as a portfolio manager servicing client relationships. William's experience includes Senior Financial Advisor positions with Valic and Morgan Stanley Smith Barney. William is pursuing his CERTIFIED FINANCIAL PLANNER™ certification and is a graduate in Managerial Finance and International Studies from the University of Mississippi.

In December 2014, Delta celebrated its 25th year of service. Not only have we taken a long-term view toward our investments, our clients have taken a long-term view toward us. Many of our relationships span decades and are multi-generational. We look forward to many more decades of service and appreciate the opportunity to add long-lasting value and counsel to our clients.

March 31, 2015

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.

Apache Corporation { APA }

Established in 1954, Apache has grown to become one of the largest independent oil and gas exploration companies in the world. Apache's asset portfolio encompasses Australia, Canada, Egypt, the United Kingdom and the United States. Approximately 58% of the company's production is from North America, and 42% is international. Apache has 11.5 million gross acres across the U.S., 75% of which is undeveloped. The company's North American assets provide a good balance of hydrocarbon mix and reserve life with opportunity for continued exploration and production growth.

Historically, Apache has strived for a diverse portfolio of assets that balances oil and gas production, North American and international exposure, and short-term and long-term risk and reward profile. This strategy has given Apache the ability to deliver long-term production and reserve growth while achieving competitive returns on invested capital. Apache's management team maintains a long-term focus and believes the oil and gas industry remains cyclical. The company will not chase production growth at the expense of profitability and return on capital.

Apache's strong historical performance is attributable to exploiting mature fields with operating efficiency and cutting edge technology. Its efficiency has reduced drilling and rig mobilization times, while the use of horizontal drilling produces cost savings and higher yields. The net result has been moderate growth but with a higher return on capital than its peers.

More recently, however, Apache has experienced a difficult operating environment, some of which we believe to be cyclical. As the company grew in size and it became more difficult to drive production growth, Apache made larger acquisitions with lower near-term returns and entered risky geopolitical international regions. Meanwhile, its North American peers were early movers in the U.S. shale boom. In addition, oil prices have fallen over 50% as of this writing, which has weighed heavily on production revenues. As a result of recent missteps, Apache replaced its former CEO with John Christmann, a North American oil production veteran.

Apache's near-term production growth will focus on North American oil. After three years of acquisitions, Apache now holds strong positions in many attractive onshore basins in the United States. Through field studies across all its properties, Apache has identified 67,000 prospective well locations and 9.2 billion barrels of oil equivalent in resource potential. These positions will take time to develop and are not all proven, but the prospects continue to be significant. Apache's U.S. basins contain thick, oily, liquids-rich targets that provide attractive economics and lower geologic risk as oil prices recover.

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Apache has been proactive in de-risking its asset portfolio. The company has made strides to reduce its international exposures that have uncertain political and economic risks. In August 2013, the company announced the sale of one third of its Egyptian stake for $3.1 billion. The transaction also valued the company's Egyptian assets significantly more than market expectations. However, further civil unrest could hurt Apache's production and limit its energy delivery and exports. Apache operates in remote areas of Egypt's western desert with a deep backlog of both exploratory and development drilling locations. Management continues to state that Apache's Egyptian assets are operating status quo without interruption or contract changes.

The greatest risk facing Apache and others in its industry is low oil prices for a longer-term period than expected. In the case of Apache, revenues will decline due to both a slowdown in production as well as selling lower priced oil to its customers. We believe the current oversupply of oil is mostly cyclical, and oil supply and demand ultimately will rebalance at higher future prices. We believe the company has a good balance sheet, flexible capital spending programs and enough liquidity to provide an attractive long-term investment return.

Apache's assets provide balance with good, long-term growth prospects in North America and high, free cash flow generation in its more mature fields internationally. We believe Apache should be able to grow production before acquisitions at a low-single digit range long-term. The corresponding production and personnel expenses are expected to produce profit margins in the mid-20% range. At the present stock price, our model indicates a 13% long-term average annual rate of return.

