

Q U A R T E R L Y R E V I E W



CHRISTIANA

BANK & TRUST

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MARCH 31, 2010

FIRST QUARTER

MARCH 31, 2010

Large-cap U.S. stocks shrugged off a poor start to the year to post solid gains in the first quarter on fresh evidence the economy was improving. U.S. mid- and small-cap stocks fared even better. Government debt woes kept international stocks in check during the period. Higher yielding corporates continued to lead the way for bonds.

After slipping in January, large-cap U.S. stocks (+5.4%) rallied on news that the economy grew at its fastest pace in six years, finishing strongly in the first quarter. Discounting the fact that much of the strength in the GDP number was the result of businesses rebuilding their inventories following the recession and the government stimulus, investor focus remained on the positive trend. Mid- (+9.1%) and small- (+8.9%) cap stocks nearly lapped large-caps as their more domestic oriented businesses were bigger beneficiaries of the spike in U.S. economic activity. This outperformance by smaller companies has persisted for a year now, making their stocks expensive, suggesting a shift in leadership toward larger companies could be near.

International stocks (+0.9%) dug a deeper hole than domestic stocks to begin the year and needed a late rally to end the period in positive territory. Dragging overseas stocks down at the start of the quarter was mainly Greece's debt woes but China's decision to begin reversing some fiscal stimulus programs to prevent its economic recovery from overheating also contributed. Greece's huge budget deficits and trouble refinancing government debt depressed returns for its major European neighbors like France (-3.6%), Germany (-2.5%) and the United Kingdom (-1.2%). A bright spot for a change was Japan (+7.4%) which drew investor interest more for its inexpensive stock prices than the pace of its economic recovery.

Bonds (+1.8%) delivered but the pattern of their performance was opposite that of stocks as the investor mood shifted during the first quarter. They rallied at the start as investors sought their safety from weakness in equity prices early in the period but struggled the balance of the quarter on concerns increased U.S. government borrowing and an improving economy would push up interest rates. This shift in sentiment was reflected in the yield swings on the ten-year U.S. Treasury Note from 3.83% at the beginning of the period, down to 3.55% in early February and back up to 3.90% by late March. Lower rated, higher yielding corporates were again the best performing sector in this low interest rate environment.

Both stocks and bonds got off to a strong start in the first quarter of the year. For stocks it was their fourth straight period of returns in excess of 5.0% and best first quarter since 1998. For bonds it marked their sixth consecutive period of positive returns. With about half of last year's massive federal stimulus bill still unspent, the prospects for modest improvement in the economy continuing over the near term are good. The challenge that remains is bringing down the stubbornly high unemployment rate (currently 9.7%) that is holding back this recovery.

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IN THE NEWS



April 8, 2010

US STOCKS - Wall st. advances on retail strength

By Rodrigo Campos

"The consumer seems to be coming out of hibernation and the latest data shows stabilization in (economic) growth," said **Thomas Nyheim**, portfolio manager at **Christiana Bank & Trust Co.** in Greenville, Delaware. He said the positive news coming from the United States overshadowed the issues regarding Greek fiscal stability.



March 28, 2010

Stocks: Retreat or recharge

By Alexandra Twin

A government report Friday showed that GDP grew at a 5.6% annualized rate in the fourth quarter, slower than the initially reported 5.9%, but still strong.

However, that was driven largely by inventory rebuilding, therefore making the number look stronger than it really is, said **Scott Armiger**, portfolio manager at **Christiana Bank & Trust Company**. He said that the next few quarters of GDP will also seem stronger than they are as the bulk of the stimulus money kicks in.

Meanwhile, the tax burden and cost of doing business keep rising. In such an environment, stocks are likely to stall or retreat, he said.

"I think we'll see a pullback sooner rather than later," **Armiger** said. "We could see some selling through the spring and then it picks back up in the summer when the second-quarter earnings are released."



April 3, 2010

Job growth on the market's mind after long weekend

By Deborah Levine

The Labor Department said Friday that the economy created 162,000 jobs in March. While that headline number missed analyst estimates, it was all due to smaller-than-expected number of hires by the Commerce Department to conduct the census. Analysts focused on private-sector payrolls, which rose more than predicted.

"It's a good number after two years of a horrendous job market," said **Thomas Nyheim**, a portfolio manager at **Christiana Bank & Trust Co.** "This jobs report shows companies are starting to hire."

