



**PENNSYLVANIA TRUST**

**25 YEARS**



## FROM THE CHAIRMAN



RICHARDSON T. MERRIMAN

*A quarter of a century is, in fact, a significant passage of time. While I am disinclined toward boasting, I take enormous pride in Pennsylvania Trust, our past, our present, and the possibilities that lie ahead. Twenty-five years is a milestone to celebrate. From 1986, when Butcher & Co. first offered the idea of founding a trust company, to the organization we are today, our hallmark has remained the same: wealth management services that are both personal and professional, delivered by a principled staff of industry experts. Time invites further retrospection and perhaps the inevitable questions regarding success, change, and the future. Time becomes a resource, a window into the past, a hint at things to come.*

*When Pennsylvania Trust opened its doors in the Drexel Building in downtown Philadelphia, America was enjoying a sustained period of prosperity, spurred on by President Reagan's supply side economics. The financial upheaval of the 70s was behind us. Inflation was low, interest rates were declining, and business was growing. I was confident that if we stayed true to a simple vision – excellence, both in services and delivery – that we would succeed. Together, in partnership with clients who believe in us, we have thrived.*

*Hard work, resilience, and dedication have been required to retain intellectual, financial, and organizational depth and to face the challenge of staying relevant in an ever-evolving economic landscape. And so while our philosophy has not wavered, we move forward, embracing change in order to benefit the clients that we serve. Time makes us better.*

1986

- Butcher & Co. applies to The Commonwealth of Pennsylvania for a trust charter, founding Pennsylvania Trust with \$50 million in assets under management and four employees.



The historic Drexel Building, first home of Pennsylvania Trust.

***“Our goal was to create great investment results and great service with exceptional staff. I never had any doubt that we would succeed.”***

*Rich Merriman*

- IBM unveils the PC convertible, the first laptop computer.



Money Manager / Richardson Merriman

Growth, Value Co-Exist In Pennsylvania Trust Portfolio

By Wesley Hare, Investor's Daily

There are those who think that if you're a "growth" investor, you can't be a "value" investor, and vice versa. But Richardson Merriman isn't one of them.

The head of the investment department at Pennsylvania Trust Co., a brand-new Philadelphia firm managing \$55 million, is a confirmed believer that earnings drive stock prices, and that the most measure is total return, not just growth, the best.

But Merriman also focuses on what is "cheap" in the marketplace, as determined by standard measurements such as price-to-book value, cash flow and earnings.

What's more, Merriman believes the two styles can and should be used together, depending on market conditions. He stresses the "momentum" approach in a bull market but leans to the value side in a bearish environment.

**Bull Or Bear?**

Which makes Merriman an good a candidate as any to tackle this week's 584 question: Has the market, after its recent five fall, entered a new bear phase, one that would cause his pessimism to swing to the "value" side? Or is the bull alive and well, permitting him to remain in the "momentum" camp?

"We look for a correction of 12% to 15%, probably closer to 12%," Merriman said. "But we still think we'll see 2,500 or 3,000 on the Dow before the decade's out. Earnings recession is still a very important part of our scores."

Merriman adds that as a "balanced" investment manager, Pennsylvania Trust is 45% in bonds, 45% in stocks and 10% cash — so the firm's equity exposure is not large, anyway.

Nevertheless, the market's recent weakness has forced him to become even more selective in what is already a very selective investment approach.

Merriman uses a computer to rank 2,500 stocks according to the growth and value characteristics he is seeking, plus a third component — price momentum. (He wants stocks that are already performing well and avoids those with



Richardson Merriman

Relative Strengths of less than 70 in Investor's Daily's rankings.)

He then isolates the top 10% and makes his purchases based on that list. Lately, he has narrowed the focus even more.

"We really want to be in the top 5%," he said. "In a bull market, you can spread it around more. But in this type of market, we want only the top 100."

"If we find there's nothing to buy, or if what we're buying lately starts to tank, we might say, 'Hey, maybe we don't even want to be in the top 5%.' — That would be a clear signal that a bear market has begun, Merriman said.

