

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



CHRISTIANA

BANK & TRUST

Subsidiary of National Penn



DECEMBER 31, 2009

FOURTH QUARTER

DECEMBER 31, 2009

Equities both home and abroad continued their advance in the fourth quarter, albeit at much slower pace, compared to the previous six months as the United States GDP results for the most recent period were revised down. This gave the more stable, large cap domestic stocks a performance edge over small-cap and international stocks for the quarter. Bonds were barely positive for the period as longer term U.S. Treasury yields flirted with their highs for the year.

In the fourth quarter, large-cap U.S. stocks (+6.0%) built on their gains following the March lows but could not match the double digit returns of the previous two quarters. A downward revision to third quarter GDP from an impressive 3.5% growth rate to a more modest 2.2% during the period almost certainly helped dampen the advance. The revision, coupled with some inconsistent jobs and retail sales data, suggested the economic recovery could be more uneven and slower than previously thought. Technology stocks (+10.5%) thrived in this environment while finance stocks(-3.7%) struggled. This helped growth stocks (+7.8%) outpace value stocks (+4.2%) for the quarter. The uncertainty about the strength of the recovery favored both large-cap and mid-cap (+5.6%) stocks over small-caps (+3.9%) during the period.

Taking their cue from U.S. economic data, international stocks (+2.2%) also extended their gains during the period but not by nearly as much as the past two quarters. It was a reminder of the impact fluctuations in the rebounding U.S. economy have on overseas markets. Among developed economies performance was varied. The United Kingdom (+5.9%) shined on optimism about upcoming elections despite a significant amount of government debt. Australia (+4.5%) also outperformed as it defended its currency by hiking short term interest rates. At the other end of the performance spectrum, Japan (-3.8%) continued to struggle from their dependency on exports in a global economy just beginning to heal.

Bonds (+0.2%) were slightly positive in the fourth quarter as investors continued to accept more risk in their search for yield. Investors left the safety of U.S. government securities for higher yielding, but riskier, corporate bonds to meet their income needs in this ultra low interest rate environment. This weighed on bond performance, since over 70% of the Barclays Aggregate Bond Index is comprised of U.S. government and agency securities. Hit especially hard was the ten-year U.S. Treasury Note, which saw its yield climb from 3.31% to 3.83% as its price fell during the period.

Despite a slow start, stocks (+26.5%) roared back in 2009 as the U.S. government's massive fiscal and monetary stimulus plan to address the severe recession reinflated financial asset (stock and bond) prices. Businesses and consumers alike responded by reducing expenses and shoring up their balance sheets. Now that the recession has ended, a recovery is attempting to gain traction. A policy shift, away from stimulus and overregulation toward incentives for businesses that instill the confidence they need to invest for growth and rehire workers, would do much to strengthen this economic recovery.

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IN THE NEWS

THE WALL STREET JOURNAL. ONLINE

January 20, 2010

Banking Sector Weighs on Stocks

By Kristina Peterson and Donna Kardos Yesalavich

While a slew of major banks recently reported profits or narrower fourth-quarter losses, investors said the financial sector's recovery has not been as robust as expected. Even when initial revenue figures seem strong, the numbers become less impressive when all the various charges are figured in, said **Thomas Nyheim**, vice president and portfolio manager of **Christiana Bank & Trust**.

"They're not bouncing back as much as everyone thought they were," **Mr. Nyheim** said. "Everyone's lowering their expectations. It looks like it's not going to be a V-shaped recovery — it's going to be a U-shaped recovery, and a very mild 'U' at that."

REUTERS

January 15, 2010

US STOCKS- Banks weigh on Wall St after JPMorgan earnings

By Angela Moon

"People are looking for more growth in the economy, and the sentiment isn't there," said **Thomas Nyheim**, vice president and portfolio manager at **Christiana Bank & Trust Co** in Greenville, Delaware.

January 5, 2010

US STOCKS- Dow, Nasdaq dip after housing data, factory orders

By Ryan Vlastelica

"The housing data was weak, but factory orders were very positive ... " said **Tom Nyheim**, vice president at **Christiana Bank & Trust Co** in Greenville, Delaware.

"They show that you're getting growth and traction in the economy, and that's helping to counter the home sales."

