Second Quarter Letter 2013

PERSPECTIVE

During the second quarter, the bond market exhibited volatility not seen in years as the Federal Reserve hinted that its quantitative easing policy might taper off sooner than expected. The concern is that the Fed is taking liquidity out of the financial markets by slowing or ending its bond purchases. The increase in liquidity has been a big driver of the markets. Some of the recent volatility may be an overreaction, but whenever there is a fundamental shift in interest rates, which does not happen often, the initial move is usually the sharpest. The Fed's current strategy relies on convincing the markets that while it may scale back its $85 billion a month of bond purchases over the next several months, it still intends to keep short-term interest rates very low until unemployment – last measured at 7.6% – drops to 6.5% or below.

Emerging from a severe financial crisis, the global economy has depended on several principal assumptions: that the U.S. and other developed world's central banks would keep interest rates very low; that China would provide good demand and purchase the world's commodities; and that Europe and Japan would begin to stabilize and recover. However, excessive liquidity has saddled China with industrial overcapacity, empty apartment and office buildings and overbuilt infrastructure. Europe and Japan have experienced recent setbacks to their monetary stimulus with persistent unemployment in southern Europe and weak demand in Japan.

These reversals, coupled with the Fed's hints on interest rates, set off bouts of volatility. In 10 of the 30 trading days since the Fed's policy meeting on May 1, the Dow Jones Industrial Average has moved more than 100 points. On five days it was up; on five it was down.

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Bonds prices were particularly sensitive to Fed Chairman Ben Bernanke's intentions to keep interest rates low. Mutual funds that invest in long-term U.S. Treasury bonds lost an average 6.8% in May, and higher yielding bonds and fixed income securities, to which some investors turned to in search for yield, lost even more. The severity of the market reaction underscores how sensitive investors have become to quantitative easing and ultralow interest rates. Investors need to be reminded of the inverse relationship between interest rates and bond prices. Bond prices fall when interest rates rise; and longer-maturity, higher yielding and riskier bonds fall the most.

Despite the recent volatility, not much has changed in the overall economic outlook. Employers in the U.S. added 175,000 new jobs in May and 195,000 in June, indicating a slow, yet steady, improvement in the economy. Other measures released during the quarter – such as consumer spending, personal income and consumer confidence – were generally positive.

At some point the Fed will end quantitative easing and interest rates will eventually go up. At Delta our fixed income strategy has been to emphasize investment grade securities coupled with a balanced laddered approach. However, with interest rates at such depressed levels, we've tended to shorten the average maturity of our bond portfolios to help reduce volatility and retain flexibility to take advantage of an eventually rising yield curve. We've generally avoided long-term maturities and alternatives to investment grade bonds in an environment where interest rates do not adequately compensate for risk.

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 has a strong reputation as 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 more than 70,000 of its more than 125,000 employees located outside the U.S.

The strong dealer support network is a key component of Caterpillar's success as many customers identify after-market product support as a key differentiator in the decision of which brand to purchase.

Caterpillar's equipment is distributed through a worldwide network of independent dealers – some with multiple branches – 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 of Caterpillar's success and is a competitive advantage. Many equipment customers state that providing responsive after-market product support is a key differentiator in the decision of which brand to purchase, which is understandable considering that 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 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 made only when certain criteria are met, such as a customer's credit history, financial strength and intended use of equipment. While only a small part of revenues – about 5%, this segment typically contributes double its weight in terms of operating profit.

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 weakness in the construction sector.

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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. Continued infrastructure improvements in emerging markets 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.

The company is also employing a "lane" strategy as part of its manufacturing process, shifting equipment that is standardized into certain lanes while keeping other lanes dedicated for customized applications. This strategy should improve utilization and manufacturing times and reduce the need for customized inventory.

Although Caterpillar stock is correlated to industrial production, commodity prices and emerging market growth, 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, increasing operating leverage from emerging markets, 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 10%.

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, Indiana, Kentucky and Ohio. The utility has a diversified customer base (residential 33%, commercial 33%, industrials/textiles 24% and wholesale 10%). Duke's international division accounts for 7% of revenue and 10% of operating profit. Hydroelectric plants in Brazil account for half the international segment.

Duke will continue its aggressive capital expenditure plans for at least the next few years, which should help growth assuming constructive rate case outcomes allow adequate returns.