Consumer spending, a crucial component to an economic recovery has been very slow for months but ticked up so far this year, he said.

"There are signs it's emerging again," **Nyheim** said.



March 11, 2010

US STOCKS - Markets fall after jobless data, China CPI

By Ryan Vlastelica

Initial claims dropped by 6,000 to 462,000 in the latest week, the Labor Department said, while economists expected 460,000 claims.

"The data was very mixed. It shows that we're stabilizing, but reinforces how far the labor market is from where we were before the crisis hit," said **Thomas Nyheim**, vice president at **Christiana Bank & Trust** in Greenville, Delaware.

To view more quotes by our investment team, please
visit the "In the Media" page on our Web site.

www.christianatrust.com

LARGE-CAP GARP EQUITY COMPOSITE

MARCH 31, 2010

INVESTMENT STYLE

GROWTH AT A REASONABLE PRICE

The primary objective of the Large-Cap GARP Equity style is growth of principal. This style's goal is to identify companies that have demonstrated superior operating characteristics and long-term prospects. We strive to purchase them at a fair price. These companies will generally have a market capitalization in excess of \$5 Billion. Sector weightings may differ significantly from the S&P 500 Index. Individual issues are identified and selected using quantitative proprietary screens with growth and value factors and fundamental research.

PORTFOLIO CONSTRUCTION

Portfolios will generally contain 30 to 45 issues. A portfolio's dividend yield will generally be slightly lower than the S&P 500 Index. Turnover is moderate. Over a full market cycle, a portfolio would be expected to demonstrate controlled volatility, a higher ROE, and a moderately higher P/E ratio than the benchmark S&P 500 Index.

PORTFOLIO CHARACTERISTICS

	<u>Composite</u>	<u>S&P 500</u>
Price/Earnings	19.15	19.18
Price/Book	3.20	2.29
Price/Sales	1.80	1.32
Beta	0.93	1.00
Yield	1.62%	1.79%
*EPS Growth	10.20%	6.00%
Median Market Cap. (\$Millions)	\$39,068.76	
Turnover	25-40%	
Composite ROE	20.99%	

*5-Year Growth Estimate

SECTOR WEIGHTINGS

Basic Materials	3.6%
Industrials	13.7%
Telecommunications	1.4%
Consumer Discretionary	9.6%
Utilities	1.3%
Financial	9.1%
Consumer Staples	15.4%
Energy	12.9%
Health Care	10.0%
Technology	23.0%

TOP 10 EQUITY HOLDINGS

Nike Inc.	4.2%
Precision Castparts Corp.	4.1%
Thermo Fisher Scientific	4.1%
Exxon Mobil Corp.	4.0%
Procter & Gamble	3.8%
Walt Disney Co	3.6%
Johnson & Johnson	3.4%
Pepsico Inc.	3.3%
Oracle Corp	3.0%
Wal Mart Stores Inc.	2.9%

PERFORMANCE

	<u>CBT</u>	<u>LCC**</u>	<u>S&P 500</u>
1999	34.21%	22.35%	21.04%
2000	1.71%	-8.96%	-9.09%
2001	-12.05%	-13.76%	-11.88%
2002	-23.87%	-23.49%	-22.10%
2003	25.76%	25.59%	28.68%
2004	8.71%	7.79%	10.88%
2005	4.95%	4.85%	4.91%
2006	6.88%	13.50%	15.80%
2007	8.21%	5.80%	5.49%
2008	-32.28%	-37.23%	-37.00%
2009	20.88%	27.14%	26.46%
2010 (3 Mo.)	4.44%	4.90%	5.39%
ITD*	2.34%	0.42%	1.33%

*Inception to date (1999) annualized

**Large-Cap Core equity mutual fund average from Lipper

NOT A DEPOSIT	NOT FDIC INSURED	MAY LOSE VALUE
NOT GUARANTEED BY NATIONAL PENN BANK		NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