FINANCIAL TIMES

December 11, 2009

S&P gains ground as fears over foreign debt ease

By Samantha Pearson

A surprise improvement in the US trade deficit helped Wall Street shrug off lingering concerns over foreign sovereign debt, pushing stocks higher yesterday.

Although fresh claims for unemployment benefits rose more than expected, the number of Americans seeking extended benefits fell. Separate data showed that the US trade deficit had unexpectedly narrowed to \$32.9bn.

"The market is acting positively because of the trade balance but the real movement will probably come [today] on the retail sales numbers," said **Thomas Nyheim**, portfolio manager at **Christiana Bank & Trust**. Data is expected to show that retail sales growth, excluding cars and petrol, has slowed slightly to 0.2 per cent in November.

THE WALL STREET JOURNAL

November 5, 2009

Today's Markets Insurer Selloff Curbs Stocks

By Peter A. McKay and Geoffrey Rogow

For the longer haul, most traders and analysts think low rates are what's in order for the U.S. economy, which remains beset with a weak employment picture. But some dissenters worried about the downside of low rates following the Fed's statement Wednesday.

"I am a little disappointed," said **Scott Armiger**, portfolio manager with **Christiana Bank & Trust Co**. "While there's plenty of slack in the economy and no reason to think we need to start hiking rates a lot real quickly, the Fed has a history of being slow to react to inflation and it would send a great signal to say 'we're on it.'"

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

DECEMBER 31, 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	19.35	24.84
Price/Book	3.15	2.29
Price/Sales	1.69	1.27
Beta	0.93	1.00
Yield	1.68%	2.09%
*EPS Growth	10.50%	6.00%
Median Market Cap. (\$Millions)	\$38,192.45	
Turnover	25-40%	
Composite ROE	23.88%	

*5-Year Growth Estimate

SECTOR WEIGHTINGS

Basic Materials	2.7%
Industrials	13.2%
Telecommunications	1.3%
Consumer Discretionary	9.2%
Utilities	1.6%
Financial	9.2%
Consumer Staples	15.6%
Energy	13.8%
Health Care	10.1%
Technology	23.3%

TOP 10 EQUITY HOLDINGS

Exxon Mobil Corp.	4.3%
Nike Inc.	4.0%
Thermo Fisher Scientific	4.0%
Procter & Gamble	3.9%
Precision Castparts Corp.	3.7%
Johnson & Johnson	3.5%
Walt Disney Co	3.4%
Pepsico Inc.	3.1%
Oracle	3.0%
Schlumberger	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%
ITD*	1.99%	0.00%	0.87%

