

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



CHRISTIANA

BANK & TRUST

Subsidiary of National Penn



JUNE 30, 2009

SECOND QUARTER

JUNE 30, 2009

Stocks around the globe soared in the second quarter, more in relief that the global economy stopped deteriorating than on any significant sign that a recovery was around the corner. International equities, especially those from emerging markets, led the U.S. in the rebound. Bonds rallied on the strength of a recovery in corporate issues.

Large cap U.S. stocks (+15.9%) took off during the period despite the fact the recession passed the 18-month mark and economic data did not suggest a near-term rebound. Instead, it was relief that the worst of the recession seemed to have passed that sent stocks higher. The rally was broad-based but led by the recently battered finance sector (+35.1%), thanks to a combination of aggressive government support and historically low interest rates. This helped value stocks (+17.5%) best growth stocks (+14.6%) for the quarter. Market capitalization was a factor as mid (+18.7%) and small (+20.7%) cap stocks fared even better. The lack of economic data pointing to a rebound seemed to take a little off the rally late in the quarter as stocks gave back a small portion of their big gains.

International stocks (+25.4%) did even better as investors breathed a sigh of relief that economies around the globe, while still weak, were at least stabilizing. Similar to the U.S., it was the companies that had been roughed up the most in recent quarters that led the charge. Major developed economies like the United Kingdom (+25.5%), Japan (+23.1%) and Germany (+21.2%) were significant contributors. Most impressive was the performance of emerging markets equities (+34.7%) behind the strength of Brazil (+41.1%) and China (+36.1%). Their outperformance can be attributed to a much more optimistic near-term outlook for their economies versus developed markets.

Bonds (+1.8%) posted an above average return for the period but saw their seven quarter winning streak versus large cap U.S. stocks come to an end. This time corporate bonds led the way as investors appetite for risk in credit markets increased dramatically. This flight from quality sent the yield on the benchmark ten-year U.S. Treasury from 2.69% to 3.52% during the period. The Federal Reserve met twice during the quarter but left interest rates alone at their current, historically low, level given the fragility of the economy. The yield curve did steepen during the period, a sign that investors are concerned about inflation long term.

The first half of 2009 was a tale of two distinctly different equity markets. U.S. stocks (-11.0%) tumbled in the first quarter on fears a credit crisis with its roots in the housing bubble might deliver the worst economy since the 1930s. In the second quarter U.S. stocks (+15.9%) reversed course and rallied on signs that credit markets had stabilized and the economy, although weak, was no longer declining. For this positive shift in sentiment to continue in the second half of the year, it probably will require additional evidence that the housing market is bottoming, job losses are ebbing and corporate earnings include better sales in addition to cost cutting efforts.

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IN THE NEWS

Bloomberg

June 24, 2009

U.S. Stock-Index Futures Advance; Oracle Climbs After Earnings

By Rita Nazareth and Lynn Thomasson

U.S. stock futures rose, indicating the Standard & Poor's 500 Index may climb for a second day, after orders for durable goods unexpectedly jumped and earnings topped estimates at Oracle Corp. and Monsanto Co.

Oracle, the second-largest software maker, gained 4 percent and Monsanto, the biggest producer of seeds, added 2 percent. General Electric Co. and Caterpillar Inc. rose 1.5 percent as bookings for goods meant to last several years climbed 1.8 percent in May. European stocks gained as the Organization for Economic Cooperation and Development boosted its economic forecasts.

"When you see a bellwether like Oracle come out and beat estimates, that can only be a positive for the market," said **Thomas Nyheim**, a Greenville, Delaware-based fund manager for **Christiana Bank & Trust Co.**, which oversees \$4.6 billion. "Valuations still look attractive on stocks."



June 18, 2009

Financial, health care stocks lead market higher

Stock market welcomes Geithner comments on regulation, better reading on leading indicators

By Tim Paradis

After modest gains last week, fell sharply in the first part of this week. Traders have been saying a pullback was likely after such a sharp gain in recent weeks.

"I don't think that this rally is sustainable," said **Scott Armiger**, portfolio manager at **Christiana Bank & Trust**. "I still think we have to give up a little bit more."