LARGE-CAP GARP EQUITY COMPOSITE

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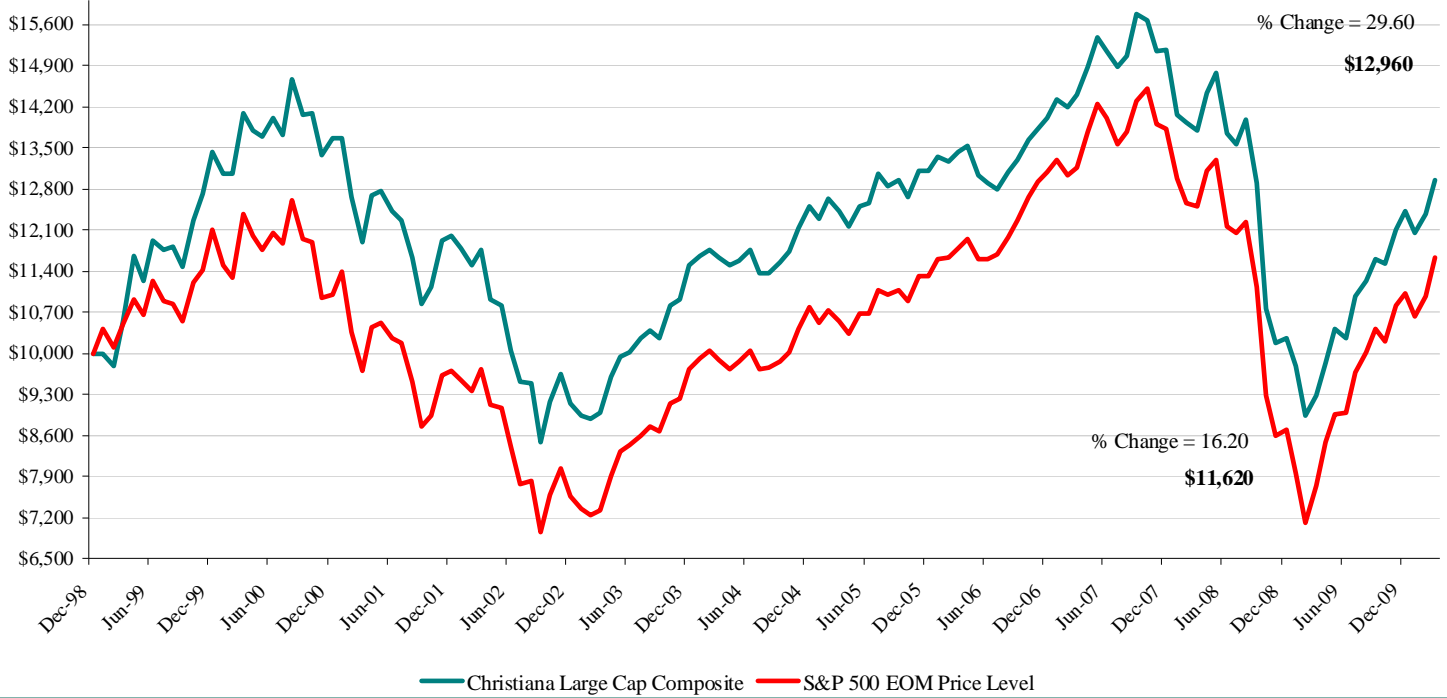
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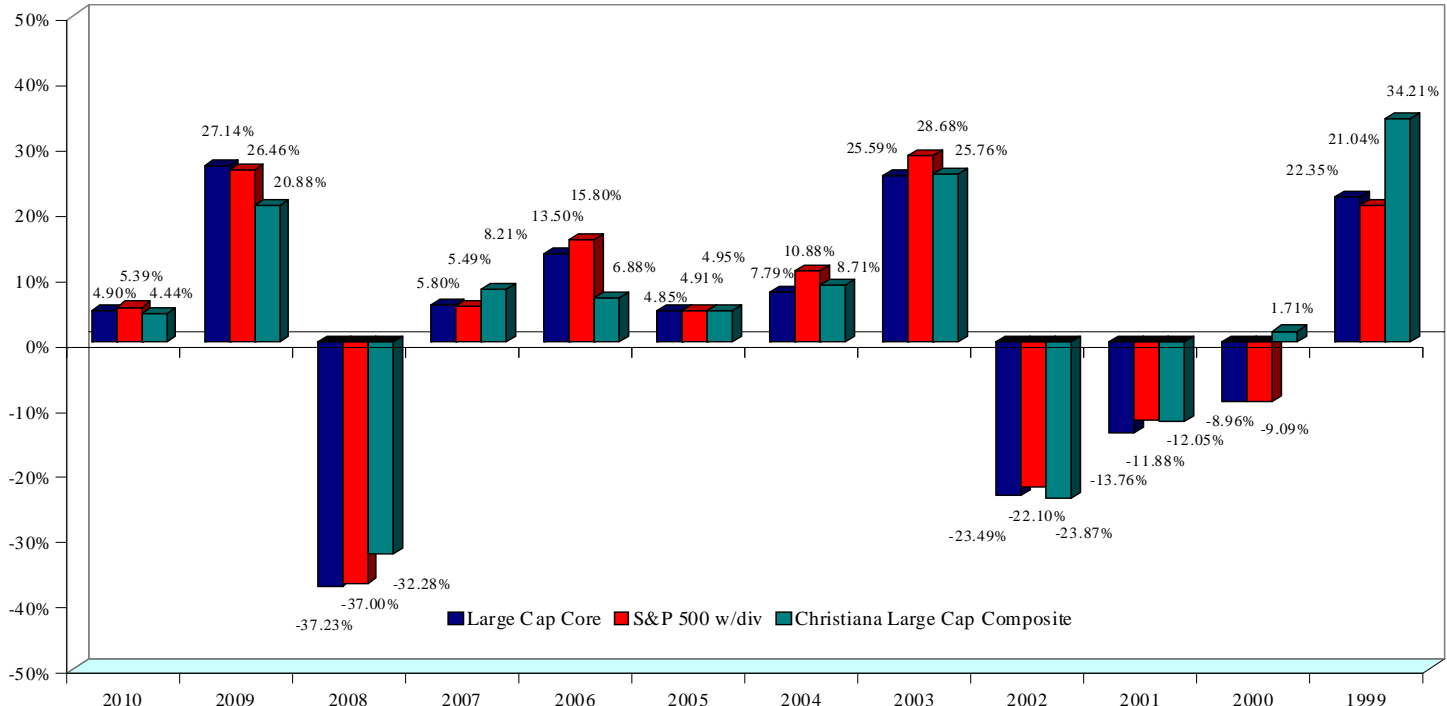
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GROWTH OF \$10,000



