PENNSYLVANIA TRUST

25 YEARS

WINTER 2012



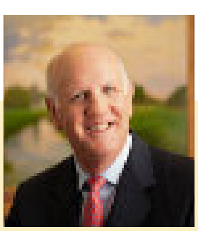
trust & investment perspectives

More of the Same for 2012? by Willard N. Woolbert

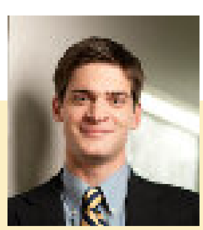
Turning the calendar to a new January doesn't necessarily lead to a new investment landscape. European political and financial leaders have not fixed the government deficit issues that set off the crisis of the past two years. The U.S. Congress and the Administration were only able to agree on a two-month extension of unemployment and wage tax relief, setting up the prospect of further contentiousness early in 2012. In Asia, economic numbers show further slowing as economic weakness in developed countries compounds the impact of tighter monetary conditions. All of these factors were responsible for the stop-and-start markets in the U.S. in 2011, the 12% decline in the EAFE developed market index, and the 20% drop in the emerging markets. We know that financial market conditions are never stable, but it is very tempting to think that 2012 will look a great deal like 2011. If it is going to be different, it will depend on some settlement in Europe, a surprise in economic activity in the U.S., and more aggressive easing by emerging market central banks. At the end of 2011, we saw developments in Europe and the U.S. that could lead to a better outcome for markets in 2012.

The European Central Bank (ECB) has frustrated investors by its unwillingness to embark on a program of quantitative easing by purchasing vast amounts of Italian and Spanish debt. Acting as buyer of last resort for these impaired sovereigns is thought by many to be the way through the crisis. The ECB has apparently held out for fiscal reform in these countries before spreading Euros over the painful process of budget discipline that is demanded. At the end of the year, the ECB began to take a different approach. European banks have been facing some of the same funding issues as have the governments. U.S. money funds have given up buying their short-term paper — and interest rates demanded for longer-term bonds are uneconomic. Concern over the possible collapse of a major bank in Europe and its potential impact on banks around the world has been a major reason for the volatility of markets in 2011.

European banks are also generally less well capitalized than those in the U.S. Demands for higher capital ratios in this constrained continued on page 4







Spartan Capital Management Joins Pennsylvania Trust

Spartan Capital Management, a Chester County based independent investment advisory firm has become part of Pennsylvania Trust, collectively bringing Pennsylvania Trust total assets under management to $2.2 billion. Spartan's co-founder and chair, David Robinson and co-founder Gilpin Bartels, add their extensive management experience to the Pennsylvania Trust team and will serve respectively as: Senior Vice President and Chief Strategy Officer; and Senior Vice President, Spartan Multi-Cap Value Portfolio Manager. David will also sit on the Pennsylvania Trust Board of Directors. Joining with them are Susan Bartels, Patricia Markell and August Gerhardt.

President's Letter

"The only safe thing to say about the future is that it lies ahead," reads a quip by political satirist Mort Sahl. And so it is as we enter 2012, not without some trepidation, as the past year has buffeted conventional wisdom about economics, investing, and perhaps even politics. Add record-breaking snowstorms, flooding, a tsunami, vast changes in the Arab world, and a fractious debt ceiling debate, and it has been quite a year.

Now to consider how best to approach a new one. One wants to choose optimism, but ignoring the current state of affairs both at home and abroad would be shortsighted. I recently heard an economist suggest relative optimism or alternatively, lack of unequivocal pessimism, terms that offer a choice depending on your personal inclination.

Perhaps the age-old exercise of listing pluses and minuses to help synthesize thinking is familiar to many of you. If I were to take out a new yellow legal pad and draw a T-chart, I would begin my ranking on the positive side. In fact, the year did end on a stronger note than anticipated, a good sign, with corporate profits continuing to trend strong. *Fortune* reports that "up slightly is the new up," the result of a survey of executives and entrepreneurs on their performance results, and a paradigm that we might all be satisfied with, all things considered. However, on the right, or minus side of my list, remain questions about: unemployment, 8.5% in December; housing issues; inflation; and of major concern, U.S. monetary policy. Although Congress and the administration did compromise on extending unemployment benefits and payroll tax cuts, it is only for two months. Yet returning to the positive, deficit reduction has been given greater attention in the political arena, offering some hope that we can move past the paralyzing gridlock of recent history. An election year may offer some incentive for resolution yet also offers the risk of continued gamesmanship and divisiveness. We will be watching Washington very closely.