United Parcel Service, Inc. { UPS }

UPS is the world's largest package delivery company, a leader in ground shipping and a premier provider of global supply chain management solutions. The company was founded in 1907 as a private messenger and delivery service in Seattle, WA. In 2014, the company delivered a record 4.6 billion parcels to customers in over 220 countries and territories. Total revenue in 2014 was over $58 billion.

The parcel industry enjoys favorable competitive dynamics. A start-up would find it difficult to replicate a competitive network quickly. The barriers to entry are high as carrier providers own and/or lease large fleets of airplanes and trucks and operate expensive, technologically sophisticated hubs. UPS and FedEx have built relationships with customs authorities that let them save time by clearing items while they are still airborne. Customer bargaining power is highly fragmented; and small business and retail customers are price takers. Larger customers such as Walmart and Amazon have notable bargaining power and receive material list rate discounts.

Although there is intense rivalry between FedEx and UPS, the pricing tends to be rational and price wars rare. UPS normally earns higher margins than its peers due to its use of integrated assets-to-transport U.S. express and ground shipments through the same pickup and delivery network. In contrast, FedEx uses parallel networks of drivers and trucks to separately handle ground and express shipping. UPS's clients have the convenience of using the same driver to handle both express and ground packages. The United States Post Office is both a competitor and partner, sometimes delivering a UPS package the last leg of a shipment.

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The parcel industry is a major beneficiary of Internet sales trends. Global e-commerce sales topped $1 trillion for the first time in 2012. Throughout the world, online buying has grown exponentially. The gains from Internet sales have been tempered recently by product digitization and miniaturization, which reduces average package volume and weight. Media is shifting from physical books, VHS tapes and DVDs to digital streaming and cable. Electronic equipment is shifting toward smaller, mobile devices. Despite these trends, a broader selection of products is being purchased online as younger generations are more comfortable with online transactions.

Roughly 25% of UPS's revenue is international, with the company providing guaranteed express delivery to over 50 countries outside the United States. Europe is the company's largest region outside the U.S., accounting for roughly half of its international revenue. Although Europe has been slow to recover from the financial crisis, long-term UPS's European focus makes sense as exports make up a significant portion of the continent's GDP. UPS is somewhat underrepresented in emerging markets, particularly Asia/China; however, the company has a strong balance sheet and the necessary expertise to meet this strategic challenge.

In 4th quarter 2014, UPS increased its staffing levels to handle peaks and to ensure no recurrence of shipping delays experienced in 4th quarter 2013. The company stated it was willing to risk margins to guard its brand integrity. In the future, UPS may need to adjust prices so that some peak volume shifts to other carriers.

UPS has demonstrated high capital efficiency and strong cash flow generation throughout its history. The industry has benefited from three intertwined forces, the emergence of China, the broad trend toward just-in-time inventory and the rise of Internet commerce. The company should continue to benefit from volume growth from businesses shipping to consumers, an oligopolistic industry structure as well as growing global trade and supply chains. Based on these assumptions, our stock valuation model indicates a long-term average annual rate of return of approximately 7.4%.

National Oilwell Varco { 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 900 facilities in 69 countries across six continents. Approximately 65% of the company's revenue is derived from operations outside the U.S.

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 and the depth and condition of those wells, production volumes and well completions. It is also dependent on 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. Tapering of demand from Western Europe and emerging economies along with the added supply from the U.S. due to shale fields have contributed to the oversupply. Our belief is that at some point oil supply and demand will rebalance leading to higher future oil prices. The selloff in energy stocks offers compelling buying opportunities to longer-term investors.

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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 – including complete systems for drilling rigs, blowout preventers, wireline trucks and equipment, 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.

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 immediately would constrain oil producers' capital spending, which would translate into fewer wells drilled and rig orders. The company has a very strong balance sheet with cash at year end totaling $3.5 billion and long-term debt comprising less than 10% of total assets. In addition to the strong balance sheet, the company at the end of 2014 reported backlog for two of its reporting segments of over $14 billion. During 4th quarter 2014, the company made its first major share buyback in years, spending $779 million of a $3 billion authorization.

