



SPRING 2009



## trust & investment *perspectives*



### Signs of Spring **by Nils L. Berglund**

**D**uring winter in the Northeast it is sometimes difficult to remember that spring will come. Most often we get hints of a change in the weather, a warm day here, crocuses emerging, or trees with a green hue. Sometimes, spring comes all at once, usually later than normal, with colors that typically come one at a time exploding together. For these springs there is no doubt that summer is almost here. Investors, for after all we are human, prefer the quick spring and the gratification that summer is upon us. This winter, and for that matter the fall that preceded it, has been hard for those of us looking for a quick change of seasons.

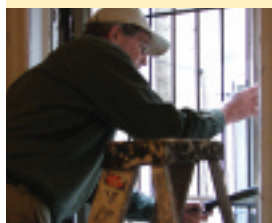
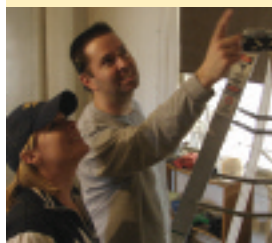
The first quarter did not provide investors either relief from the economic problems or obvious solutions to the challenges created by last fall's collapse in the credit markets. Closed credit markets, Federal bail-outs, weakened production, foreclosures, and surging unemployment were the news of the first months of the quarter. The reaction was a rapid sell-off in the equity markets that at one point had the S&P 500 down by 25%. Frustration built during the quarter as the new administration, similar to its predecessor,

struggled with its message to the market. Treasury Secretary Geithner's speech on February 10 detailed the approach the Administration would take to the financial crisis, but failed to provide specifics. The market fell for four consecutive weeks, reaching its recent low in the first week of March. While always critical, in our current environment, news from Washington is unusually important. As various programs, including the stimulus package, are announced or actually implemented, the government has become an important support in the markets. There is the credit that has enabled the markets for private borrowers to re-start, and there is the

demand for goods and services, through the stimulus package, gone absent from consumer and corporate spending. This expanded relationship between government and business will create its own issues of control and eventually perhaps one of inflation, but for the moment it is driving recovery in our markets and economy.

The rally in the equity markets in March and early April is based on evidence of a nascent recovery in the U.S. and certain international economies. That evidence is faint, and generally points only to a stabilization of activity. But, perhaps because at the **continued on page 4**

### A Day of Community Service



This past March, as we have done for several years now, members of the Pennsylvania Trust team contributed their time, talent, and energy to the East Parkside neighborhood in Philadelphia. Under the guidance of the community organization "The

Other Carpenter", a non-profit organization dedicated to assisting low income homeowners with repairs and improvements to their residences, we installed windows, dry wall, insulation, and flooring in the home of a grateful community resident. This opportunity to serve the community reinforced our ongoing responsibility of service to others.



## President's Message

Several weeks ago I received a letter from a long time friend and former pastor. In 2004, Gene Bay retired from his position as senior pastor at Bryn Mawr Presbyterian Church. He didn't stay retired for long and is currently serving as president of the Colgate Rochester Crozer Divinity School (CRCDS). Don't worry, I do not plan to discuss religion or politics. In addition to being a compassionate and caring man, Gene is a gifted wordsmith and several points in his letter to school alumni and friends appealed to me, enough so that I share them with you. He speaks of the difficulties of the current economic crisis, particularly the stresses that have been placed on educational institutions. And then he assures his audience that CRCDS is prepared to intelligently confront the new economic reality. I am struck by the term "new economic reality." And so it is.

The recession has relentlessly battered our economy and collective psyche. In fact, we are experiencing the worst economy in 70 years. Financial institutions have faltered. Unemployment is rapidly approaching 10% and the

consumer has all but disappeared. Our new President and Congress are working diligently to face these new realities and to lay a foundation for growth. No easy task. At a recent press conference, President Obama noted that the government efforts require tough choices and compromises. However, he cautioned that difficulties cannot serve as an excuse for inaction.

