Third Quarter Letter 2018

PERSPECTIVE

September 2018 marked the 10th anniversary of the Lehman Brothers collapse, one of the defining moments of the financial crisis or the Great Recession. In addition to the Lehman bankruptcy, Fannie Mae and Freddie Mac were placed under federal conservatorship, and several other government-orchestrated bank tie-ups and bailouts occurred in a chaotic September 2008. For the full year 2008, the S&P 500 declined by 37%. It was an historic, turbulent and nerve-rattling period for investors.

What a difference a decade can make. We are in the 10th year of one of the greatest bull markets in U.S. history. During September 2018, the S&P 500 set a new all-time high. According to Wilshire Associates, U.S. equity values have increased 337% (as of this writing) since the stock market's low in March 2009. Today we are experiencing the opposite of where we stood 10 years ago. The focus now should be on where we go from here and how best to guard against emotional triggers, overconfidence and complacency that can lead to both poor decisions and results.

> **Paramount to long-term investment success is the ability to wed a prudent, well-designed investment plan with a disciplined and proven process to carrying out those investments.**

Market cycles, or the ups and downs of the stock market, can be hard to navigate and even harder to predict. Even in the midst of a great bull market, successfully managing through the constantly shifting financial markets is a challenge for investors due to the inability to accurately time market changes as well as our emotions that often overtake reason. This challenge is greater in periods of turbulence and market declines. We know from history that market cycles are an inevitability, but timing the beginning and end of these cycles has proven to be an unsuccessful endeavor for individuals and professionals alike. Investors must guard against biases and emotions that can cause us to make impulsive investment decisions that may derail our long-term goals.

Paramount to long-term investment success is the ability to wed a prudent, well-designed investment plan with a disciplined and proven process to carry out those investments. Determining an appropriate asset allocation (diversifying a client's portfolio among asset classes in some combination of stocks, bonds, real estate and cash) is an important step in developing an investment plan. There is no magic formula for this process, and it is often modified as life circumstances change. Establishing an appropriate investment plan that offers an acceptable expected return at a tolerable risk level is often the easy part. The difficulty comes in staying true to the plan during periods of market volatility. Drastically adjusting one's plan or rushing from one strategy to another is rarely successful. Investors who stay committed to a sound investment plan and objectives through market cycles should greatly increase the odds of generating competitive long-term returns.

At Delta, we match investor objectives with a disciplined investment process, which at its core incorporates a long-term focus. Since emotions inevitably confront investors, decision-making without discipline becomes faulty at best. Our fundamental research and valuation-based approach provides the discipline to our process while also incorporating appropriate risk management. Valuations alone drive our decision-making process. This focus on valuations plus our long-term investment horizon allows us to be opportunistic and take advantage of the market's fixation on short-term events. Short-term negative events and the market overreaction often allow us to invest in quality companies at prices that provide an adequate margin of safety. As market valuations become expensive relative to our long-term estimates of value in rising markets, our investments are gradually reduced and portfolio cash or cash equivalent positions increase, which should limit downside volatility.

Our consistent approach and discipline help guard against emotional overreactions due to short-term events or market "noise." Though superior investment performance cannot be expected over every short-term period, Delta's record demonstrates the ability to produce competitive returns over time.

September 26, 2018

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.

Ecolab Inc. { ECL }

Ecolab is the largest global provider of cleaning and sanitizing products and service programs. These products and programs serve many different industries, such as food and beverage, hospitals, life sciences, hospitality and foodservice. The company pursues a "Circle the Customer – Circle the Globe" strategy by providing a comprehensive set of innovative cleaning, sanitizing and water treatment programs, products and services. Ecolab was founded in 1923 and is headquartered in St. Paul, MN. The company dwarfs its rivals in this highly-fragmented market.

In addition, Ecolab has become (primarily through acquisition) a leading global water technology company. It provides chemicals, services and analytics to help commercial and industrial customers manage water quality, treat boiler and cooling water, and manage and reduce waste water. The company also offers specialty chemicals that treat water and help improve production yields in oil and gas extraction. Ecolab's water-treatment programs serve global industries, such as food and beverage, manufacturing, pulp and paper production, mining and energy. The company's core strength of helping customers reduce, reuse and recycle water is becoming increasingly important as water potentially becomes more scarce longer-term.

The company's oil and gas business (20% of total company revenue) has added cyclicality to Ecolab's portfolio. The company's energy segment has begun to recover after two years of a

difficult operating environment due to lower oil prices. Long-term, the company is positioned well in the industry with many advanced technologies and water treatment solutions required for energy sources, such as shale. From the reservoir to the refinery, the company's chemical solutions touch almost every part of the oil and gas value chain.