ANNUAL RETURNS



Large-Cap Equity composite returns represent a dollar weighted composite of all equity accounts where Christiana Bank & Trust Company has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage is not used in this composite. Composite returns reflect the reinvestment of interest, dividends and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the large-cap core equity mutual fund average is Lipper.

MARCH 31, 2010

INVESTMENT STYLE

INTERMEDIATE FIXED INCOME

The primary objective of the Intermediate Fixed Income style is to generate current income consistent with managing portfolio volatility. The principal characteristic of the process is a quest for value. The process invests by looking at historical spreads as they apply to particular issues as well as relevant trends on a comparative basis.

PORTFOLIO CONSTRUCTION

Portfolios utilize investment grade and highly liquid issues. All fixed income market sectors are reviewed. Maturities are spread across the yield curve. High quality, liquid issues are actively managed with the objective of identifying the best relative values. Credit and yield spread analysis is the basis for portfolio construction.

PORTFOLIO CHARACTERISTICS

	<u>Composite</u>
Average Maturity (years)	1.9
Yield to Worst	1.7%
Yield to Maturity	4.2%
Duration (years)	1.3
Current Number of Issues	29
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder

QUALITY ALLOCATIONS

AAA/Aaa:	13.0%
AA/Aa:	3.6%
A:	11.0%
BBB/Baa:	0.0%
BB/Ba:	5.1%
B:	0.0%
FDIC Insured Certificates of Deposit:	67.3%

Average Quality Issue:	A
Minimum Quality Issue:	BB

SECTOR ALLOCATIONS

US Govts/Agencies:	13.0%
US Inv. Grade Corporates:	14.6%
US High Yield Corporates:	5.1%
US MBS/ABS:	0.0%
Certificates of Deposit:	67.3%
Mortgage Pass Thrus/TBA:	0.0%
Municipals:	0.0%
Yankees:	0.0%
Emerging Market Debt:	0.0%