I am inspired by the resolve and intentionality of our leaders. There seems to be a renewed sense of responsibility that has been absent for some time. Our own Philadelphia Mayor, Michael Nutter, has not shied away from facing economic reality. In his "Tight Times/Tough Choices" town meetings, he faces difficult budget quandaries head on. Close libraries? Reduce staff? Raise taxes? There are no clear-cut answers and certainly none to boost his approval ratings. Yet he presses on, confident in his vision.

At Pennsylvania Trust we have not been spared the consequences of this economic crisis either. We have been profitable for our entire 25-year history and continue to be so today. But in order to remain profitable for our parent com-

pany we have had to be mindful of our expenses and make modifications to remain fiscally sound without compromising the quality service that our clients have come to expect.

In this issue, Trust expert Bill Wid-ing offers details on the benefits of Special Needs Trusts. Additionally, you will want to read Nils Berglund's perspective on first quarter activity and the possibility of a recovery. I, too, feel confident that things will get better, but it will take longer than we want and it will be a different paradigm from that of the last two decades. Many things will be different for the U.S. and also globally. U.S. dominance is not assured as evidenced by a declining industrial base and slower wage growth, whereas, the growing economic power of China and other emerging economies is an acknowledged fact. In the meantime, we continue to assess and position ourselves within the framework of our new economic reality.

A handwritten signature in dark ink, appearing to read "Rich Merriman". The signature is fluid and cursive.

**Richardson T. Merriman**  
*President and Chief Executive Officer*

## Our Parent Company, Penn Mutual

We are pleased by the financial strength and solid performance of our parent company, The Penn Mutual Life Insurance Company, which for 162 years has worked to protect families and businesses from unforeseen circumstances through life insurance solutions. In 2008, a difficult year for the industry, the company was able to maintain its strong financial profile, as demonstrated by the reaffirmation by the ratings agencies: A+ Superior from Best; Aa3 Excellent from Moody's; and AA- Very Strong from S & P. The solid financial footing of our parent company supports our highly personalized investment and fiduciary services. Additional information about Penn Mutual is available on their web site [www.pennmutual.com](http://www.pennmutual.com)

# Special Needs Trusts Offer Flexible Planning Options

by J. William Widing, III, Esq.



Individuals with physical, cognitive, or emotional challenges and their families or guardians often face the dilemma of making assets for supplemental care available without jeopardizing entitlement to government benefits. Thoughtful use of a Special Needs Trust can offer a successful planning solution.

Simply stated, a Special Needs Trust is a form of trust that by its terms puts trust monies to work for a beneficiary without jeopardizing that beneficiary's entitlement to government benefits. (Such benefits can include medical assistance, both for medical care or for residential care.)

The planning, drafting, and use of Special Needs Trusts can be extremely complex and technical. It is wise to enlist a qualified advisor to ensure these trusts are structured to meet client needs as well as legal requirements.

The two most common types of Special Needs Trusts are Self-Settled Trusts (often called OBRA trusts for the tax act that first explicitly authorized them) and Third-Party Trusts in which a Special Needs Trust is set up by one person for another. There are some important differences between these two trusts.

**1. A Self-Settled Special Needs Trust** can be of value when a beneficiary getting governmental benefits receives an unexpected inheritance or a law-suit recovery. If

these assets are left titled in the beneficiary's own name, such assets can cause the beneficiary to lose means-tested benefits, such as health care or long-term care under medical assistance. However, federal statutory law permits such a beneficiary to place assets in a Special Needs Trust to have them excluded as an available resource that affects benefit qualification. Such a trust must have an independent trustee – typically a corporate trustee; can only be set up by a beneficiary under age 65; must repay the government when the trust terminates for any benefits paid out during the term of the trust; and must direct distributions for the "sole benefit" of the named beneficiary. Merely drafting a trust to reflect these core requirements is not enough to have the trust qualify as a Special Needs Trust. Official status is only attained after Department of Public Welfare review and approval.

