First Quarter Letter 2016

PERSPECTIVE

After a bone jarring start to 2016, the Federal Reserve in its March meeting signaled its intention to hike interest rates just two more times this year instead of four, an acknowledgement of the risks created by higher rates. Some blame the volatility at the beginning of 2016 on the Federal Reserve's decision in December to inch the federal funds rate up by a quarter of a percentage point. Other factors pointed to an economic slowdown as evidenced by slowing output growth, widening credit spreads, declining corporate earnings, lower capital investment and falling commodity prices. Another culprit was concern over China's debt and slowing growth. There are any number of reasons why the market may sell off and then subsequently recover. An investor's response to periodic sell-offs has a major impact on long-term performance and is particularly dependent upon whether the investor has or lacks an investment discipline.

The antidote to irrational investment behavior is following an investment discipline that remains focused on the merits and intrinsic value of individual securities.

Investors lacking a discipline in buying, holding and selling stocks can often be irrationally influenced by market psychology. As renowned portfolio manager Benjamin Graham was fond of saying, "The worst enemy of the investor is most likely himself." The herd mentality comes into play oftentimes during periods of euphoria or panic because there is perceived safety in numbers. The collective wisdom or fear of the market supersedes investment fundamentals. In the case of market sell offs, continued selling without regard for fundamentals can push a company's stock price below its intrinsic value. Intrinsic value is based on a company's future cash flows from the demand for its products and services, influenced by its growth, competitive position, financial strength and the skill of its management. An investor following the herd and selling a stock below its intrinsic value will erode performance over time.

Market psychology and economic weakness can also feed on each other. Economic turning points are unpredictable partly because sometimes they are caused by changes in investor sentiment, not just economic factors such as interest rates, employment, production and wages. Collective market sentiment or psychology can influence business decisions to invest. Fear of an economic downturn can thus be self-fulfilling. What normally happens, however, is that investor sentiment eventually turns positive, as stock prices fall to levels that compel buyers back into the market. Investors who followed the herd and sold earlier miss the recovery in stock prices.

The antidote to irrational investment behavior is following an investment discipline that remains focused on the merits and intrinsic value of individual securities. It is also essential to maintain a long-term investment perspective that incorporates one's goals and risk tolerance. Crucial to maintaining an investment discipline is being able to bear fluctuations, not only emotionally but financially as well. This requires a suitable allocation between equities for growth and bonds for capital preservation.

There are a myriad of economic variables that are constantly shifting which can trigger market volatility, at times accentuated by human emotion. Herd behavior occurs because of the fear of either missing out of an exuberant market or the fear of loss in a falling market. However, following an investment discipline, consistently applied, separates actions based on emotion from those based on objective analysis. As your partner in meeting your long-term goals, Delta's role is to create and maintain a solid investment plan based on applying a consistent long-term discipline as opposed to following the ever-changing psychology of the market.

March 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.

3M { MMM }

3M is a diversified global technology innovator and marketer of a wide variety of products. With more than 80,000 employees, 3M produces in excess of 55,000 products including abrasives, adhesives, laminates, fire protection products, dental products, electronic materials, care products and optical film. It is one of the more defensive of industrial companies because of its strong exposure to more stable healthcare, consumer and security markets and geographic diversity. 3M's unusual breadth shields it against overreliance on any market. The company's products are available for purchase in over 200 countries.

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The company is well positioned to benefit from several themes, including efficiency in healthcare, water and air quality, aging populations, industrialization in emerging markets and alternative energy and renewables. 3M has consistently reported best-in-class operating margins over the past 20 years. The company's premium margin is largely attributable to its vertically integrated operations, lean manufacturing processes and differentiated brands, such as Scotchguard and Post-it Notes.

In 2015, over 65% of sales were international. The company has a global manufacturing base with 43% of its plants outside of North America. Sales in developing countries have grown at a

10% compound rate over the past decade. Emerging market exposure is now 35% of sales, up from 21% in 2003 and targeted to reach 40% by 2017. Localized production and distribution have enabled the company to earn higher margins in emerging markets than in domestic markets.

3M's culture of innovation has carved a moat around its businesses. Research and development (R&D) expense as a percent of revenue is 5.5% versus the median 3% for many industrials. The company's goal is to increase R&D as a percent of sales to 6% by 2017. The investment in R&D has paid off. In recent years, 3M launched over 1,300 new products and won 2,400 patents. More than 33% of its revenue comes from new products developed in the most recent five year period, up from 21% five years ago. The company's goal is to have 40% of revenue coming from new products by 2016.