Still, Thursday's gains are evidence that the market hasn't lost its upward momentum. With trading light as the summer slowdown begins, analysts say more volume is needed in order to move the market significantly in any one direction.



June 18, 2009

The Incredible Shrinking Stock Buyback

After taking a bath on buybacks in prior years, companies don't want to spend money to snap up their shares at sharply lower prices

By Ben Steverman

ExxonMobil, Wal-Mart Buck the Trend

In the S&P 500, 83 firms stopped buying back stock entirely from the fourth quarter of 2008 to the first quarter of 2009, Silverblatt notes. And more than a quarter of all buybacks in the first quarter came from one company, ExxonMobil (XOM), which bought back \$7.85 billion in shares. "The fourth quarter of 2008 and the first quarter of 2009 were in theory the perfect time to do buybacks because prices were depressed," said **Scott Armiger**, portfolio manager at **Christiana Bank & Trust**. "In practice, companies aren't buying back stock because they literally can't afford to."

Bloomberg

June 8, 2009

U.S. Stocks Drop as Energy, Raw-Material Producers Fall

By Lynn Thomasson

'Unprecedented Stimulus'

"We're still in a terrible recession, but the recession is slowly ending," said **Thomas Nyheim**, a Greenville, Delaware-based fund manager for **Christiana Bank & Trust Co.**, which oversees \$4.6 billion. "With all that money coming in from the unprecedented stimulus, you know you're going to get inflation."

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

www.christianatrust.com

LARGE CAP GARP EQUITY COMPOSITE

JUNE 30, 2009

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	12.68	14.38
Price/Book	2.54	1.95
Price/Sales	1.17	0.94
Beta	0.92	1.00
Yield	2.05%	2.99%
*EPS Growth	11.06%	6.00%
Median Market Cap. (\$Millions)	\$23,798.21	
Turnover	25-40%	
Composite ROE	24.69%	

*5-Year Growth Estimate

SECTOR WEIGHTINGS

Basic Materials	2.8%
Industrials	13.7%
Telecommunications	1.2%
Consumer Discretionary	5.9%
Utilities	2.1%
Financial	9.5%
Consumer Staples	18.3%
Energy	13.6%
Health Care	14.2%
Technology	18.7%

TOP 10 EQUITY HOLDINGS

Exxon Mobil Corp.	5.7%
Procter & Gamble	5.0%
Thermo Fisher Scientific	5.1%
Pepsico Inc.	4.7%
Johnson & Johnson	4.5%
Precision Castparts Corp.	4.1%
Oracle	3.7%
Burlington Northern Santa Fe	3.7%
Wal Mart Stores Inc.	3.6%
Schlumberger Ltd	3.3%

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 (6 Mo.)	-0.04%	4.90%	3.16%
ITD*	0.25%	-1.82%	-1.02%

*Inception to date (1999) annualized

**Large Cap Core equity mutual fund average from Lipper

NOT A DEPOSIT	NOT FDIC INSURED	MAY LOSE VALUE
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LARGE CAP GARP EQUITY COMPOSITE