PERFORMANCE

	<u>CBT</u>	<u>IB*</u>	<u>B**</u>
1999	-4.41%	-1.32%	0.39%
2000	12.50%	9.74%	10.10%
2001	8.76%	7.57%	8.98%
2002	10.05%	8.14%	9.82%
2003	5.51%	4.55%	4.30%
2004	2.93%	3.83%	3.04%
2005	1.95%	1.77%	1.57%
2006	4.72%	4.00%	4.07%
2007	5.01%	4.70%	7.40%
2008	3.11%	-4.43%	5.08%
2009	4.63%	12.89%	5.25%
2010 (3 Mo.)	2.14%	2.40%	1.54%
ITD***	4.98%	4.69%	5.43%

*Intermediate Bond mutual fund average from Lipper

**Barclays Intermediate Government/Credit Index

***Inception to date (1999) annualized

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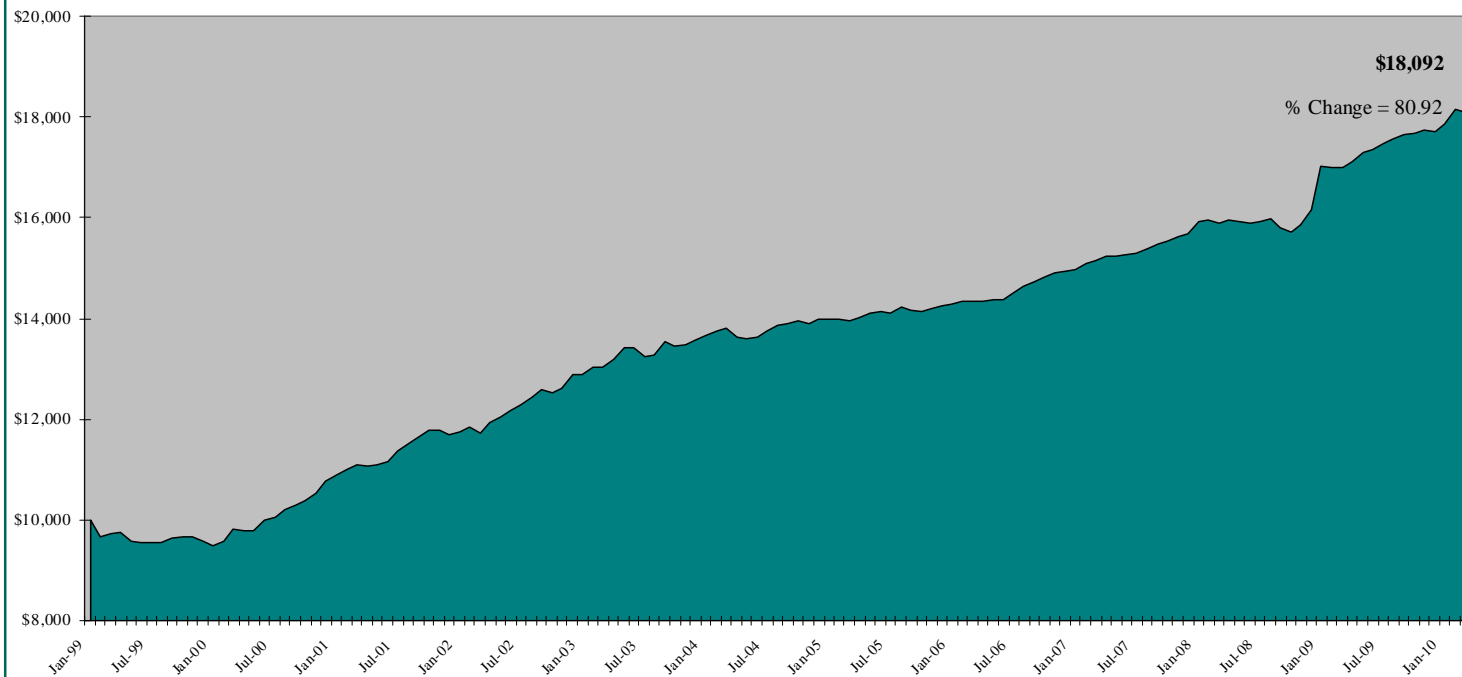
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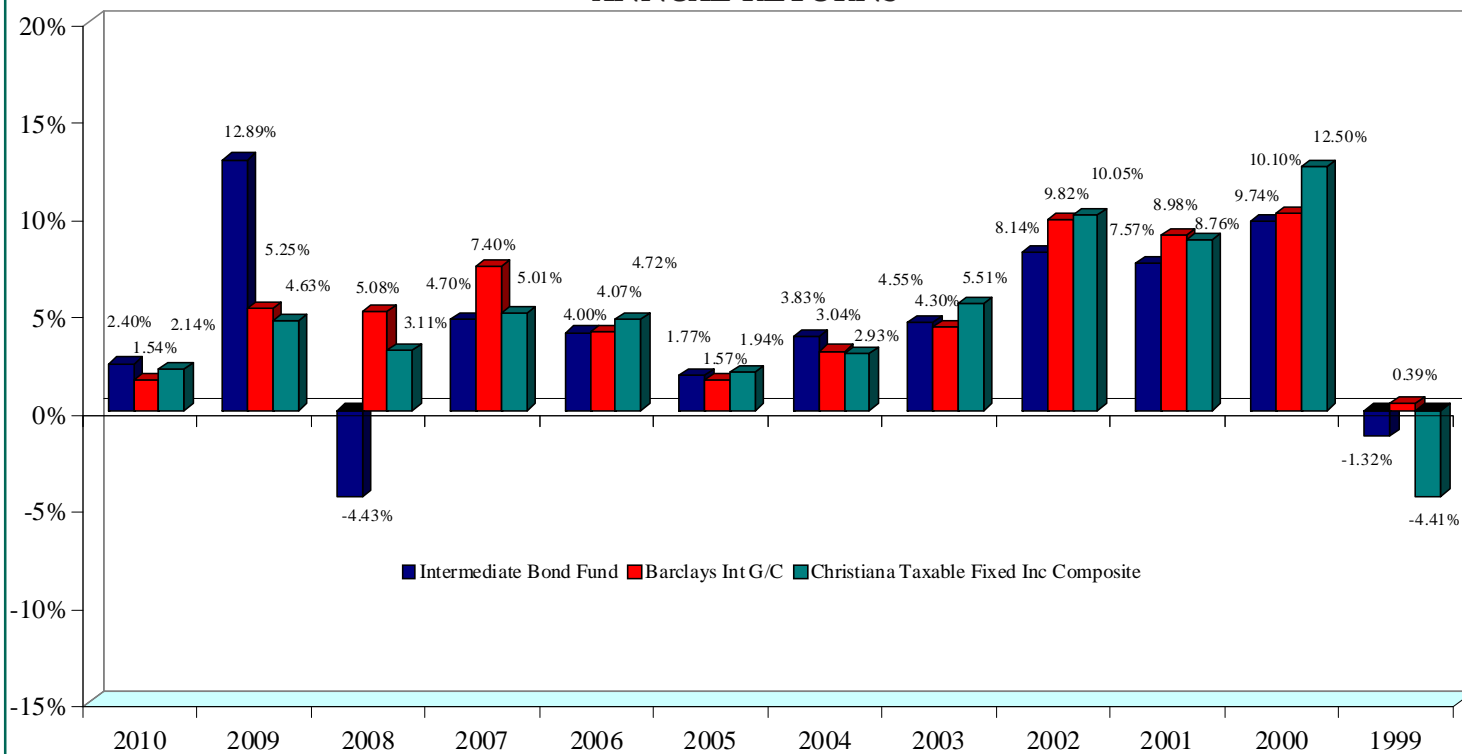
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FIXED INCOME COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