3M positions its R&D and capital expenditure spending with a long-term focus. To encourage development of new products, 3M researchers are allowed 15% free time to work on whatever projects they wish. Over time, 3M has been able to develop not only improvements in products currently being sold but also create entirely new product areas. We expect this practice to continue, with the effect of protecting profit margins through higher-priced new product introductions.

With strong consumer brands, a track record of innovation and low cost manufacturing, 3M has competitive advantages over smaller industry players. Given these advantages and our assumptions, we believe that 3M's present stock price offers the potential for an average annual long-term rate of return of close to 7%.

McGRAW HILL FINANCIAL

McGraw Hill Financial { MHFI }

McGraw Hill Financial is a global leader in credit ratings, benchmarks and analytics that provides essential information and data content to the global commercial, capital and commodity markets. Its brands include Standard & Poor's, Capital IQ, Dow Jones Indices, S&P Indices, Platts and J.D. Power and Associates. These businesses have a large global footprint, good market penetration, are highly scalable, require little capital investment and generate high profit margins and strong free cash flow.

McGraw Hill has essentially completed a multiyear restructuring and is now focused on its faster-growing financial businesses, including the lucrative and not very competitive business of rating bonds. The centerpiece of this plan was the sale of McGraw-Hill Education and divestiture of smaller, non-core businesses. The company is preparing to change its name to S&P Global later this year, a symbolic move that underscores the firm's shift away from its publishing roots.

Standard and Poor's (S&P) Ratings is one of the three dominant firms that rate securities and assess credit risk (the other two are Moody's and Fitch). The three issue more than 95% of global bond ratings, a total virtually unchanged from the pre-2008 period. Barriers to entry, such as market acceptance and reputation, scale, global distribution, network effects and complex regulations, are high. Credit ratings are used by investors, issuers, investment banks and governments. Credit ratings provide the market place with a benchmark to help gauge borrowers' credit worthiness. Most bonds that are issued must have at least one rating from a respected Credit Rating Agency (CRA) for the issuance to be successful. S&P and other credit rating firms benefit from a unique market structure that favors an oligopoly. Customers want two or three ratings so as to minimize the time that management must spend with analysts, to diversify their risk that one analyst gets it wrong and to lower their financing costs.

McGraw Hill's businesses have a large global footprint, good market penetration, are highly scalable, require little capital investment and generate high profit margins and strong free cash flow.

CRAs continue to be subject to criticism and lawsuits as a result of missteps made during the credit crisis. The Dodd-Frank Act includes a provision that makes it somewhat easier to sue CRAs for securities fraud. The global regulatory framework has become more difficult with greater scrutiny and oversight. Although we anticipate a reduction in margins from additional regulations and constraints, we believe the major CRAs, such as S&P, have the global presence, resources and reputation to remain highly profitable.

Separate from S&P Ratings, the company's S&P Indices and Capital IQ are large and highly profitable global businesses with good growth prospects. S&P Indices provides investors with well-known market benchmarks, including the Dow Jones Industrial Average and S&P 500. The S&P 500 is the world's most followed stock market index with over $7 trillion in benchmarked assets. Growing investor demand for index-based passive investments has boosted the share of exchange traded funds (ETF) and index mutual funds, increasing the fees paid to McGraw Hill for the use of its benchmarks. Global retirement assets are expected to hit nearly $57 trillion by 2020 with slightly more than half of that total in North America, according to a forecast from PricewaterhouseCoopers.

Capital IQ is a leading global provider of financial research and analytical tools for asset managers, investment banks, brokers and analysts. The global capital markets have become more integrated, driving increased demand for data and analytics. Capital IQ continues to gain market share as it acquires, develops and integrates additional mission critical content.

Additional data and information McGraw Hill brands include Platts and J.D. Power and Associates. These subsidiaries provide data, marketing, research and information to a broad range of individual and institutional clients. These subscription-based recurring revenue models fit well with McGraw Hill's business of providing value-added data and reputational insights. The final piece of the company's multi-year restructuring is the anticipated sale of J.D. Power and Associates. The firm hopes to find a buyer in 2016.