**Subjective Selection**

Use of a computer to rank stocks makes for a more "disciplined" approach in stock selection and avoids the subjective, "seat-of-the-pants" approaches used by many firms, Merriman believes.

"It's a relative valuation approach," he said. "For instance, we've been getting a lot of calls lately from people saying what a great stock IBM is and how cheap it is (at current levels)."

"I would say, yes, it looks cheap, but is something else — say Cray Research (another mainframe computer maker)

Pennsylvania Trust Co., Philadelphia, \$55 million in trust-fund assets

even cheaper?" As it turns out, Merriman noted, IBM is in the 75th percentile of his rankings and Cray is the 15th.

In examining profit momentum, Merriman differs from many growth-stock pickers in that he looks at earnings estimates rather than trends.

Projections of more than 2,000 analysts at 89 brokerage firms are fed into the computer and updated weekly. When most analysts appear to be raising their estimates, it shows up strongly in Pennsylvania Trust's rankings.

The idea is that higher estimates raise expectations of higher P/E's, helping to lift the stock prices. IBM's mediocre ranking probably reflects the fact that analysts have been lowering their forecasts for the firm, he said.

Merriman limits his portfolios to 30 names, each with a 3% weighting. As a "bottom-up" stock picker, he does not buy groups and pays little attention to how his accounts compare with sector weightings of the S&P 500.

**Shift In Leadership**

Compared with an S&P weighting of 2.5% in paper stocks, for example, Merriman is 5% into this group. Showing up strongest recently have been Petletch Corp. and P.H. Glanville Co.

Merriman senses a shift in market leadership to "soft eyeballs," such as the papers, and away from "consumer staples," such as the foods.

Pennsylvania Trust is also "over-weighted" in electric utilities, favoring Cincinnati Gas & Electric Co., Minnesota Power & Light Co., Baltimore Gas & Electric Co. and General Public Utilities.

It is also strutting printing and publishing companies, with holdings such as Reuters Holdings PLC, Times Mirror Corp. and Cadmus Communications Inc.; chemical stocks, including H.B. Fuller Co. and American Cyanamid Co.; and beverages, with Seagram Ltd. and Anheuser-Busch Cos.

Financial stocks have the heaviest weighting (14%), with names such as Bank & Leases, Tardmark Corp. and J.P. Morgan & Co.

Merriman's weighting of phone companies approximates that of the S&P, with Nynex Corp., U.S. West Inc. and Pacific Telcom Group as his main holdings.

"Underweighted" groups include foods (Archer Daniels Midland), oil (Royal Dutch Petroleum), drugs (Medtronic Inc.) and computers and communications (Digital Equipment Corp. and Metromed Inc.).

Others stocks showing up well in recent weeks include Ford Motor Co., Honda Motor Corp., Golden West Financial Corp. and Carter-Wallace Inc.

**Quick To Cut Losses**

Merriman tries to limit his holdings to the top 100 computer-ranked stocks but he won't "kick them out if they're not outperforming." He doesn't like to keep a stock that is down 10% from its purchase price, however.

"We take losses quickly but profits slowly," he said. "It's the only way to protect your capital. Every 50% loss starts out as a 10% loss. And if you lose 50%, you have to get a 100% to break even."

Pennsylvania Trust is a unit of Trustee Private Bank, a dormant Philadelphia bank that has been operated by private investors.

Before joining the firm this summer, Merriman, 37, was vice president and head of equity product at the Glenview Trust Co., a privately held trust for one of the largest foundations in the U.S.

There, he managed about \$300 million in equities and, over a two-and-a-half-year period ended May 31, produced a total annual return of 28.7% in his discretionary accounts vs. 22.2% in the S&P 500.

Before Glenview, Merriman was vice president in the trust department of Girard Bank, which has since been acquired by Mellon Bank. He did his undergraduate work at Rollins College in Winter Haven, Fla., and holds MBA from New York University.