Duke primarily operates in a regulatory approved monopolistic environment. In a regulated market, state commissions are responsible for determining utilities' rate bases and allowable operating expenses. While rate base rulings are supposed to be in the public interest, commissions seek to provide an adequate rate of return to compensate 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 lack upward pricing power absent approval from state regulatory commissions.

The composition of the state regulatory commissions is 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. Regulatory risk remains a key uncertainty, particularly given Duke's aggressive capital expenditure plans during the next few years. Historically, Indiana and Ohio have been the more challenging regulatory environments. Duke should benefit from favorable regulatory regimes in the Carolinas and Florida. These markets make up 80% of Duke's operating profit, giving the company a geographic advantage.

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.

Duke will continue its aggressive capital expenditure plans for at least 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 from cost overruns is that regulatory commissions may not allow a rate increase on the overage.

Duke Energy Ohio, which now makes up a small contribution to the overall company, continues to suffer from customer switching. Under legislation passed in 1999, Ohio power generation was deregulated, giving customers the option to buy electricity from their regulated utilities or from wholesale power companies. The current Ohio regulatory framework does not allow utilities to

adequately recover their investments. Duke has filed a new rate plan with the state commission to better recoup capacity costs and may in the future reduce its exposure or exit this market.

Electric utilities have been in a difficult operating environment for several years due to weaker demand and rising operating costs. Demand weakness is part cyclical due to slow economic growth and part 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 scale efficiencies, a more diverse and flexible power generation fleet, and a more diverse 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 model assumes Duke achieves favorable regulatory outcomes on future rate cases. Demand challenges and rising costs are expected to pressure profit margins offset by scale efficiencies and better generation flexibility post-merger. We anticipate a long-term annualized rate of return on Duke's stock of almost 8%.

McGraw-Hill Financial { MHFI }

McGraw-Hill Financial comprises some of the leading brands in financial services and business information: Standard & Poor's, Capital IQ, Dow Jones Indices, S&P Indices, Platts and J.D. Power and Associates. Through the years, these franchises have produced valued content with relatively high margins, low capital requirements and strong cash flow.

McGraw-Hill has completed its comprehensive Growth and Value Plan that commenced September 2011. The centerpiece of this plan was the sale of McGraw-Hill Education. McGraw-Hill used the proceeds from this sale to reduce debt and repurchase shares. Along with a new name – McGraw-Hill Financial – the company is now singularly focused on business-to-business financial services. The company is a global leader in credit ratings, benchmarks and analytics that provide essential information and data content to the global commercial, capital and commodity markets.

With offices in more than 20 countries and with 1,400 analysts, Standard and Poor's (S&P) is one of 10 agencies registered with the U.S. Securities and Exchange Commission (SEC) to assess credit risk. Barriers to entry – such as market acceptance and reputation, scale and global distribution – are high. S&P is one of three dominant ratings firms, along with Moody's and Fitch, together issuing over 95% of U.S. ratings. Credit ratings are used by investors, issuers, investment banks and governments. Issuers of bonds rely on credit ratings as an independent verification of their own credit worthiness. Credit ratings also provide the marketplace with a benchmark to help gauge a borrower's 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.

CRAs continue to be subject to criticism and lawsuits as a result of missteps made during the credit crisis. The Dodd-Frank law includes a provision that makes it somewhat easier to sue the CRAs for securities fraud. The largest suit is the Department of Justice (DOJ) civil suit seeking $5 billion in damages. McGraw-Hill has so far rejected a settlement offer and is preparing to fight the lawsuit in court. We believe the company will accept a reasonable settlement offer from the DOJ. Our valuation estimates a $1.5 billion charge against earnings concerning the suit. Though McGraw-Hill continues to be successful in the courtroom, several other cases remain open and the legal and regulatory uncertainty continues to be a challenge.

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The Dodd-Frank Act requires the SEC to begin a study on alternative business models for the credit rating business. The two prevalent models are the current standard where the security issuer pays for the rating and the alternative where the user pays. Though somewhat counterintuitive, the current "issuer pays" model is more transparent and accessible to the marketplace as a whole than the alternative model. 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 with their model intact.

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's indices provide investors with some of the most famous benchmarks (Dow Jones Industrial Average and S&P 500). Globally, more than $1 trillion in assets is directly tied to S&P indices and more than $3.5 trillion is benchmarked to them. Capital IQ is a leading global provider of financial research and analytical tools for capital market participants, such as asset managers, investment banks, brokers and analysts. Capital IQ continues to gain market share due to product enhancements in its data and analytical offerings.