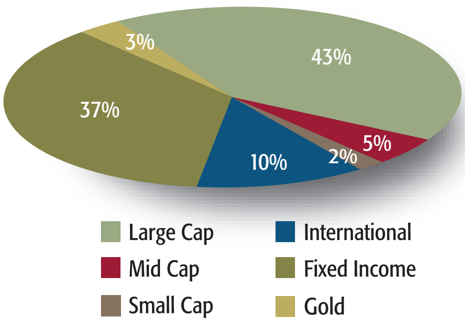
Finally, it is no surprise that the European debt crisis figures large in the minus column. Many economists feel that the resolution of this problem will be the key economic and political issue of 2012. In his article in this issue, Bill Woolbert offers a more expanded view of the challenges facing Europe as well as those closer to home. There is no question that world politics and economics have become increasingly intertwined. I am encouraged that the European Union is realizing that resolving the debt crisis will require changes, both institutional and political, but reform comes slowly and there are many constituencies to contend with.

The year ahead, as any, portends risks and some surprises. At Pennsylvania Trust, our approach has always been measured, informed and rational, whether we are considering investments or fiduciary responsibilities. In this, our 25th year, we have many pluses to celebrate. Our purchase of the firm from Penn Mutual positions us as independent and employee owned, a choice that we are confident will take us into the future stronger and better aligned to serve our clients. Our combination with Spartan Capital Management brings our total assets under management to $2.2 billion, a noteworthy milestone. Additions of a number of exceptionally qualified colleagues, notably in the Trust department, allows us to continue to offer outstanding service to our clients. On the following page, Aaron Fox, our most recent addition to the trust administration team, shares his thoughts on choosing a corporate trustee. I know you will benefit from the information he brings from a wealth of experience in administering trust agreements.

It is far easier for me to look to the future of Pennsylvania Trust than to wager guesses, however educated, about the political and economic climate ahead. Our goals remain unchanged, yet still relevant, as we continue our commitment to keep our promise of outstanding levels of personal service to our clients, with compassion and care. All of us at Pennsylvania Trust look forward to serving you in the New Year.

Richardson T. Merriman
Chairman, President,
and Chief Executive Officer

Balanced Asset Allocation



Trust Talk

Issues to Consider when Choosing Your Trustee

by Aaron H. Fox, Esq.

Among the many critical decisions individuals make when planning their estate, few are more important than choosing the right trustee to manage their assets after they are gone or if they become incapacitated. Too often, a client's instinct is to select a trusted friend, relative, or business partner simply because they have a long-standing relationship with that individual. However, the decision on who should serve as a trustee should primarily be viewed as a business decision.

There are several reasons why individuals should consider a corporate trustee. Managing a trust and carrying out the objectives of the grantor is a complex and time-consuming endeavor. No matter how simple or unambiguous the trust may appear to be, there are a multitude of tax, legal, and fiduciary issues that must be considered. Additionally, the trustee must regularly communicate with beneficiaries, craft tax-efficient and prudent investment strategies, and review legal issues that arise from time to time. A competent corporate trustee should be able to handle all of these matters, offering the additional benefit of coordination by a single entity. Furthermore, a corporate trustee is monitored and audited by oversight committees and state regulatory agencies to ensure that management is occurring in compliance with the language of the trust and state laws.

One frequent reason cited for choosing a friend or relative as trustee is that the person, through his or her close relationship to the family, will be in a better position to make decisions than a faceless corporate entity. However, it is that very quality that can make serving as a trustee so difficult. One of the main duties of the trustee is to make decisions on trust distributions that are requested by beneficiaries. In doing so, the trustee must try to objectively balance the needs of various beneficiaries, both current and future. This can involve making decisions that are unpopular with certain beneficiaries and may potentially jeopardize the trustee's relationship with these beneficiaries. A corporate trustee, on the other hand, has no emotional tie to the family and is better able to make objective decisions to carry out the wishes of the grantor and mediate any conflicts that arise.