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MARCH 31, 2010

INVESTMENT STYLE
INTERMEDIATE FIXED INCOME

The primary objective of the Intermediate Tax-Exempt Municipal Bond style is to generate current income consistent with managing portfolio volatility. The principal characteristic of the process is a quest for value. The process invests by looking at historical spreads as they apply to particular issues as well as relevant trends on a comparative basis.

PORTFOLIO CONSTRUCTION

Portfolios utilize primarily tax-exempt municipal bonds based on client's tax considerations. The composite seeks a high level of income that is exempt from both federal and state income taxes. Maturities are spread across the yield curve. High quality, liquid issues are actively managed with the objective of identifying the best relative values. Credit and yield spread analysis is the basis for portfolio construction.

PORTFOLIO CHARACTERISTICS

	<u>Composite</u>
Average Maturity (years)	2.8
Yield to Worst	1.4%
Yield to Maturity	4.0%
Duration (years)	2.5
Current Number of Issues	165
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder

QUALITY ALLOCATIONS

AAA/Aaa:	66.7%
AA/Aa:	19.5%
A:	9.1%
BBB/Baa:	3.7%
BB/Ba:	0.3%
B:	0.0%
FDIC Insured Certificates of Deposit:	0.7%

Average Quality Issue:	AA
Minimum Quality Issue:	BB

SECTOR ALLOCATIONS

Municipals:	98.7%
US Govts/Agencies:	0.3%
Certificates of Deposit:	0.7%
US Inv. Grade Corporates:	0.3%
US High Yield Corporates:	0.0%
US MBS/ABS:	0.0%
Mortgage Pass Thrus/TBA:	0.0%
Yankees:	0.0%
Emerging Market Debt:	0.0%

PERFORMANCE

	<u>CBT</u>	<u>IMB*</u>	<u>B*</u>
1999 (8 Mo.)	-3.72%	-2.17%	-0.60%
2000	13.47%	8.68%	7.70%
2001	3.56%	4.79%	6.20%
2002	10.53%	8.34%	9.26%
2003	3.51%	4.35%	4.13%
2004	2.13%	2.85%	2.71%
2005	1.80%	2.01%	0.95%
2006	3.34%	3.87%	3.34%
2007	4.29%	2.90%	5.13%
2008	2.91%	-1.79%	5.79%
2009	4.20%	9.90%	7.41%
2010 (3 Mo.)	0.89%	0.80%	0.77%
ITD***	4.21%	4.01%	4.80%