*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

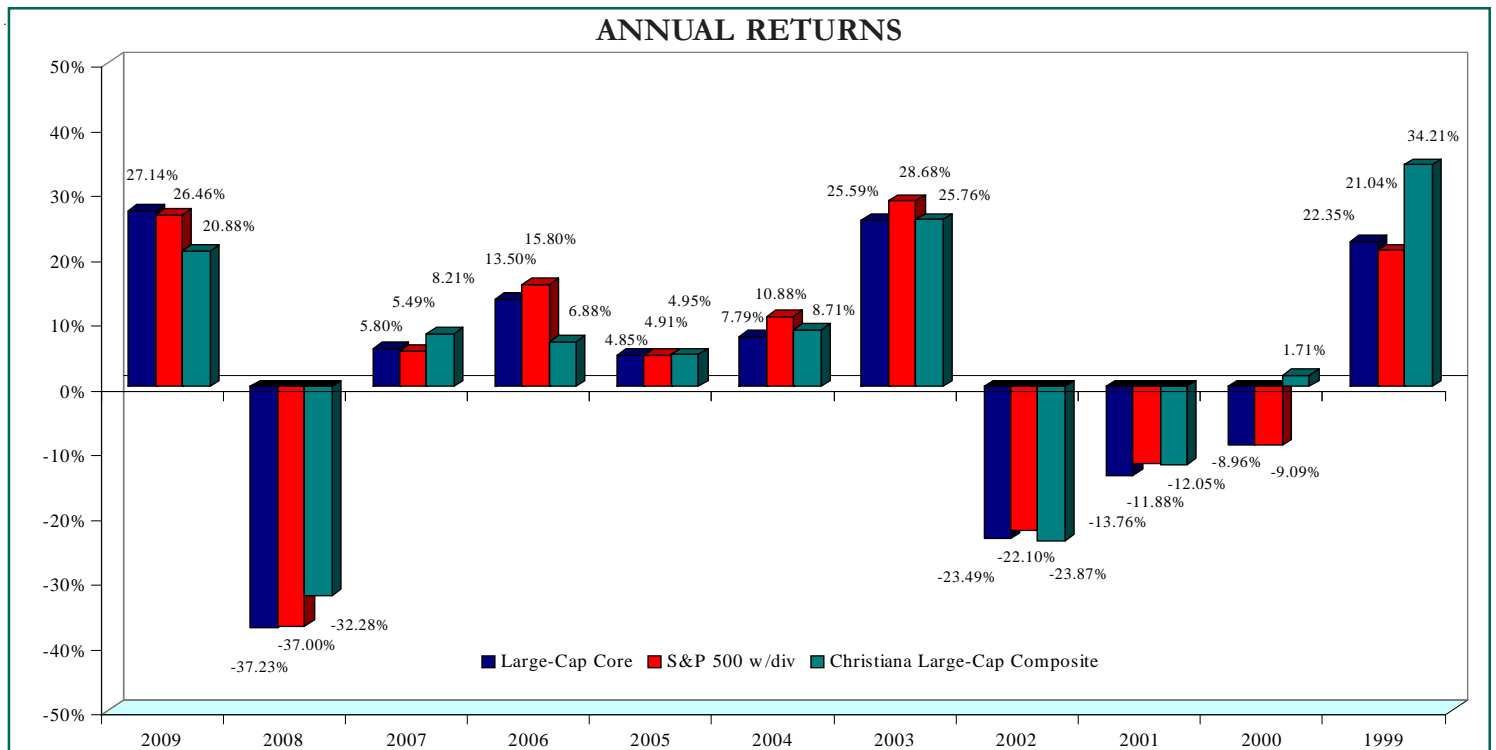
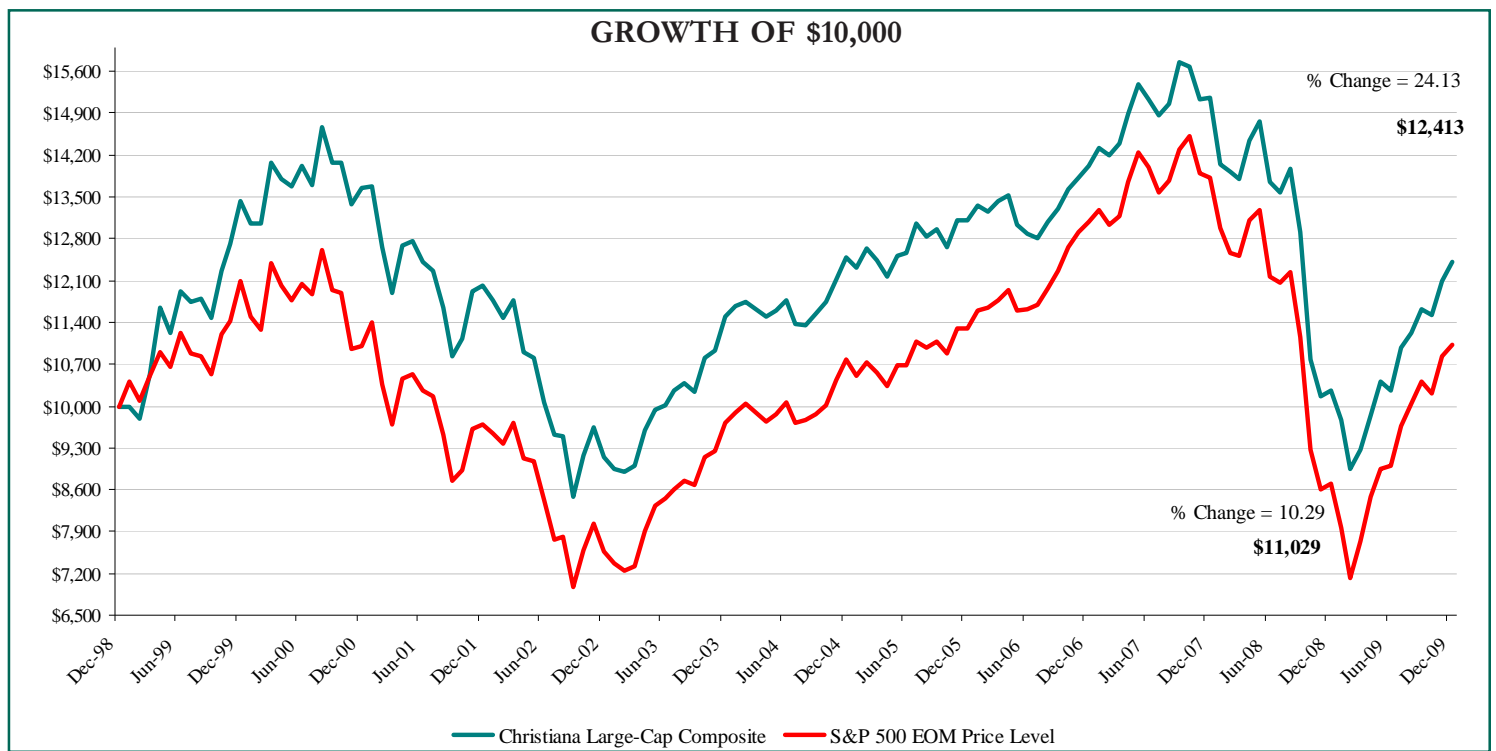
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Large-Cap Equity composite returns represent a dollar weighted composite of all equity accounts where Christiana Bank & Trust Company has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage 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.