Another important factor to consider when choosing a trustee is the expected duration of the trust. Trusts will generally exist for several generations, and some are specifically drafted to last in perpetuity. A corporate trustee should generally be able to administer a trust indefinitely, while an individual, even one who starts out with good intentions, may not be able to sustain a commitment to the task. Even the simple relocation of an individual trustee to another state may trigger detrimental income tax consequences for the trust.

Finally, an individual agreeing to serve as a trustee may, under certain circumstances, be exposed to personal liability for the decisions that were made during their management of the trust. Alternatively, a competent corporate trustee understands the risk it is taking on when serving as a trustee and is strongly incentivized to manage that risk by strictly adhering to its duties of fairness and impartiality.

As you can see, what seems like a simple decision is really anything but. Choosing a trustee with care and consideration ensures that your assets are managed in accordance with your desires. At Pennsylvania Trust, our trust team's breadth of experience can be put to use in guiding your decisions. We welcome the opportunity to discuss this critical, but often overlooked, estate planning issue.

Mr. Fox is Vice President of Trust and Account Administration at Pennsylvania Trust.

Trust Team Welcomes Aaron Fox

Aaron H. Fox, Esq. recently joined Pennsylvania Trust as Vice President in Trust Administration. Aaron's most recent experience includes guiding large and complex family relationships for Goldman Sachs Trust Company. Additionally, he brings expertise in fiduciary risk management, compliance, business acceptance and account review. In the above article, he offers guidance on choosing a corporate trustee.

continued from page 1 environment meant that the banks would be forced to sell their best assets or, more critical for global economic activity, shrink their loan portfolios. European banks have been major lenders in the emerging economies and the prospect of reduced credit in this area was beginning to impact growth. In December, the ECB addressed these issues with the introduction of the Longer Term Refinancing Operations (LTRO) program. Through this program, banks are able to borrow an unlimited amount for 3 years at 1%. Borrow they did, taking roughly $645 billion from the ECB. If that is not enough, the program will re-open in February. This gives the banks three years of funding at a very competitive rate, presumably long enough to get through the crisis period. This is important for global markets as it almost certainly takes the prospect of a contagious collapse of banks stemming from the sovereign debt crisis out of investors' minds and, with it, the source of some of 2011's volatility. So far, this money has not left the ECB, moving only from the ECB's account to bank deposits at the ECB. Over the next several months it will be important for the markets to see if this money is used for lending or, perhaps, to do the buying of sovereign debt that the ECB could not or would not do itself, or if it stays on deposit, serving only to prop up the banks.

In the U.S. in January, the Labor Department reported that job growth in December exceeded 200,000 for the first time since February of 2011. This level of growth is generally considered the minimum to begin eating away at our unemployment problem. While surprising given recent months' reports, it is part of a trend towards generally better economic news. Auto sales have moved higher and retail sales in December looked strong. In manufacturing, the Institute for Supply Management surveys have improved and export growth remains good. What has been missing in the recovery since the 2008 crisis has been housing. It was the source of the 2008 financial crisis, and the inventory of unsold and foreclosed property has overwhelmed the business of building new homes. Single family construction has remained at about one-third of pre-crisis levels. The housing industry is an important source of employment and small business activity, and its relentless weakness has been a key reason for the poor recovery to date. There are some signs of life in the multi-family construction numbers. Mortgage rates have reached historic lows and affordability is back to a level not seen for decades. In an election year, some form of stimulation for housing would be an attractive political strategy as well. Further signs of improvement in housing would provide a sense of sustainability to the better economic news and also to the equity market.

The problems that convulsed markets in 2011 remain with us and a defensive strategy in portfolios is still very much warranted. More positively, the ECB has found a way to move money into its floundering banks and the U.S. economy has showed some unexpected strength. Both, if sustained, could produce a better outcome for equity markets in 2012.