Investors Daily, September, 1986

***“I remember when I first started in banking we had two stock Quotrons for the entire floor. No one checked stocks throughout the day. Today it would be unthinkable not to have immediate access to information right at your desk.”***

*Larry Berglund*

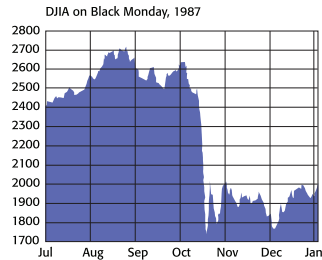


- A gallon of gas costs 89¢.



1987

- U.S. GDP is \$4,692 billion.
- Black Monday, October 19: Stock markets around the world crash. The Dow Jones Average drops 508 points, 23%, the largest one-day percent decline in stock market history.



- World population reaches 5 billion.



1989

- The Berlin Wall comes down.



1991



- Penn Mutual Life Insurance Company, the country's second oldest mutual life insurance provider, acquires Pennsylvania Trust.



Rich Merriman and Larry Berglund in the new offices in Radnor

- Pennsylvania Trust moves to Radnor Corporate Center with 10 employees and \$100 million in assets under management.



*“Our suburban location gave us the benefit of not only added space for our growing staff, but closer proximity to much of our client base.”*

*George McFarland*



- Dow Jones Average tops 3,000 for the first time.



- World Wide Web first becomes available for public use.

1993



- Bill Clinton is inaugurated 42nd President of the United States.



Santa distributes gifts during the annual Pennsylvania Trust holiday party.

1998

- The European Union agrees to a common currency, the euro.



1999

- Pennsylvania Trust celebrates \$1 billion in assets under management.



Wistar Morris, Bill Davison, and Rich Merriman



JoAnne Fredericks

***“From the outset we have been committed to a set of core values – excellence, respect, community, confidentiality, compassion, and service – they are the fabric of Pennsylvania Trust’s culture.”***

*JoAnne Fredericks*

2000

- George W. Bush attained the White House in one of the closest presidential elections in U.S. history.



- NASDAQ peaks at 5,132.52 just before the dot com bubble bursts.



- *The Philadelphia Inquirer* profiles Rich Merriman and Pennsylvania Trust in August of 2000.



2001



George McFarland, Lee Anderson, and Bill Woolbert

*“Technological innovations have allowed us to offer more timely, up-to-the-minute information that immediately benefits our clients.”*

Lee Anderson



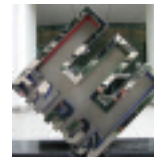
- World Trade Center collapses following terrorist attack on September 11.



- World population reaches 6.16 billion.



- Enron, the largest energy trader, files for bankruptcy amidst allegations of fraud and becomes the symbol of corporate excess.



*“Our ability and willingness to create individual investment strategies distinguishes us. It’s an increasingly rare approach as cost concerns lead many organizations to homogenized solutions.”*

Pierce Archer

2003

- President Bush signs ten-year \$350 billion tax cut package, third largest in U.S. history.

- Congressional Budget Office predicts \$480 billion federal deficit.

- President Bush sends troops to invade Iraq.



- The last old style Volkswagen Beetle drives off the production line.



- U.S. Treasury Bill rates at 45-year low of 1%.

## 2005

- George W. Bush begins second term as President of the United States.



- Hurricane Katrina batters the Gulf Coast resulting in catastrophic damage.



Pennsylvania Trust staff volunteers for *The Other Carpenter*

***“Community involvement is a sincere and important***

***commitment at Pennsylvania Trust. We serve both as individuals and as an organization, endeavoring to support and improve the communities where we live and work.”***

*Carol Wyeth*

## 2007

- A gallon of gas costs \$3.38.



- Democrat Nancy Pelosi is elected Speaker of the House by the 110th Congress, the first female chosen for this role.

- U.S. housing market collapses and a financial crisis ensues.



- Apple introduces the iPhone.



## 2008

- Large-scale bank failures trigger economic “meltdown,” deepening the economic crisis.



- Congress passes \$700 billion bank bailout bill and establishes the Troubled Assets Recovery Program (TARP).