Though McGraw Hill's businesses are cyclical, we believe its strong position in each of its businesses and completion of its Growth and Value Plan has created a better long-term growth profile. We assume mid-single digit revenue growth with operating margins averaging in the mid-30% range over the long-term. Based on these assumptions, our valuation model indicates approximately 8% annualized long-term rate of return given the current stock price.

Sysco Corporation { SYY }

Founded in 1969, Houston-based Sysco is the largest food service marketing and distribution company in North America. Sysco's major customers include independent restaurants as well as schools, colleges, hotels, hospitals and other food service outlets. The company distributes more than 400,000 products, including approximately 40,000 Sysco-branded items. Sysco holds about a 17.5% market share – two times its largest competitor– of the $200 billion-plus food service market in the U.S. and Canada.

Sysco targets full-service, independent restaurant operators, and the company has nearly a 30% market share among this group. Sysco focuses on independent restaurants because of a relatively high degree of pricing power versus chains that can bargain for greater discounts. Historically, Sysco has been able to pass along inflation adjustments without significant delays. Key drivers in the industry include prompt and accurate delivery of orders, competitive pricing, close contact with customers and the ability to provide a full array of products and services to assist clients in their food service operations. Sysco's distribution network and scale is a competitive advantage in an industry with high fixed costs, helping the company to generate industry leading return on invested capital.

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Sysco has the largest marketing and sales organization within the food service industry, which is a key differentiator. The company advises clients how to drive sales and minimize costs. Sysco specializes in assessing business operations and providing its customers with a range of ancillary services, such as menu planning advice, food safety training, inventory control, product usage and labor scheduling reports. These services establish a level of trust and dependence and give Sysco valuable information relating to extensions of customer credit and accounts receivable management.

As acquisition opportunities become harder to identify and growth has slowed, a new area of focus has been supply chain efficiencies. Growing largely through acquisitions, Sysco retained a decentralized, entrepreneurial culture that gave wide autonomy to the individual distribution centers. Sysco's Business Transformation Project represents a multi-year commitment to standardize operating systems among the company's distribution centers. The project is intended to consolidate procurement, increase sales productivity, improve customer service and streamline the order fulfillment process. Management expects to save $650 million annually to reinvest in revenue growth and improved profitability.

Despite its industry dominance, Sysco faces some challenges. The industry is highly fragmented and competitive. In addition to local and regional distributors, competition is growing more diverse as it includes cash-and-carry wholesale and club stores. Over the years, customers have also gravitated toward chain restaurants and away from local establishments.

In addition, Sysco's Business Transformation Project is a major undertaking. Successful execution is important to driving revenue and profit growth.

We estimate that Sysco will be able to grow revenues long term at a low, single digit rate versus an industry growth rate that is flat to marginally positive. The company should be able to produce operating margins averaging in the mid-single digits, with those margins trending higher over time. Using these assumptions, our stock valuation model indicates Sysco's current stock price offers a long-term annual average rate of return at just under 7%.

GENERAL MILLS *General Mills, Inc. { GIS }*

General Mills is a leading consumer foods company with a large stable of branded products, including breakfast cereal, refrigerated dough, baking mixes, snack foods, ice cream and yogurt. The company's portfolio of leading brands includes Cheerios, Fiber One, Pillsbury, Progresso, Betty Crocker, Nature Valley, Haagen-Dazs and Yoplait.

The company's competitive strength is derived from its market-leading brands, economies of scale and expansive distribution network. General Mills controls the #1 or #2 market share position in almost every product category in which it competes: 30% share U.S. ready-to-eat cereal, 70% refrigerated baked goods and 40% grain snacks. The company has developed its leading market share positions by continuously investing to improve established brands and creating new products. The management team, led by CEO Ken Powell, is very adept at growing new products and building brand equity through heavy consumer-focused marketing strategies.

General Mills' competitive strength is derived from its market-leading brands, economies of scale and expansive distribution network.

General Mills generates approximately 70% of its revenue and profits in the mature U.S. market. Though growth should be moderate, the company's focus on product innovation and brand support through heavy advertising should continue to protect its market share position. The company's leading product offerings should benefit from consumer trends, such as snacking, increased meals at home and a growing health and wellness focus. In addition, the company is expanding internationally in both developed regions, such as Europe, and faster-growing markets, including China and Latin America. General Mills has good revenue and earnings growth potential in these regions as the company further develops its distribution network and expands its product offerings.

General Mills has a culture of operating efficiency. The company takes a holistic companywide approach to improving productivity and reducing costs throughout its entire supply chain. These continuous cost savings measures allow the company to invest in its brands for future growth and maintain industry leading profitability and free cash flow.

