Fourth Quarter Letter 2014

PERSPECTIVE

During the 4th quarter, the broad sell-off in energy stocks has taken down virtually every oil-related stock. As of this writing, energy stocks have had to contend with more than a 44% drop in the price of oil. Oil prices have fallen due to rising production in the U.S. and elsewhere, coupled with the Organization of the Petroleum Exporting Countries (OPEC) opting to maintain its output target.

Counterintuitively, rates for tankers carrying crude oil have risen 23% since mid-October; and those carrying refined products, such as gasoline, are up 35%. Oil's current weakness has more to do with the oversupply of the commodity than with weak demand. Oil consumption this year through October has been almost 3% higher than the previous four-year average. One might argue that in the absence of the newly produced shale supply, global producers would be challenged to supply the market at today's level. Even with the tremendous growth of North American onshore oil and liquids production, the price of oil averaged around $110 per barrel over the past four years.

Although it is difficult to predict the timing, at some point the oversupply problem will be corrected. Given the fall in oil prices, exploration and production companies are already reducing capital expenditures and thus curtailing production. In the meantime, lower energy prices will filter through to lower costs and increased consumer/industrial demand. Emerging growth economies that have struggled as of late, such as China, Japan, India and Thailand, are net importers of oil and will benefit from sharply lower prices. In the U.S., the retail sector should benefit as consumers have more discretionary income to spend. The Department of Commerce reported that retail sales grew 0.7% in November, the sharpest rise in eight months.

As value managers, it is the discrepancy between the estimated value of a company based on its long-term fundamentals and the prevailing market price that drives our buy and sell decisions.

Although oil prices can move lower, we've seen oil gluts and bear energy markets before, and each time it seemed as if oil prices would never recover. But, unless oil is going away as an energy source, it makes sense for investors with long-term horizons to maintain exposure as part of a balanced, diversified portfolio.

Some investors' responses to falling oil prices has been to reduce or eliminate their energy exposure. At Delta, we view sector and market timing as counter-productive. It elevates the risk

in achieving our goal of a competitive, long-term rate of return, as well as increasing transaction costs. One has to get the timing right in both directions, exiting and re-entering the market or sector. In addition, sector timing reduces tax efficiency and ignores individual company fundamentals.

As value managers, it is the discrepancy between the estimated value of a company based on its long-term fundamentals and the prevailing market price that drives our buy and sell decisions. Selling a stock due to a decline in its sector can cause an investor to forgo real long-term value and reduce the return potential of the portfolio. Delta's approach is to maintain a balanced, diversified portfolio of companies bought at a discount from their economic values with sustainable competitive advantages, strong balance sheets and competent management teams.

December 31, 2014

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 is the world's largest manufacturer of construction and mining equipment. 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 70,000 of its more than 125,000 employees located outside the U.S.

Today, CAT controls almost 20% 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 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 continual profitability.

Caterpillar's strong dealer support network is a key component to the company's success and is a competitive advantage.

Caterpillar's equipment is distributed through a worldwide network of independent dealers of which 48 are located in the U.S. and 141 are located in over 180 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. This view is understandable since 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 and 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 (less than 5%), this segment typically contributes double its weight in terms of operating profit.

Continued infrastructure improvements globally should bode well for Caterpillar over the long term.

The company faces a range of operational and financial risks. Performance could 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. With mining and quarrying end markets making up 35% of machinery sales and petroleum and power applications accounting for 39% and 32% of engine sales, respectively, Caterpillar's 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 approximately 9%.

NewellRubbermaid™

Newell Rubbermaid { NWL }

Newell Rubbermaid is a manufacturer and marketer of commercial and consumer products with a number of leading brands, including Rubbermaid, Sharpie, Graco, Irwin, Lenox tools, Levolor blinds, Paper Mate and Waterman, to name a few. The company has a diverse portfolio of

products, such as storage containers, pens, housewares, tools, cookware, label printers and child seats.

Newell Rubbermaid built its collection of products by acquiring relatively mundane businesses with well-known brands. Branding is a core component of Newell's strategy and is used to differentiate its products through quality, consistency and innovation. Many of Newell's competitors do not use a branding strategy. This absence creates a compelling opportunity to set Newell's products apart in the eyes of their customers.