Credit ratings also provide the marketplace with a benchmark to help gauge a borrower's credit worthiness.

Additional data and information brands of McGraw-Hill include Platts, J.D. Power and Associates, and McGraw-Hill Construction. These subsidiaries provide energy, marketing and construction data, research and information to a broad range of individual and institutional clients. These subscriptions-based, recurring revenue models fit well with McGraw-Hill's business of providing value added data and reputational insights.

We assume low single digit revenue growth with operating margins averaging in the upper 20% range over the long term. Based on these assumptions, our valuation model indicates an approximate 9% annualized long-term rate of return given the current stock price.

NewellRubbermaid

Newell Rubbermaid Inc. { NWL }

Newell Rubbermaid is a manufacturer and marketer of commercial and consumer products with 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, including 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, which creates a compelling opportunity to set Newell's products apart in the eyes of its customers.

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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 has also increased outsourced manufacturing while reducing the number of company-operated plants from 136 to 40. Newell's exposure to commodity costs is far less than what it used to be. No single type of commodity is more than 10% of cost of goods sold. The restructuring should be completed by 2015.

Newell is combating weakness 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.

We expect Newell Rubbermaid to grow revenues at a low single digit rate long term. We anticipate the company can generate average long-term cash flow margins approaching 15%,

considering improved operating efficiency and a leaner cost structure offset by increasing investments in R&D and brand support. Using these assumptions, our valuation model indicates an annualized long-term rate of return of approximately 7.0% based on the company's current stock price.

Goldman Sachs Group, Inc. { GS }

Goldman Sachs is a global investment banking, securities and investment management firm. It provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high net worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all of the major financial centers around the world. Goldman converted to a bank holding company in 2008 and is regulated by the Federal Reserve. As a bank holding company, it is subject to regulatory capital requirements and periodic stress tests as determined by the Federal Reserve. These capital requirements are expressed as capital ratios that compare the bank's capital to its risk-weighted assets.

A core competency of Goldman is the ability to reposition businesses to adapt quickly to rapidly changing economic and financial trends by exploiting the firm's global reach and knowledge base. The firm's nimble capital allocation is executed with an intense focus on risk management with the foresight of a long-term outlook. This strategy was key to Goldman's emergence from the financial crisis into a position of relative strength versus most of its competitors. In addition, the firm has a deep talent pool made possible by a partnership structure. This unique model does not rely on any one individual rainmaker. Goldman imposes equity ownership requirements on its partners, which helps align management's interest with those of common shareholders.

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Increased regulation and larger amounts of capital that banks must maintain to absorb losses have lowered returns for the industry. Trading profits, a key profit driver, have gone from extraordinary to just ordinary, rising no faster than the annual growth in capital markets activity. However, in the long run, tougher regulations and higher capital commitments will serve as barriers to entry potentially improving the industry's pricing power.

In response to the new regulatory requirements, Goldman has strengthened its balance sheet by reducing debt, building capital and raising liquidity. Goldman also is reallocating capital away from riskier, proprietary investments toward its more client-driven businesses, such as investment banking and trading.

The firm is focused on expanding its franchise globally to participate in fast growing economic and financial market activity in developing regions. Several European banks have been reducing headcount and exiting certain businesses, which should open up various opportunities for Goldman. Emerging market economies should produce plenty of capital raising and business building activity. With professionals on the ground in developing regions and financial capitals, Goldman should be well-positioned to compete in the global underwriting and investing business.

Goldman is exposed to a number of risks. The exact impact of regulatory rules is difficult to predict and in some cases are still being written. The very nature of the investment banking business is uncertain due to its direct exposure to financial market volatility and economic activity.

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Goldman has maintained a leadership position in most of its activities and is financially sturdier and less burdened by irrational competition than it was before the financial crisis. We believe Goldman will be able to grow revenue in the low single digits on market share gains and emerging market expansion. This will be somewhat mitigated by slower global growth and higher regulatory capital and reduced leverage. We expect Goldman can average a return on equity of more than 9% over the next decade. Based on these assumptions, our financial model indicates that at the current stock price Goldman Sachs' stock offers a potential long-term annual return of approximately 8%.

Dated: July 11, 2013

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.