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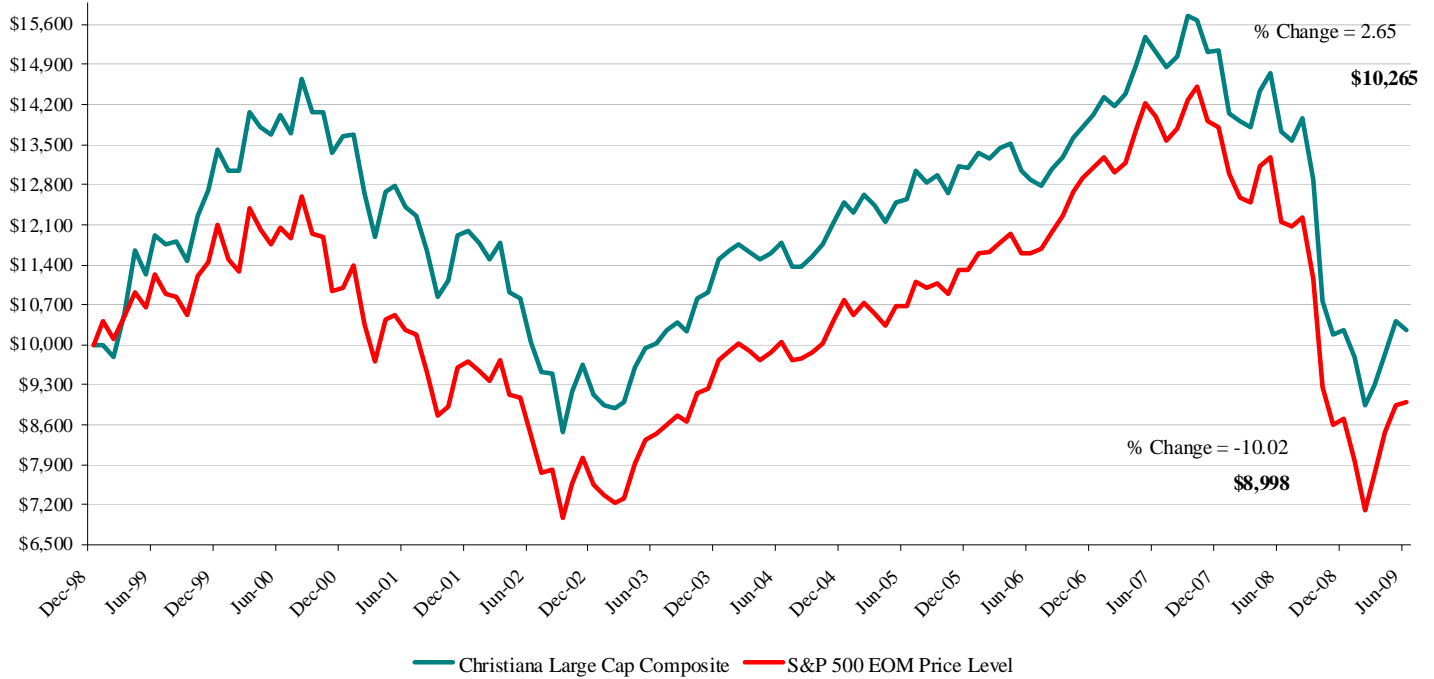
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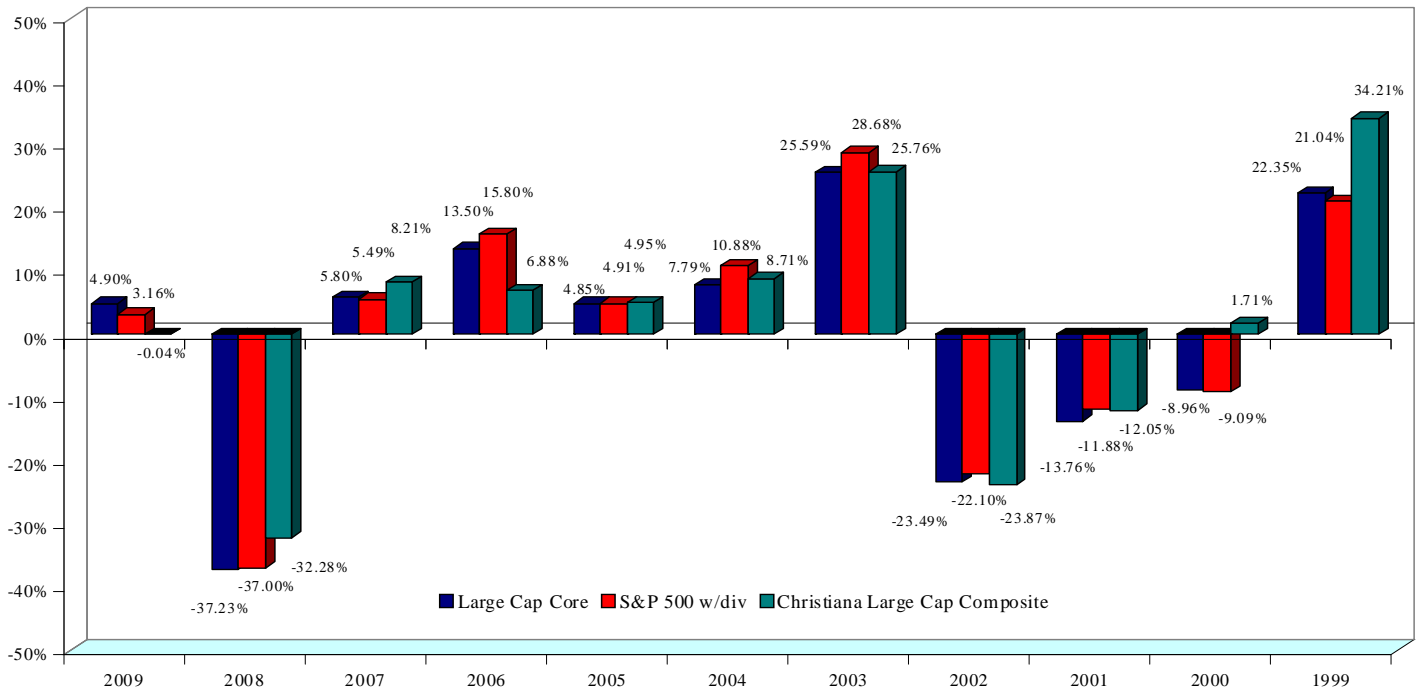
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GROWTH OF \$10,000