Mr. Woolbert is Senior Vice President and Chief Investment Officer at Pennsylvania Trust.

Pennsylvania Trust Hosts Photography Show

Through My Lens: Retrospective, a collection of compelling photographs by local photographer, Rosalinda "Linda" Madara, recently graced the walls of Pennsylvania Trust. Ranging from international travel to the most delicate of flowers in her garden, Linda's images are a reflection of her passion for life and as she says, "its beauty, contrariness, challenges, and excitement." Pennsylvania Trust is proud to continue its tradition of showcasing the work of local artists.

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Pennsylvania Trust is committed to conduct all our relationships with integrity and to maintain the highest ethical standards; provide outstanding professional and personalized services; produce superior investment results consistent with client objectives; and retain exceptionally skilled individuals, empowering them with state-of-the-art technology.

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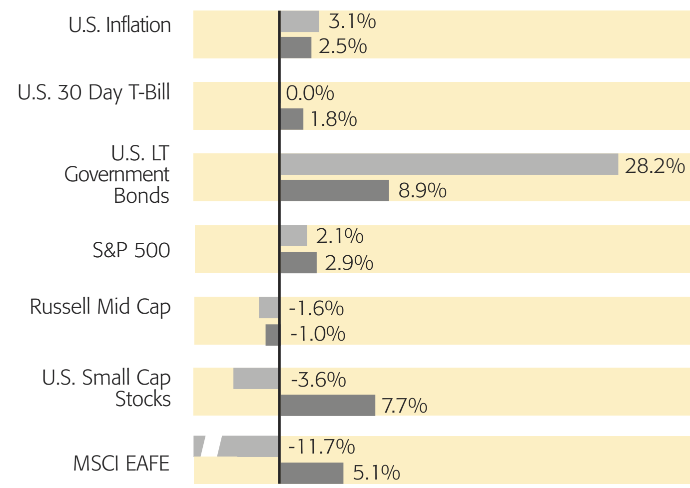
Market Indicators

	Current	Three Months Ago	One Year Ago
Stock Indices	12/31/11	9/30/11	12/31/10
Dow Jones Industrial Average	12,217	11,154	11,578
Standard & Poor's	1,257	1,160	1,258
U.S. Treasury Yields			
2 Year	0.2%	0.2%	0.6%
5 Year	0.8%	1.0%	2.0%
10 Year	1.9%	1.9%	3.3%
30 Year	2.9%	2.9%	4.3%

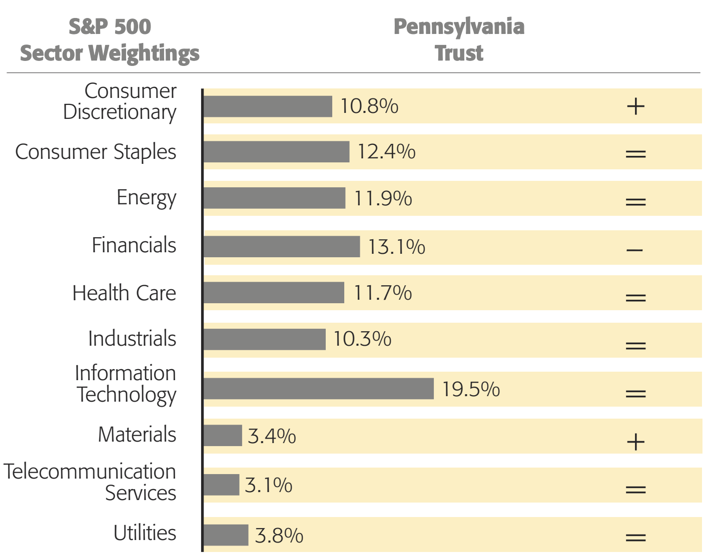
ANNUALIZED RETURNS OF SELECT ASSET CLASSES



Source: Ibbotson Associates

CORE LARGE CAP DIVERSIFICATION

In order to maintain a well diversified large cap common stock portfolio, we recommend the following relative sector weightings within the Standard & Poor's 500:



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