The company faces its share of challenges, including retail customer consolidation and strong competition in the packaged foods industry. Retail consolidation has given General Mills' customers greater control over product pricing and store shelf space. In addition to branded competitors, the company faces increased competition from private label products and natural, organic products. General Mills' sizable international expansion plans, including infrastructure build-outs, new product introductions and acquisitions, must be executed effectively to generate adequate returns on invested capital.

Given General Mills' concentration in mature markets, combined with increasing exposure to faster-growing international markets, we have assumed the company can grow revenue in the low-single digits annually over the next decade. At this pace of growth and given the company's intense focus on reducing costs, we believe cash flow margins can average 19% over this period. Based on these assumptions, our stock valuation model indicates General Mills' current stock price offers a long-term average annual rate of return of approximately 7%.

BD

Becton, Dickinson and Company { BDX }

Becton is one of the leading medical device companies supplying a diversified mix of basic and sophisticated products throughout the world. The majority of Becton's sales are in what are called "sharps," which consists of safety needles, ultra-thin pen needles, hypodermic needles, syringes, catheters and related equipment, while the remainder is in infusion systems, medical dispensing technologies as well as diagnostic and research instruments. Approximately 50% of sales are in foreign markets.

The company maintains the largest market share of sharps worldwide based on the quality of its products, innovation, world-wide service capability and lower cost. Becton has innovated in sharps for 100 years and continues to push the technology forward. The last major innovation has been in the field of safety devices, which reduces the potential for healthcare worker needle accidents.

Expansion opportunities remain in foreign markets due to slower adoption of safety guidelines and the need to minimize the spread of infectious diseases in developing countries.

Expansion opportunities remain in foreign markets due to slower adoption of safety guidelines and the need to minimize the spread of infectious diseases in developing countries. The essential and recurring nature of Becton's medical products, which account for over half of its total sales, allows the company some relative stability in revenues despite the tougher medical technology spending environment. We expect this business will continue to generate strong free cash flow, which management has historically deployed wisely.

In March 2015, Becton acquired CareFusion, creating a global leader in medication management, delivery and patient safety solutions. CareFusion focuses on medication management, infection prevention, operating room and procedural effectiveness and respiratory care. CareFusion maintains the #1 market position in many of its product categories, especially in infusion pumps and medication dispensing equipment, where it is estimated to hold 25% and 70% global shares, respectively.

The acquisition of CareFusion is transforming Becton into a medical management provider with solutions and systems versus a distributor of stand-alone medical supplies. Becton's market position and global manufacturing and distribution network provides good economies of scale in a capital intensive business. The company will leverage its global scale to expand CareFusion products into international markets where its exposure is currently limited.

Becton's other businesses are more technology-oriented and also have large market shares. The primary products are diagnostic testing instruments for disease detection and cellular analysis instruments for pharmaceutical and biotech research. Both product categories have related equipment and supplies businesses that are sizeable in their own right. Historically, Becton has vigorously innovated or acquired new technologies in these businesses, which is essential to maintaining its competitive position. Diagnostics are the most likely growth drivers for Becton. The growth in infectious diseases will drive demand for rapid diagnosis and guided therapy. Cost pressures and lab technician shortages is driving demand for automation, while increased access to healthcare in emerging markets is driving the need for both automation and disease screening.

Becton faces a number of challenges, including the integration of CareFusion. The acquisition is a major move for Becton and sizable synergies must be realized on both the revenue and cost side for an adequate return for investors. Further, hospital buying groups are consolidating to increase their purchasing power with suppliers. Longer term, the major risk to Becton is the commoditization of sharps, which Becton continues to combat through innovation, such as safety-engineered devices and ultra-thin pen needles. In addition, Becton faces growing competition from medical product manufacturers with sizeable research budgets, particularly in fast-growing segments. In healthcare, there is always the risk that competitors create more innovative products that disrupt the industry by replacing existing products.

We feel confident assuming higher growth in Becton's more innovative businesses, such as diagnostics and drug dispensing technologies, and more modest growth in its maturing needle business. The population of the world is growing and in major industrialized nations it is aging, which implies medical equipment will be in strong demand. Based on these assumptions, our stock valuation model indicates Becton's current stock price offers a long-term average annual rate of return of approximately 6.5%.

Dated: March 29, 2016