**2. A Third-Party Special Needs Trust** must satisfy case law in most jurisdictions, rather than statutes. These trusts are most often considered when a parent or a child wants to provide supplemental assets for care to a family member who is already receiving benefits. Proper structure will allow the money given to add to – and not replace – those

current benefits. Third Party Special Needs Trusts are similar to, but more flexible than, Self-Settled Special Needs Trusts. The Third Party Special Needs Trusts must also have an independent trustee, but there is no age limit on the beneficiary, there is no requirement that any governmental agency providing benefits to a beneficiary be reimbursed at termination of the trust, and there can be as many other beneficiaries as the settlor desires. Again, drafting alone is not enough to qualify the trust as a Special Needs Trust. It will have to be approved by the Department of Public Welfare.

The investment of both types of Special Needs Trusts can be very flexible, limited in most jurisdictions only by the prudent investor rule. While there are no statutory rules regarding what assets should or should not be used in such a trust, asset allocation will need to take into account a number of factors beyond the scope of this article.

We at Pennsylvania Trust are well-versed in the design and operation of Special Needs Trusts. If you think a Special Needs Trust might play a useful part in your current or future estate planning, please contact us.

---

*Mr. Widing is Senior Vice President for Trust Administration at Pennsylvania Trust.*

continued from page 1 market lows in early March investors had no hope, these signs of spring in retail, housing, and even some production indicators have had a positive impact on the markets. Many risks remain. Key parts of the credit markets are still fragile and have not embraced the economic growth story, as evidenced by the still-wide yield differences between government and corporate credits. We think housing is bottoming, but foreclosures remain a problem. Employment news is grim and this may cause further problems with loan losses for the banks. However, taken as a whole, the data released so far this spring suggests to us that we have passed the worst for both the economy and markets and we can begin to position ourselves, slowly and cautiously, for the coming recovery.

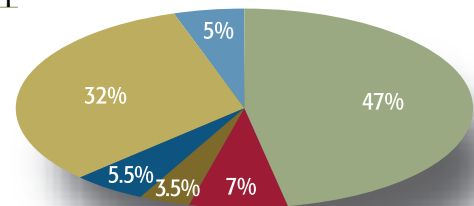
Our overall asset allocation has shifted slightly to 63% stocks and 37% bonds and cash. Stock allocation has shifted slightly as well, Large Cap at 75%, Mid Cap at 11%, Small Cap at 5% and International at 9%. This shift in allocation is motivated by our desire to take advantage of opportunities created by the financial crisis. A variety of non-government bonds look attractive to us as part of a larger bond portfolio. While we have reduced the international exposure we are increasingly drawn to the emerging

markets for growth in the new environment and have raised the weighting towards this part of the international market. Evident in these changes is a willingness to take on some additional risk in portfolios.

*Mr. Berglund is Senior Vice President of Portfolio Management at Pennsylvania Trust and a member of the Investment Committee.*

## Balanced Asset Allocation

- Large Cap
- Mid Cap
- Small Cap
- International
- Fixed Income
- Cash



## Painting Profile



**Pennsylvania Trust is proud to feature the work of artists such as Glenn Rudderow. Rudderow captures the landscape and light of the Delaware River Bayshore, filling his canvases with scenes of the bay, historic homes, and churches in natural settings. He attended the Pennsylvania Academy of the Fine Arts where he also taught for 16 years.**

**Rudderow has exhibited nationally at venues including: the National Academy of Design, NY; the American Watercolor Society, NY; the Noyes Museum, Oceanville, NJ; the Springfield Art Museum, MO; the Sherry French Gallery, NY, and the Butler Institute of Art, OH. Rudderow currently lives and paints in Hopewell-Bridgeton, NJ.**

Glenn Rudderow, *The Sycamore Farm in Spring*, oil on panel

### PENNSYLVANIA TRUST



Five Radnor Corporate Center  
Suite 450  
100 Matsonford Road  
Radnor, Pennsylvania 19087  
610.975.4300  
800.975.4316  
610.975.4324 F  
www.penntrust.com

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.