Ecolab's extensive and highly-trained sales force has been a key contributor to strengthening and growing its leadership position in the industry. New customers over time are offered new products and solutions, thus expanding the relationship and adding incremental revenue. These customer relationships also provide valuable customer insight, which often leads to product innovation.

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The sales force stays in close contact with customers by visiting sites to ensure the company's products are working and being used properly. Salespersons are highly motivated with as much as 75% of compensation in the form of variable pay.

Many of the company's products and services are complimentary to one another and across industries. There continues to be good cross-sell opportunities between legacy Ecolab and its water treatment services. Its water applications already service hotels, hospitals, commercial buildings, and food and beverage customers. This customer overlap should enable Ecolab to further "Circle the Customer" by selling new products and services to established customers and vice versa.

Ecolab has struggled in Europe for years and has gone through many reorganizations and cost cutting efforts. The investment has begun to pay off with improved operating results. The company has streamlined operations, implementing one operating system to replace 15 and reducing the number of products. Ecolab also retrained its entire sales staff in Europe to focus on deeper product knowledge and incentives for cross-sell opportunities. These changes have resulted in better revenue growth and higher profitability.

Based on its business attributes as a whole, we have assumed Ecolab can grow revenue at an average annual rate of just over 4% over the next decade. Given the consolidation of acquired businesses and expectations of improved European profitability, we believe cash flow margins will average approximately 22% during our forecast period. Using these assumptions, our stock valuation model, based on Ecolab's current stock price, offers a long-term annual rate of return of approximately 4%.

Eaton Corporation Plc { ETN }

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

contracting, manufacturing, aviation, commercial and residential construction, and healthcare. Eaton generates nearly 50% of its revenues in international markets.

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

The company's exposure to its strong, but cyclical, niche businesses (aerospace, automotive, and trucking) is partially mitigated by its wide range of electrical products and services. After the acquisition of Cooper Industries in 2012, Eaton's Electrical Group now accounts for 60% of total revenues. Though its electrical businesses have a slower growth profile versus its industrial businesses, Electrical provides stability to offset its more cyclical businesses. Long-term, we believe the electrical equipment market has good growth opportunities due to the need for power capacity, regulatory changes driving energy efficiency, and power quality and safety.

In addition, Eaton should benefit from the growing demand to control power and mechanical systems remotely for electrical grids, factories and data centers. Management is also driving stronger through-the-cycle profitability and free cash flow through product line optimization, multi-year productivity plans and raising the overall level of operational excellence.

Eaton's industrial businesses (aerospace, hydraulics, vehicle), which make up 40% of total company revenue, are market leaders with competitive advantages, such as its manufacturing scale, cost advantages and high customer switching costs.

Eaton, along with its industrial peers, is facing some near-term operating headwinds. The global capital spending environment is being weighed down by uncertainty due to heightened geopolitical risks, along with volatile commodity prices and currency exchange rates. Many of Eaton's domestic and international end markets are tied to cyclical heavy industries such as mining, commodity and energy extraction. If a downturn in these end markets deepens, earnings will be negatively impacted and reduce the company's return on invested capital. We believe these challenges to be primarily cyclical. Management's current strategy focused on structural cost reduction throughout the organization should lead to higher long-term operating profitability as these end markets recover.

We believe the company's leadership position, extensive installed base, recurring after-market service revenues and long-term customer relationships should provide support for long-term growth and higher average profitability. We expect Eaton will grow revenues in low single-digits on average with cash flow margins of nearly 16% over our 10-year modeling period. Based on these assumptions, our stock valuation model indicates Eaton's current stock price offers an average annual long-term rate of return of approximately 7%.

StanleyBlack&Decker

Stanley Black & Decker { SWK }

Stanley Black and Decker recently celebrated its 175th anniversary. Founded in 1843, the company is a global leader in providing hand and power tools and related accessories, as well as a range of security products and services to consumers and industrial customers. Despite its age, Stanley has experienced tremendous growth in recent decades. It is remarkable to consider that approximately 80% of the revenue growth has occurred since the year 2000.

Reliability and brand loyalty are important factors in the North American tool market. Customers have long memories and can be unforgiving if a manufacturer cuts corners. This brand consciousness helps Stanley in positioning with big box retailers. Retailers look for strong brands that command a premium margin and provide a broad umbrella of products to satisfy core customers. In 2017, the Tools and Storage segment of Stanley accounted for 70% of revenues and 73% of the company's operating profit. Brand loyalty of tools is very high across markets, and many users are willing to pay a premium price for quality products.