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.

JUNE 30, 2009

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)	1.7
Yield to Worst	2.1%
Yield to Maturity	4.2%
Duration (years)	1.4
Current Number of Issues	32
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder

QUALITY ALLOCATIONS

AAA/Aaa:	45.2%
AA/Aa:	5.3%
A:	28.2%
BBB/Baa:	21.3%
BB/Ba:	0.0%
B:	0.0%

Average Quality Issue:	A
Minimum Quality Issue:	BBB

SECTOR ALLOCATIONS

US Govts/Agencies:	20.3%
US Inv. Grade Corporates:	79.7%
US High Yield Corporates:	0.0%
US MBS/ABS:	0.0%
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 (6 Mo.)	2.13%	5.00%	1.62%
ITD***	4.89%	4.07%	5.32%

*Intermediate Bond mutual fund average from Lipper

**Barclays Intermediate Government/Credit Index

***Inception to date (1999) annualized

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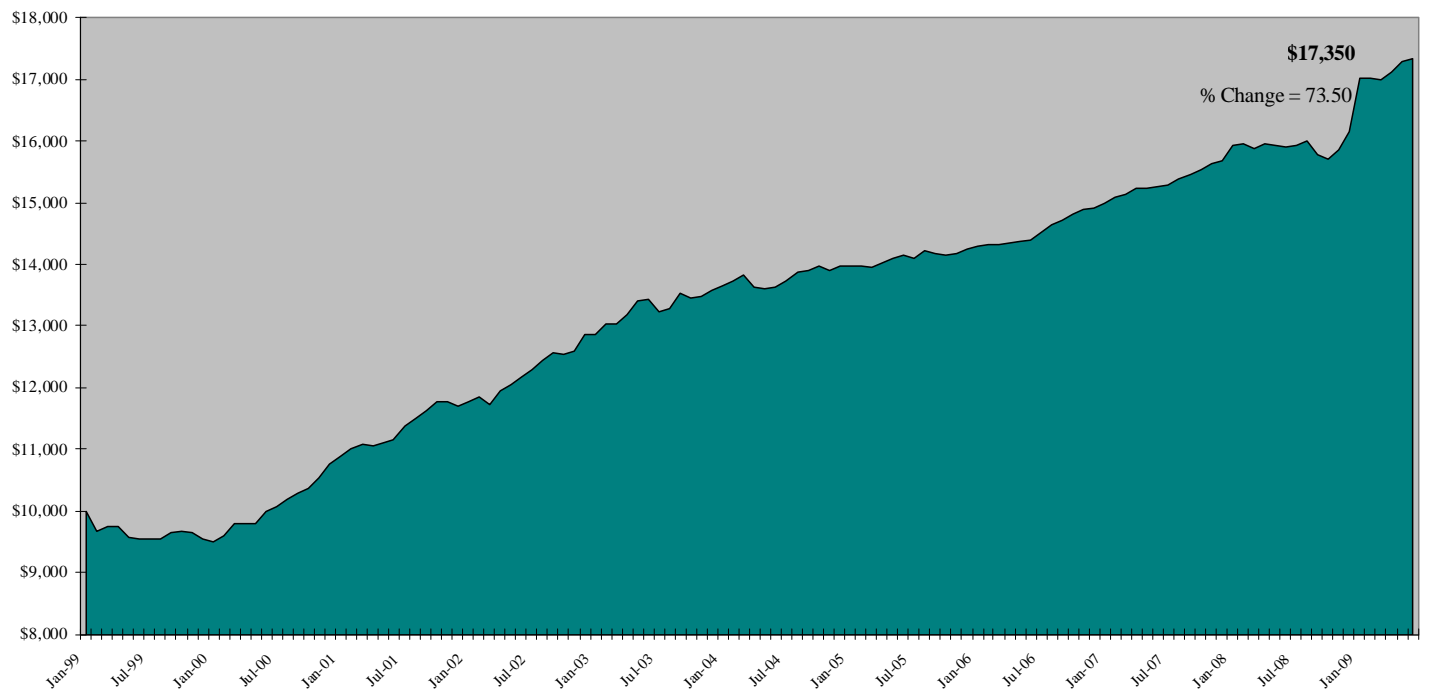
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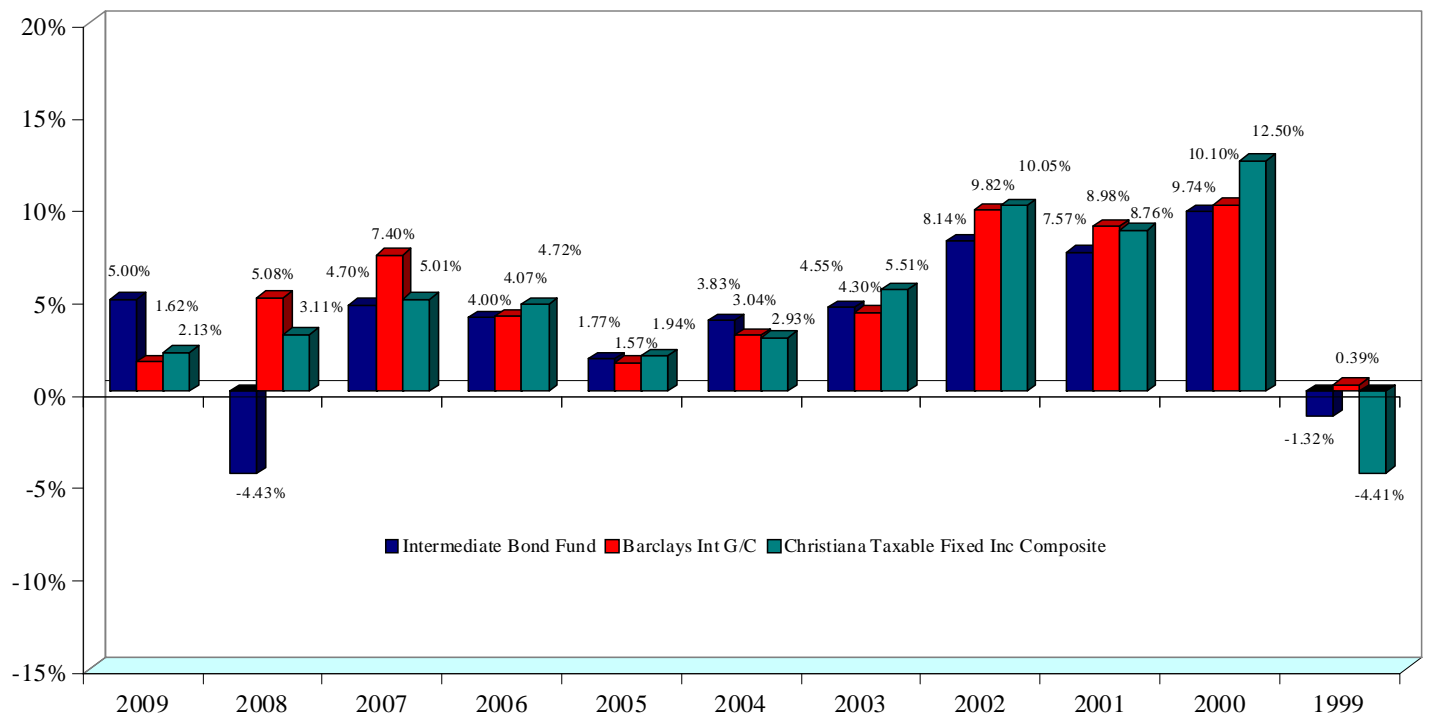
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FIXED INCOME COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