DECEMBER 31, 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	1.3%
Yield to Maturity	4.0%
Duration (years)	1.2
Current Number of Issues	28
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder

QUALITY ALLOCATIONS

AAA/Aaa:	37.3%
AA/Aa:	10.2%
A:	35.6%
BBB/Baa:	16.9%
BB/Ba:	0.0%
B:	0.0%

Average Quality Issue:	A
Minimum Quality Issue:	BBB

SECTOR ALLOCATIONS

US Govts/Agencies:	10.8%
US Inv. Grade Corporates:	89.2%
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	4.63%	12.89%	5.25%
ITD***	4.89%	4.57%	5.41%

*Intermediate Bond mutual fund average from Lipper

**Barclays Intermediate Government/Credit Index

***Inception to date (1999) annualized

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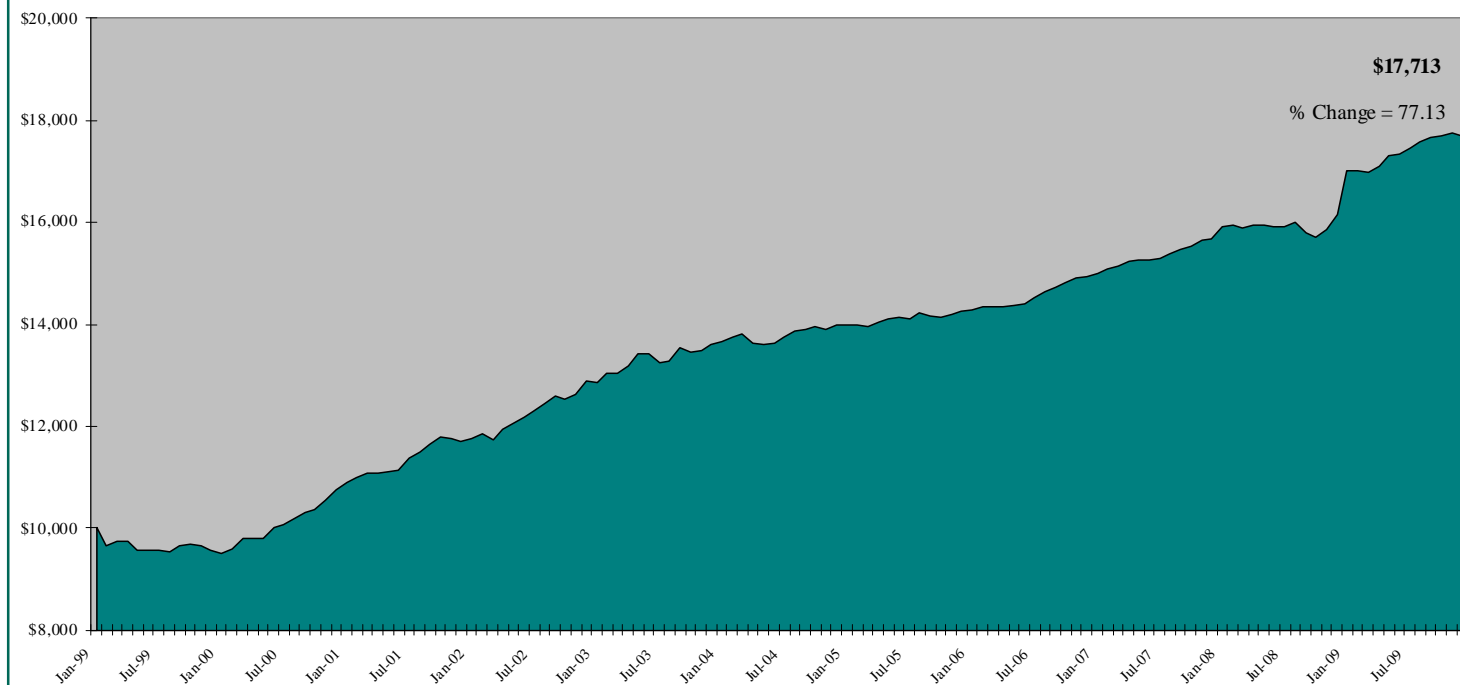
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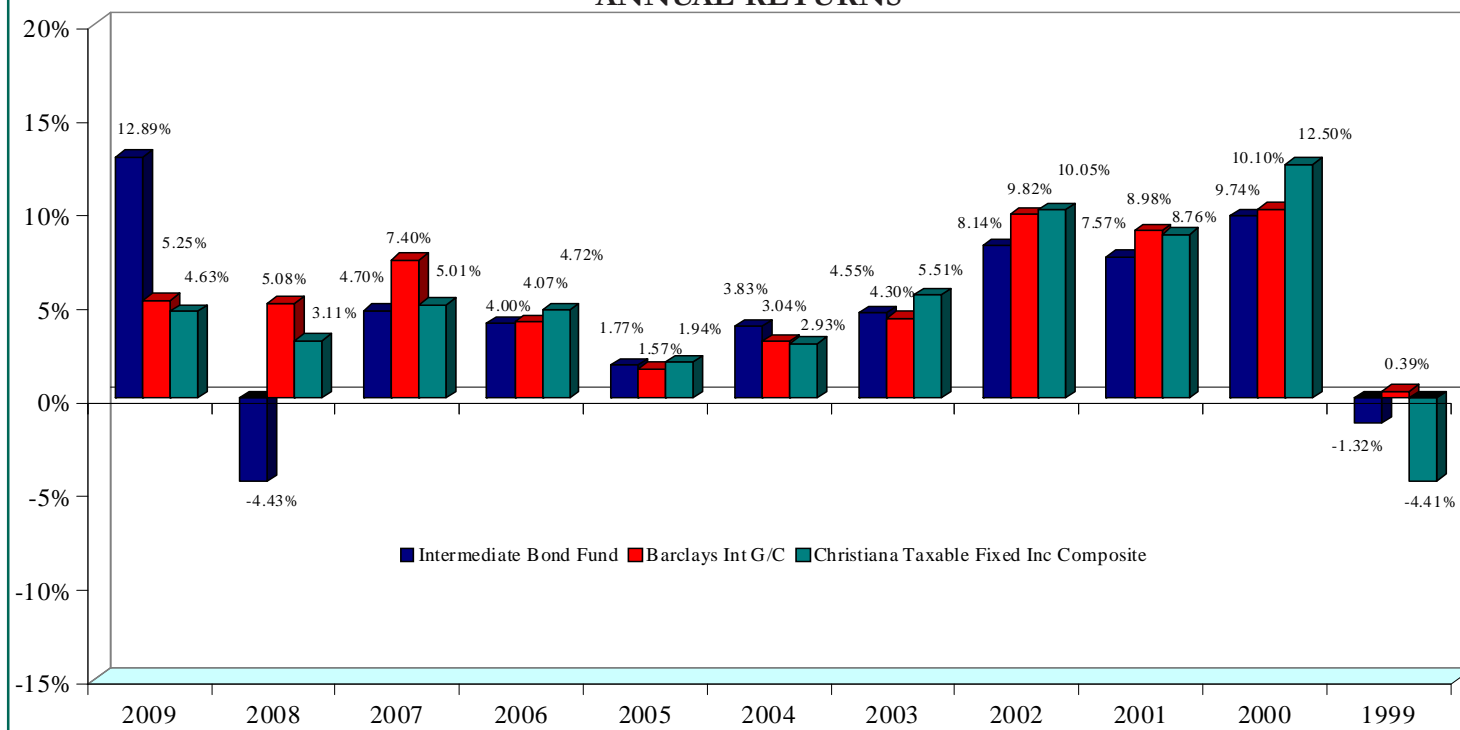
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FIXED INCOME COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