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Historically, Stanley has been a serial acquirer and has a successful track record of integrating over 70 acquisitions since 2004. On average, Stanley has improved operating margins by six percentage points on acquired businesses. It absorbed the larger Black and Decker in 2010, significantly broadening its product portfolio and yielding revenue and cost synergies well beyond the original expectations. The merger has created the largest provider of hand and power tools with enormous global reach and channel access, including high growth emerging markets such as Brazil. Recent acquisitions include the purchase of the 90-year-old Craftsman brand from Sears and the purchase of Irwin, and Lenox from Newell brands.

Stanley is sharply focused on driving organic growth, which has matched the robust recovery in housing and home improvement. Research and development expenditures increased by 23% in 2017 and 34% over a two-year period. FlexVolt is a good example of new product innovation. Launched in 2016, FlexVolt has generated over a $100 million in global revenue, accounting for half of the 7% organic growth of the company since its debut.

Longer-term, acquisitions will continue to play a role in the company's outlook. Stanley dedicates 50% of its capital budget to acquisitions with a focus on tool industry consolidation and expanding its industrial platform. The branded tool and storage products are critically important aspects of the company that provide strong free cash flow and modest growth. Stanley will continue to invest in new product development, such as Smart Tools and higher voltage power tools, and increase its brand support through marketing and promotional activities.

Stanley has a successful acquisition track record, but its acquisitive nature remains an ongoing risk. Acquisitions always introduce the risk of overpaying and later facing asset impairments or inadequate returns on invested capital. Stanley also faces commodity price risk. In addition, Stanley could face pressure from tariffs on steel and aluminum. The company does have the benefit of a domestic supply chain as approximately 50% of the company's North American tools are manufactured domestically. However, the company's consolidated customer base and

competitive markets may prevent Stanley from fully passing along rising costs in the form of price increases.

We believe Stanley can grow organically in the low single-digits. We also expect Stanley to continue its acquisition program and fund it through free cash flow and debt financing. Based on this growth, we anticipate operating margins around 13% over the business cycle. Given these assumptions, our valuation model indicates the company's stock is priced to generate an average long-term annual rate of return of approximately 7%.

The Goldman Sachs Group, Inc. { GS }

Goldman Sachs is a global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base, which 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.

Goldman will have a new Chief Executive Officer on October 1, 2018. David Solomon, Goldman's President and Chief Operating Officer, will take over as chief executive from Lloyd Blankfein. Solomon has already outlined an agenda that will continue to move the firm from a trading emphasis to new areas, such as consumer banking, corporate lending and cash management. At 56, Solomon joined Goldman as a partner, an unusual entry point for the firm. He ran the investment banking division for a decade, turning it into the largest banking division on Wall Street.

A core competency of Goldman is its ability to reposition businesses to quickly adapt 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 in a position of relative strength versus most of its competitors. Another example of Goldman adapting quickly to changing circumstances occurred when equity and currency trading went digital in the early 2000s; Goldman rapidly invested huge sums in technology and automated much of its trading. The resulting explosion in trading volumes more than offset the drop in the profitability of each trade.

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. Goldman's leadership and legacy in its field attracts a high caliber, diversified group of talent each year. In 2017, more than 130,000 candidates applied for internships at Goldman. The firm's hire rate was just 4%.

Since the Great Recession of 2008, investment banks have experienced increased regulation and higher capital requirements. Trading profits, a key profit driver, have gone from extraordinary to just ordinary, rising no faster than the annual growth in capital markets activity. Some banks have had to limit or exit profitable businesses such as proprietary trading,

dampening returns. The Trump administration has pledged to undo or lessen regulations, which could allow banks to return more capital to productive uses or to investors.

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

A core competency of Goldman is its ability to reposition businesses to quickly adapt to rapidly changing economic and financial trends by exploiting the firm's global reach and knowledge base.

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. Financial results in any given period can be materially affected by conditions in global financial markets, economic conditions and other factors. Goldman contributed to the campaign to keep the UK in the EU. Goldman has one in six of its workers in Britain, the highest exposure among non-British banks. London will continue to be an important trading city; and exiting the EU is a two-year process, giving Goldman time to adjust.

Goldman has maintained a leadership position in most of its activities and is financially stronger 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, which will be somewhat mitigated by slower global growth, higher regulatory capital and reduced leverage. We expect Goldman can generate return on equity of more than 10% 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: September 26, 2018

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.