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 15%.

Canon

Canon Inc. { CAJ }

Canon is a Japanese-domiciled worldwide developer, manufacturer and marketer of cameras, printers, copiers and semiconductor equipment. The firm also generates reliable, high margin revenue through printer supplies and service contracts whenever a Canon system is installed. The brand is noted throughout the world for quality and dependability. Canon derives about 80% of its sales outside of Japan and is one of corporate Japan's biggest beneficiaries of a weak yen. The yen's depreciation increases the amount of revenue earned abroad, improving the profitability of products made in Japan and sold globally.

Canon and Nikon dominate the high-end camera market especially in single-lens reflex (SLR) cameras. SLR cameras and interchangeable lenses involve expertise that is hard to replicate, making entry barriers high. The technology and brand value of these top two companies limit the competition in upper-end markets. The success of Canon's camera segment is largely driven by its professional grade digital single-lens reflex (DSLR) camera. This product line has a captive customer base as users invest in interchangeable lenses. Once a buyer picks a brand, he or she is more likely to drive incremental revenue by acquiring multiple lenses. The lenses often cost more than the camera body.

Canon's automated manufacturing has reduced wages and allowed the company to lower logistics costs by placing factories in high wage markets.

At the other end of the spectrum, competition in the middle and low end is intense, and profitability has declined. The threat to Canon's lower end camera business isn't coming so much from direct competitors as much as from a broad change in the way people take and share photos. Not only is the image quality of smartphones and tablets improving, these devices are very convenient in sharing photos on Twitter and Facebook.

Canon's greatest strength is the efficiency of its operations. Canon has been improving its production efficiency through increased automation. Canon's automated manufacturing has

reduced wages and allowed the company to lower logistics costs by placing factories in high wage markets.

Canon supplies laser printers to Hewlett Packard (HP) on an original equipment manufacturer (OEM) basis. This relationship spans more than 25 years. The company's core advantage in printers is its large volume, and its automated production of laser beam printer engines for HP, which handles most of the marketing and branding. The scale of this production gives Canon a significant cost advantage and allows it to earn a premium return even after volume pricing to HP. However, Canon also faces increased competition from Korean manufacturers as well as reduced demand for high margin printer ink. More people are sharing documents and photos via email and social networks.

Canon recently announced a public tender offer for the shares of Sweden-based video surveillance company Axis for approximately $2.8 billion. The company has been in business for almost 30 years and offers network video solutions for nearly all industries. Axis is underpenetrated in Asia where Canon has excellent distribution and brand reputation.

Due to significant exposure to slow economic growth expected from developed regions and increased competitive pressures, we believe the company will experience flat top line growth. However, the company can continue to earn premium cash flow margins due to the company's strength in technology, as well as its low cost production. Given these assumptions, our stock valuation model indicates that based on today's stock price, Canon has a potential average annual long-term return greater than 8%.

Lowe's Inc. { LOW }

Lowe's is a leading home improvement retailer with over 1,700 stores located primarily in the United States. 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.

The operating environment has been difficult for Lowe's since the beginning of the housing collapse in 2007. After struggling through three years of negative same-store sales and lower profit margins, the company's performance has improved, driven in part by low interest rates and a more robust housing market. Lowe's transformation efforts, such as increasing its high turnover inventory and adding customer-facing employees during peak hours, are bearing fruit. Tighter consumer credit availability and a more subdued housing market going forward will make it difficult to reach the level of sales and profit margins achieved during the easy credit-fueled housing boom; however, we expect Lowe's sales and profit margins to continue to gain strength.

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Rival Home Depot has completed a companywide revamp that has improved that company's 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.

Given minimal expected store expansion, we have assumed Lowe's can grow revenues approximately 2.5% over the next decade. At this pace of growth and given improving in-store execution, we believe average cash flow margins will gradually improve to just over 11% 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 5%.

Dated: March 31, 2015

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.