Intermediate Fixed Income composite returns represent a dollar weighted composite of all fixed income 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 and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the intermediate bond mutual fund average is Lipper.



DECEMBER 31, 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)	2.5
Yield to Worst	1.3%
Yield to Maturity	4.0%
Duration (years)	2.3
Current Number of Issues	165
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder

QUALITY ALLOCATIONS

AAA/Aaa:	66.9%
AA/Aa:	19.2%
A:	10.0%
BBB/Baa:	3.8%
BB/Ba:	0.1%
B:	0.0%

Average Quality Issue:	AA
Minimum Quality Issue:	BB

SECTOR ALLOCATIONS

Municipals:	99.0%
US Govts/Agencies:	0.3%
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	4.20%	9.90%	7.41%
ITD***	4.33%	4.13%	4.96%

*Intermediate Muni Bond mutual fund average from Lipper

*Barclays 5-Yr Muni Bond

***Inception to date (May 1999) annualized

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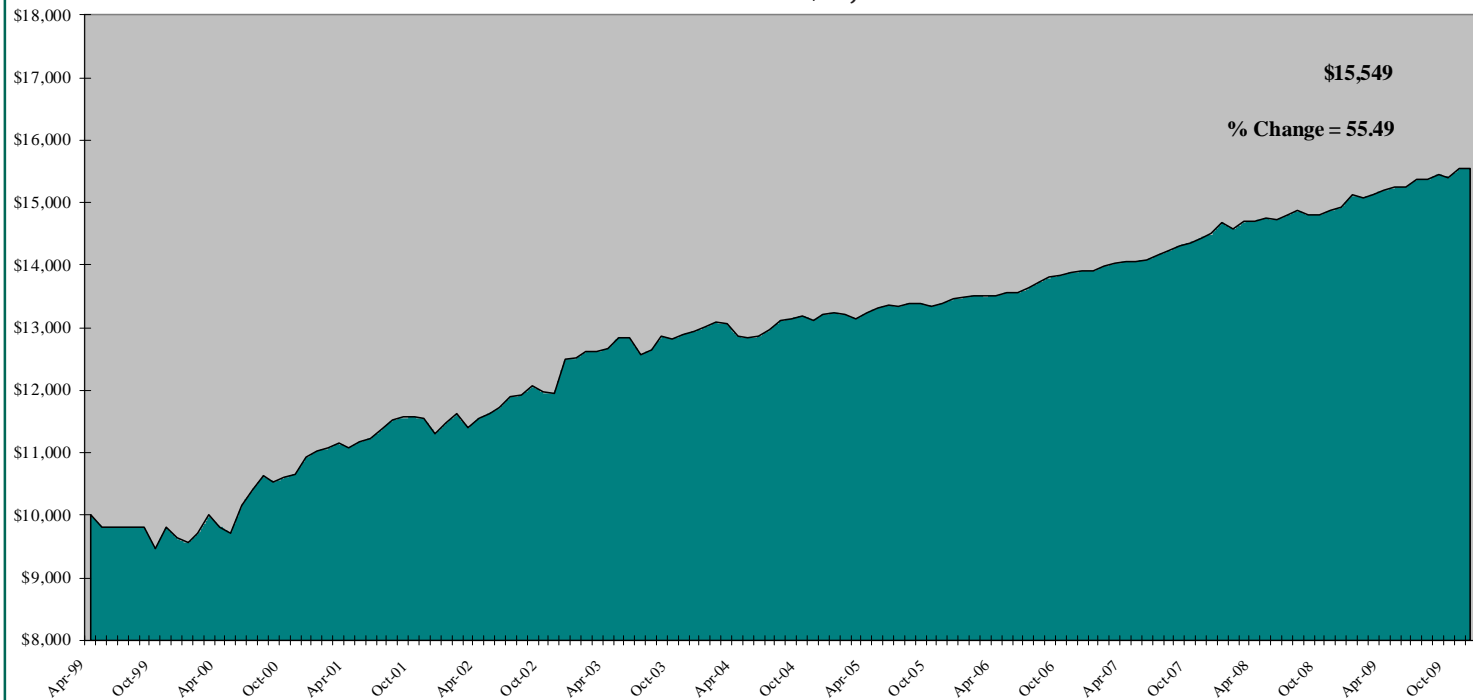
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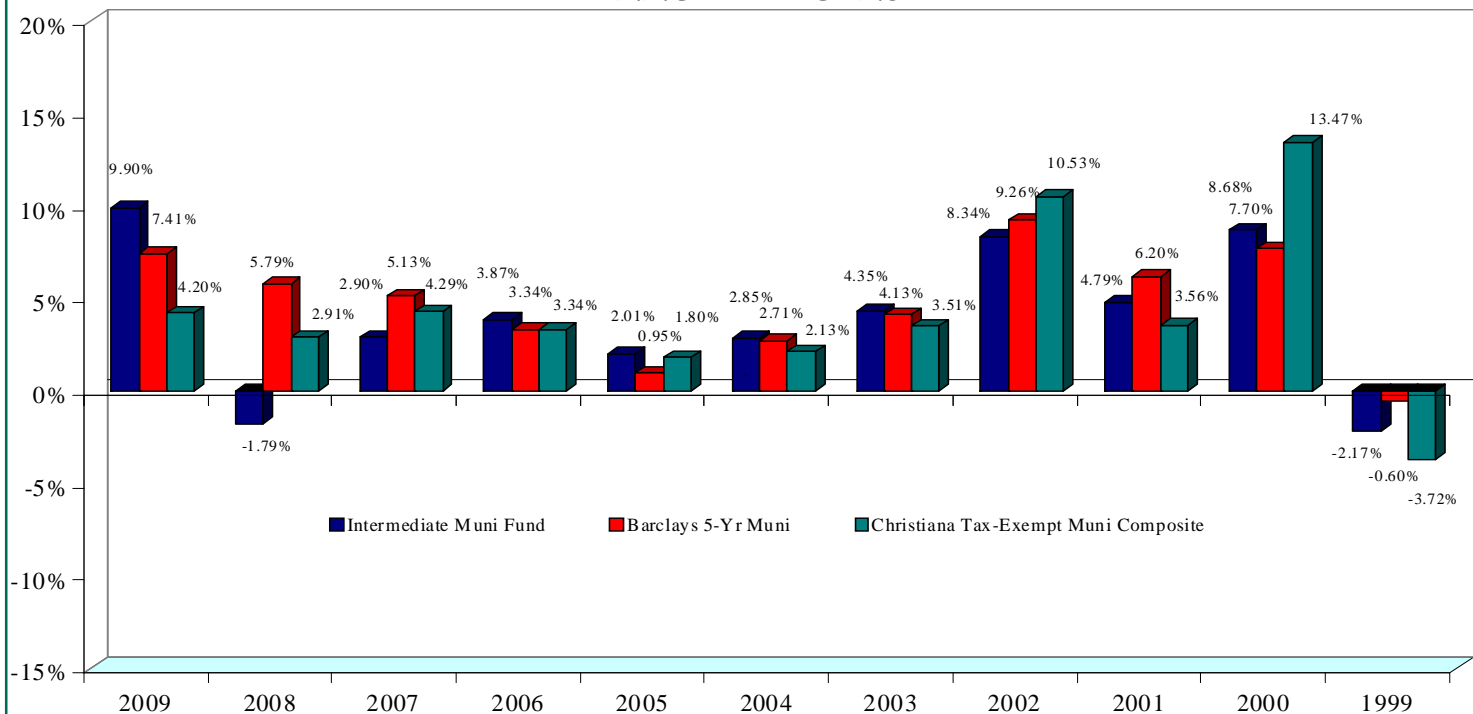
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TAX-EXEMPT MUNICIPAL COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



Intermediate Tax-Exempt Municipal composite returns represent a dollar weighted composite of all fixed income 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 and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the intermediate muni bond mutual fund average is Lipper.



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