Newell has increased outsourced manufacturing, while reducing the number of company operated plants from 136 to 40.

In recent years, the company found itself with too many products exposed to private label competition and volatile commodity input costs. In response, Newell initiated a multi-year company revamp consisting of the divestiture of low-margin products, cutting overhead, consolidating business units and improving supply chain efficiency. The company also has increased outsourced manufacturing, while reducing the number of company-operated plants from 136 to 40. The restructuring should be complete by 2015. Newell has executed the plan well so far. It has reallocated capital to faster growing businesses and increased its advertising and promotional spending to drive growth.

Newell is combatting lower growth in developed regions by introducing new products into its more mature markets, while increasing the company's presence in faster growing developing regions. Current debt levels will serve as a constraint to future growth through acquisitions, but Newell should produce adequate cash flow that will allow small, opportunistic acquisitions and debt reduction.

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Newell's customers tend to be mass merchandisers, such as discount stores, home centers, warehouse clubs and office superstores. Some of its customers have consolidated, giving them increased market power over pricing through volume purchases and in-house store brands. In addition, some customers require just-in-time inventory, shifting the carrying cost of inventory to Newell. The company continues to address these issues by narrowing its product portfolio to those products with leading market share, good cost attributes and limited private-label exposure.

During the quarter, Newell's market price exceeded our long-term estimate of its fair value. The company's turn-around efforts have so far been successful, and Newell's stock price has performed well in recent years. Nevertheless, given its growth and margin profile, the competitive nature of the industry and customer consolidation, we believe the stock price now fully reflects the company's long-term value. Consequently, we elected to sell our Newell position in client portfolios in November.

Marriott International, Inc. { MAR }

Marriott is one of the best hotel operators in the world. With its powerful reservations system and sophisticated pricing practices, Marriott's iconic brands consistently generate healthy rate premiums relative to the competition. Consequently, a Marriott brand affiliation is one of the most sought after in any market. The company has an extensive brand portfolio from luxury concepts, such as The Ritz-Carlton, JW Marriott and Bvlgari, to upscale full service offerings, such as Marriott and Renaissance, to limited-service Courtyard, Fairfield Inn & Suites and Springhill Suites.

Marriott's emphasis on long-term management contracts and franchise agreements tends to provide more stable earnings during economic downturns.

Marriott has a "property-lite" business model that focuses on managing and franchising hotels rather than owning them. Approximately 43% of the hotel rooms in its system operate under management contracts and 55% operate under franchise agreements. The company owns or leases just 2% of its rooms. Emphasis on long-term management contracts and franchise agreements tends to provide more stable earnings during economic downturns. This strategy has resulted in steady growth, while reducing the need for debt. As a result, the company has a strong balance sheet. It is one of the few in the lodging industry with an investment grade rating.

The company collects base management fees as well as incentive fees, based on the profits of the hotel. Marriott's operating performance over the last few years reflects a favorable economic environment in many markets. Low room growth in most markets in the U.S. and Europe has helped lift occupancy rates and average daily room rates (a key driver of incentive fee growth) to near all-time highs. Incentive fees generate significant earnings growth in peak economic periods because they fall straight to the bottom line, boosting profit margins.

Incentive fees are cyclical and can reverse quickly. From 2001 to 2013, the percentage of North American managed hotels that paid incentive fees ranged from approximately 10% to 70%. These extremes can occur within narrow time frames. Some 70% of hotels paid incentive fees at the peak of the last cycle in 2007, while only 10% paid them three years later in 2009, one of the worst years the hotel industry has seen in decades.

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International markets offer good growth opportunities; increasing wealth is creating more middle class travelers and providing a greater number of development opportunities. Today, the company has more than 600 properties outside of the U.S. More than 50% of its hotel rooms under construction are outside of North America. Marriott's international business has good margins due to a more favorable incentive fee structure. Most of Marriott's international development consists of managed hotel projects. Managed hotels are considerably more profitable than pure franchise hotels, particularly with the luxury brands such as The Ritz-Carlton.