- Congress authorizes a \$14 billion auto industry bailout bill.



- Pennsylvania Trust has grown to \$1.3 billion in assets under management and 37 employees.

# 2009



- Barack Obama is inaugurated as the 44th President of the United States, the first African American elected to this office.



- Chrysler and GM file for bankruptcy.



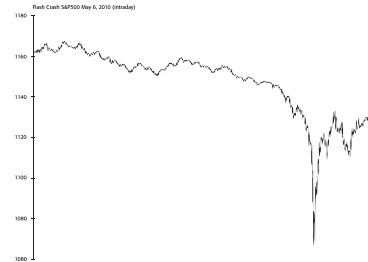
- Bernard Madoff pleads guilty to carrying out a Ponzi scheme that defrauded investors of billions of dollars.

- U.S. GDP is \$14,260 billion.

- President Obama signs \$787 billion federal stimulus package into law.

# 2010

- “Flash Crash” has Dow Jones Average plunging 900 points and then recovering losses in minutes.

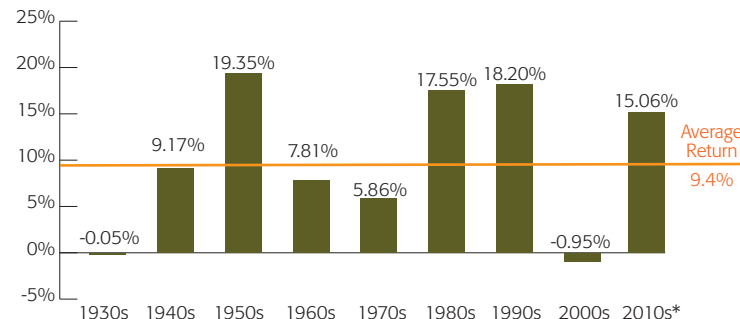


- Federal Reserve plans to infuse \$600 billion into the economy with a second round of monetary stimulus, known as QE2.

- Unemployment hovers around 9.4% at the year’s close.



Stock Market Returns



\* 2010

# 2011



- Pennsylvania Trust becomes independent and employee owned, a milestone coinciding with 25 proud years of providing investment management and trust services for individuals, families, private foundations and endowments. Assets under management approach \$1.8 billion.

*“An increasingly complex and integrated world has led us to expand the investment options we consider for client portfolios. New products, including exchange traded funds, have allowed us to efficiently capture specific opportunities in foreign markets, real estate, fixed income, and smaller capitalization companies.”*

*Bill Woolbert*

**I** am grateful to the many partners who are the foundation of Pennsylvania Trust. Butcher & Co. positioned us for a strong beginning and nurtured our initial growth. In 1991, we forged a relationship with Penn Mutual Life Insurance Company as a subsidiary with operating autonomy, a mutually beneficial pairing that offered financial support and stability. As Pennsylvania Trust begins a new chapter, independent and employee owned, we move forward ably prepared to strengthen our commitment to our clients and the stewardship of their assets.

The source of our core strength continues to be our team of dedicated professionals who, year after year, offer the integrity, expertise, and care our clients value. This shared vision and sense of responsibility is demonstrated daily as we continue to challenge ourselves to develop purposeful relationships with our clients and community. Excellence is a habit. We celebrate our history and our achievements. The years ahead are filled with promise.



Richardson T. Merriman  
Chairman and Chief Executive Officer



Left to right: Gary Schlarbaum, George McFarland, Jim Wolitarsky, David Robinson, Rich Merriman, Kathleen Putnam, Henry Pass, Dick Miles

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*Pennsylvania Trust is committed to:  
Conducting all our relationships with integrity and  
maintaining the highest ethical standards  
Providing outstanding professional and personalized services  
Producing superior investment results consistent with  
client objectives  
Retaining exceptionally skilled individuals and empowering  
them with state-of-the-art technology.*

*[Above] William Penn, Man of Vision, Courage, and Action by N.C. Wyeth.  
Commissioned in 1932, the mural is representative of Pennsylvania Trust's  
corporate mission.*