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JUNE 30, 2009

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)	2.3
Yield to Worst	2.0%
Yield to Maturity	4.0%
Duration (years)	2.1
Current Number of Issues	162
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder

QUALITY ALLOCATIONS

AAA/Aaa:	72.7%
AA/Aa:	13.8%
A:	7.7%
BBB/Baa:	5.8%
BB/Ba:	0.0%
B:	0.0%

Average Quality Issue:	AA
Minimum Quality Issue:	BBB

SECTOR ALLOCATIONS

Municipals:	98.5%
US Govts/Agencies:	0.8%
Certificates of Deposit	0.7%
US Inv. Grade Corporates:	0.0%
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 (6 Mo.)	2.26%	5.00%	2.96%
ITD***	4.25%	3.77%	4.65%

*Intermediate Muni Bond mutual fund average from Lipper

*Barclays 5-Yr Muni Bond

***Inception to date (May 1999) annualized

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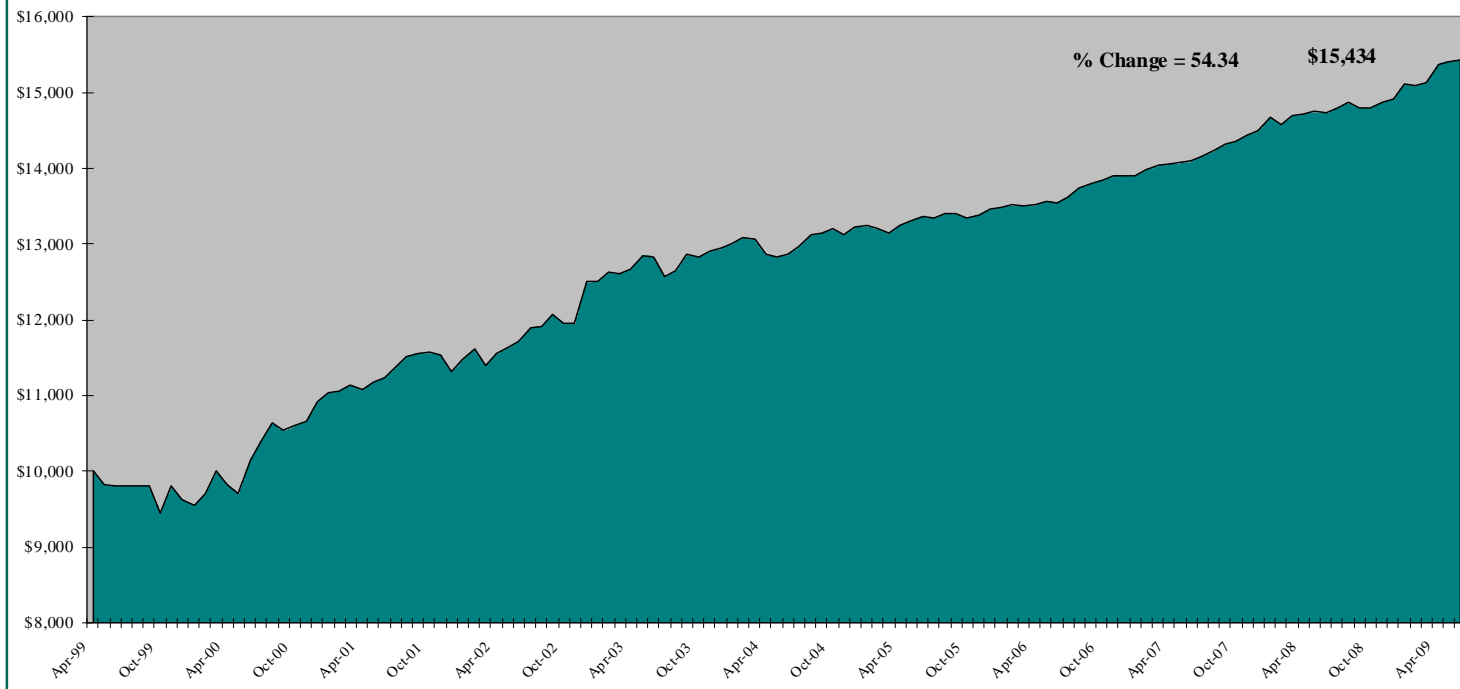
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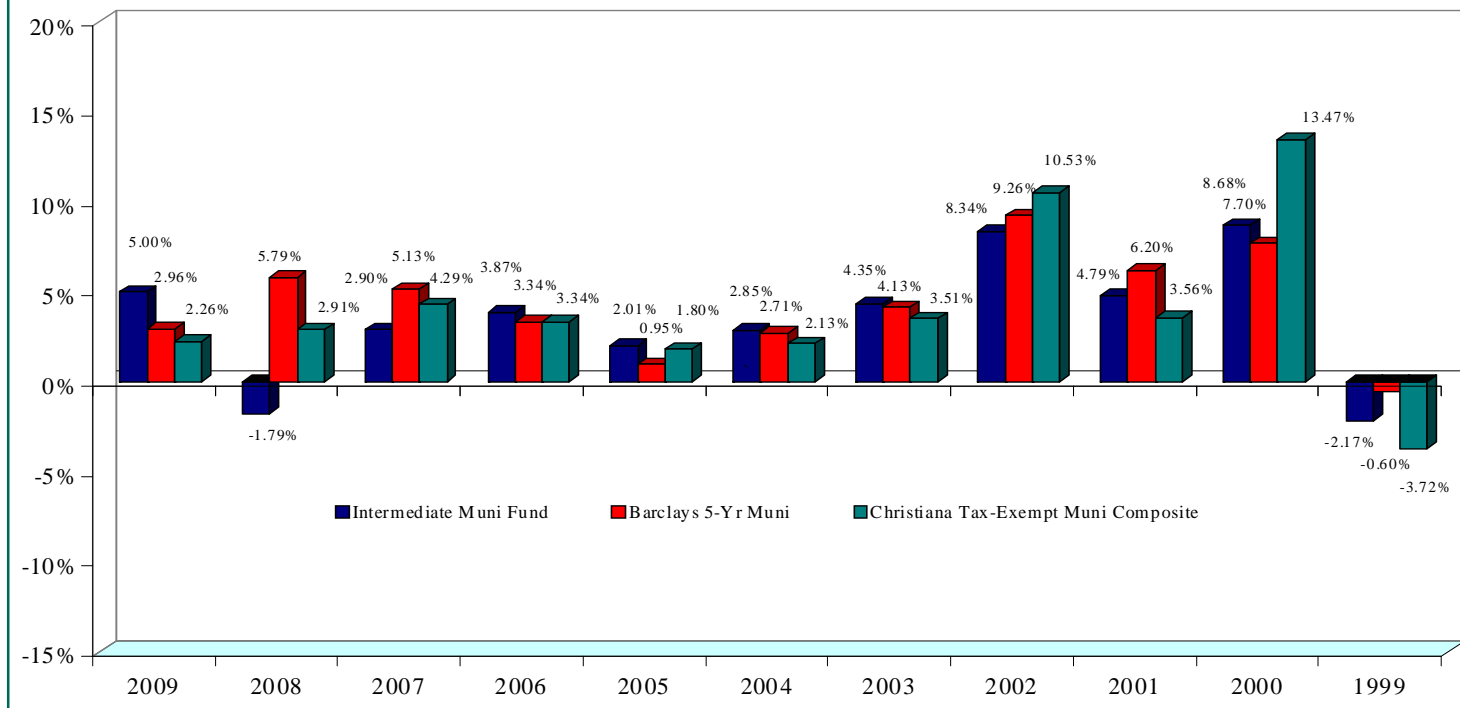
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TAX-EXEMPT MUNICIPAL COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



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