During the quarter, Marriott's market price exceeded our long-term estimate of its fair value. Marriott's stock has performed exceedingly well, from its original September 2008 $21 cost basis. Marriott has been a conservative and fairly consistent growth story with a disciplined management team, an asset-lite strategy, a strong balance sheet and leading brands. Nevertheless, we believe the stock price now exceeds our estimate of the company's long-term value. Consequently, we elected to sell our MAR position in client portfolios in December.

Duke Energy { DUK }

After the July 2012 merger with Progress Energy, Duke Energy is now the largest electric power company in the United States. The merger with Progress strengthened Duke's core Carolinas market and expanded its coverage territory into Florida. The merger also diversified the combined company's power generation output (coal 44%, natural gas 34% and nuclear 21%). Duke now generates and distributes electricity in a broad region encompassing parts of the Carolinas, Florida, Ohio, Indiana and Kentucky. The utility has a diversified customer base (residential 33%, commercial 33%, industrials/textiles 24% and wholesale 10%).

With guaranteed returns and low variability in earnings, regulated entities such as Duke carry less risk than those operating in a competitive market.

Duke announced in August 2014 the sale of its non-regulated Ohio assets to Dynegy for $2.8 billion in cash, a level well above investor expectations. Returns in Ohio were low, and revenues had been steadily declining. Under legislation in effect since 1999, Ohio customers could switch electricity providers at any time to capture the benefits of lower rates.

As a result of the sale to Dynegy, 95% of Duke's power portfolio will operate in a regulatory approved monopolistic environment. In a regulated market, state commissions are responsible for approving a utility's rate base and allowable operating expenses. While rate base rulings are supposed to be in the public interest, commissions must also allow a utility to earn an adequate rate of return to compensate it for investment in plants and environmental improvements. With guaranteed returns and low variability in earnings, regulated entities such as Duke carry less risk than those operating in a competitive market. Regulated utilities, however, lack upward pricing power absent a new rate setting proceeding with state regulatory commissions.

As a result, state regulatory commissions are an important factor in securing an adequate return on investment. Based on recent decisions, the commissions in North and South Carolina appear to be reasonable and balanced about the need for compensatory return on capital and the public's desire for low electric rates. Historically, Ohio and Indiana have been the more challenging regulatory environments. Duke should benefit from favorable regulatory regimes in the Carolinas and Florida. Regulatory risk remains a key uncertainty, particularly given Duke's aggressive capital expenditure plans during the next few years.

Duke will continue its aggressive capital expenditure plans at least for the next few years, which should help growth, assuming constructive rate case outcomes allow adequate returns. The company is taking advantage of historically low interest rates by issuing debt to finance modernization programs. However, construction costs for new power plants have increased markedly since 2000. The risk is that regulatory commissions may not allow a rate increase on cost overruns.

With the Progress Energy merger, Duke now has greater operating efficiencies, a more diverse and flexible power generation fleet and a broader geographic footprint.

In August 2014, the North Carolina legislature passed the Coal Ash Management Act of 2014. The law requires closure of all coal ash basins in the state within 15 years, all of which are leaking contaminants into underground water. It is likely that the cleanup will result in higher costs for Duke's 3.2 million North Carolina customers. Duke is working on an environmental remediation plan, which must be reviewed and approved by North Carolina state environmental authorities.

Electric utilities have been in a difficult operating environment for several years due to weaker demand and rising operating costs. Demand weakness is partly cyclical due to slow economic growth and partly secular as residential and commercial customers increasingly focus on energy efficiency. On the cost side, strict environmental regulatory standards are increasing operating costs for the entire industry. These dual challenges were a major impetus for the merger with Progress Energy. Duke now has greater operating efficiencies, a more diverse and flexible power generation fleet and a broader geographic footprint.

Successful completion of a relatively aggressive capital expenditure program should enable the company to achieve revenue growth in the low single digits. Our valuation assumes Duke achieves favorable regulatory outcomes on future rate cases. Demand challenges and rising costs are expected to pressure profit margins, offset by operating efficiencies and better generation flexibility post-merger. We anticipate a long-term annualized rate of return on Duke's stock of approximately 6%.

Dated: December 31, 2014

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.