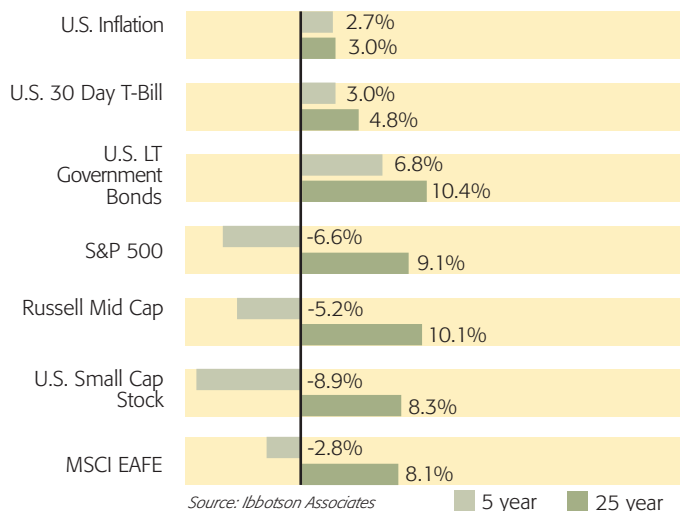


# Market Indicators

	Current	Three Months Ago	One Year Ago
<b>Stock Indices</b>	3/31/09	12/31/08	3/31/08
Dow Jones Industrial Average	7,609	8,776	12,263
Standard & Poor's	798	903	1,323
<b>U.S. Treasury Yields</b>			
2 Year	0.8%	0.8%	1.6%
5 Year	1.7%	1.5%	2.4%
10 Year	2.7%	2.2%	3.4%
30 Year	3.5%	2.7%	4.3%

## ANNUALIZED RETURNS OF SELECT ASSET CLASSES

Over the past 25 years, equity returns have outpaced bonds, cash and inflation.



## 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:

S&P 500 Sector Weightings	Pennsylvania Trust	
Consumer Discretionary	8.8%	+
Consumer Staples	12.8%	-
Energy	13.0%	=
Financials	10.8%	=
Health Care	15.3%	=
Industrials	9.7%	=
Information Technology	18.0%	-
Materials	3.3%	+
Telecommunication Services	4.0%	-
Utilities	4.3%	=

## PENNSYLVANIA TRUST



### OFFICERS

**Richardson T. Merriman**  
President and Chief Executive Officer

**Lee J. Anderson, CFA**  
Senior Vice President  
Chief Information Officer

**William H. Haines, IV**  
Senior Vice President  
Director of Business Development

**Irwin S. Love, Esq., CTFA**  
Senior Vice President  
Chief Fiduciary Officer

**Barbara S. Wood, CPA**  
Senior Vice President, Treasurer  
Chief Financial Officer

**Willard N. Woolbert**  
Senior Vice President  
Chief Investment Officer

**Pierce Archer**  
Senior Vice President  
Portfolio Management

**Nils L. Berglund**  
Senior Vice President  
Portfolio Management

**Frederic N. Dittmann, CFA**  
Senior Vice President  
Portfolio Management

**JoAnne T. Fredericks, CFA**  
Senior Vice President  
Portfolio Management

**Francis R. Grebe, Esq.**  
Senior Vice President  
Trust Administration

**Jean E. Hunt, Esq., CPA**  
Senior Vice President  
Trust Administration

**Larry H. Lehrfeld**  
Senior Vice President  
Tax Administration

**George C. McFarland, Jr., Esq.**  
Senior Vice President  
Portfolio Management

**Charles L. Sheppard, II**  
Senior Vice President  
Investment Research

**Radclyffe F. Thompson, CFP®**  
Senior Vice President  
Business Development

**J. William Widing, III, Esq.**  
Senior Vice President  
Trust Administration

**Carolyn L. Wyeth**  
Senior Vice President  
Trust Administration

**Kenneth R. Brightcliffe**  
Vice President  
Equity and Fixed Income Trading

**John R. McClelland**  
Vice President  
Trust Operations

**Monica P. Ruggio**  
Vice President  
Trust Operations

**Karen H. Harr**  
Senior Trust Officer  
Trust Administration

**Debra S. Tongue**  
Senior Trust Officer  
Trust Administration

### CONSULTANTS

**Kevin R. Fisher**  
Senior Technology Consultant

**Donald E. Lewin, Ph.D.**  
Senior Investment Consultant