*Intermediate Muni Bond mutual fund average from Lipper

*Barclays 5-Yr Muni Bond

***Inception to date (May 1999) annualized

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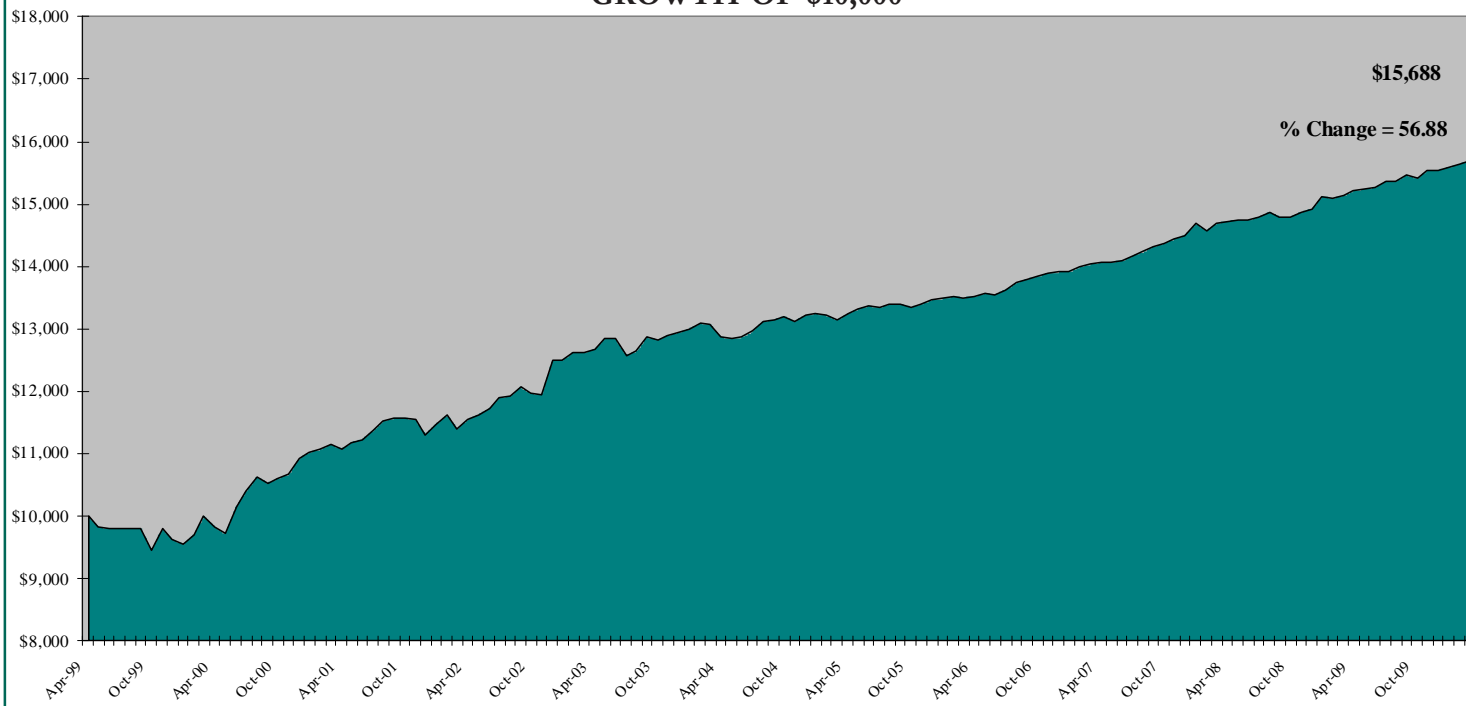
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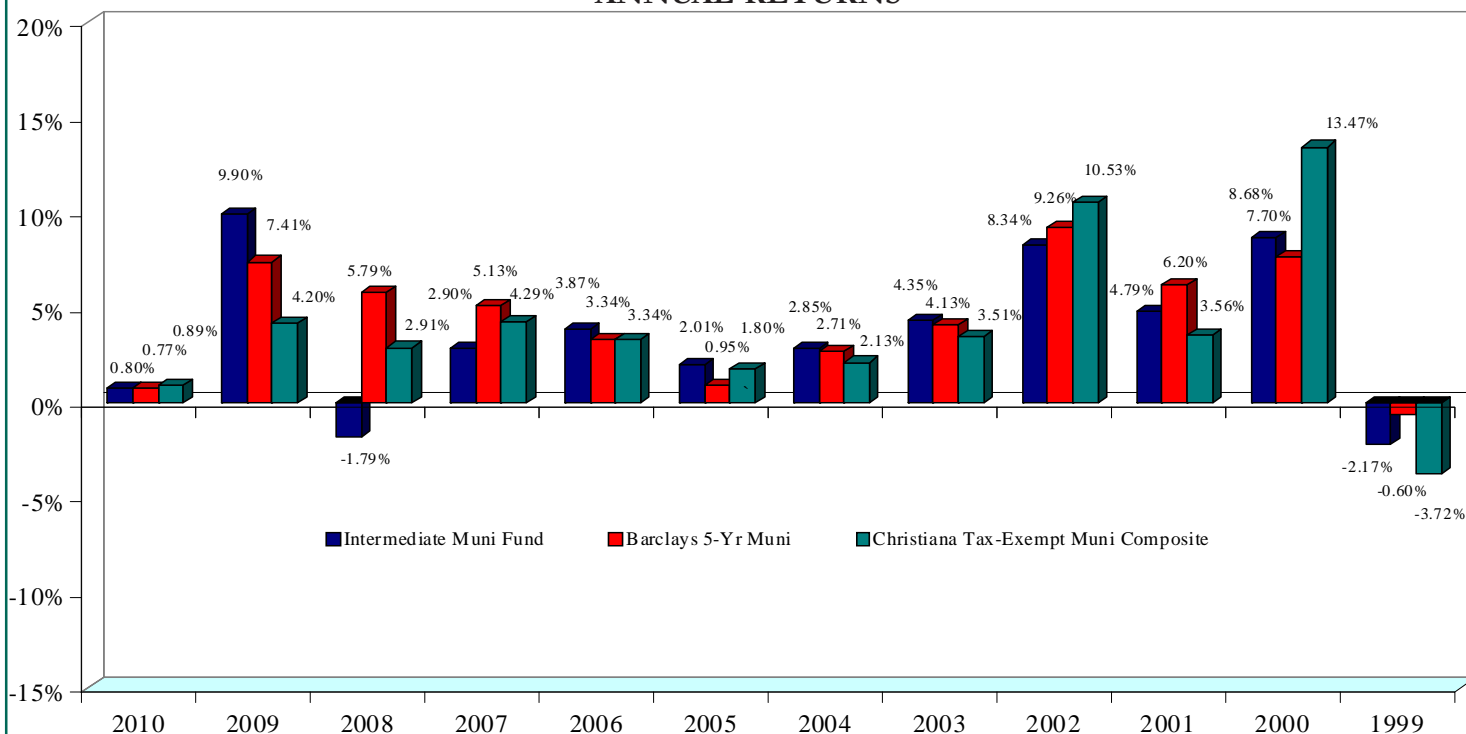
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TAX-EXEMPT MUNICIPAL COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



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