
HVERFORD OUTLOOK



2010: FROM RECOVERY TO DURABLE EXPANSION	2
--	---

2011: OUTLOOK	3
The Economy: Exceeding Expectations?	4
Equities: Bursting the Pessimism Bubble	7
Fixed Income: Navigating Rising Rates	9

ABOUT HAVERFORD	
Haverford's Products, Clients & Services	12

2010: From Recovery to Durable Expansion

At the start of 2010, we wrote that we were confident that the nascent economic recovery would transition to a sustainable expansion by year end, due in large part to an extraordinary level of monetary stimulus here in the United States as well as the benefit of a global upturn in GDP led by emerging economies. Deleveraging on the part of both consumers and businesses would be a headwind to growth, we opined, resulting in an economic recovery that would be muted compared with previous upturns. Our forecasts were fairly accurate, although the aftershocks of the financial crisis continued to reverberate throughout the world. European sovereign debt was a predominant worry for much of the year, and a summer soft patch in economic activity, accompanied by a swoon in the equity markets, caused many to worry that we would experience the second “double-dip” recession since World War II. The Fed responded using unconventional monetary policy tools to combat any potential downturn. As we moved closer to the mid-term Congressional elections, most economic data began to improve markedly, with surprising resilience on the part of the consumer. The equity markets responded positively, chalking up notable gains.

Haverford’s emphasis on companies with global exposure, particularly to emerging markets, helped our equity portfolios. As it became apparent that the global economic recovery was unfolding much more rigorously than we had anticipated, we decided to maintain our positions in the economically sensitive companies that we had previously planned to trim. This benefited performance greatly since cyclical stocks were among the best performers in 2010. Within fixed income, while we expected the yield curve to flatten during 2010, we did not anticipate a severe decline in Treasury yields. Our exposure to corporate credits proved helpful as spreads tightened, and we reduced our exposure to longer-dated securities as the bond market rally gained steam. Yields increased dramatically in the latter part of 2010, and we were positioned well given our relatively short duration.

The opinions expressed herein are those of Haverford. No forecasts are guaranteed. Views and security holdings are subject to change at any time based on market and other conditions. The S&P 500 Index is a market capitalization weighted index of large cap stocks. Indexes shown are for informational purposes only. It is not possible to invest directly in an index. This publication is for informational purposes only and should not be construed as investment advice or recommendations with respect to the information or specific securities presented. Past performance is no guarantee of future results.

© 2010 The Haverford Trust Company. All Rights Reserved.

Investments in securities are not FDIC insured, not guaranteed by any bank, and may lose value.

Haverford 2011 Outlook

The Economy

- We are only a calendar quarter away from the point at which real GDP is expected to exceed its previous peak set in 2007.
- GDP growth will likely exceed current expectations.
- The Fed has ample leeway in keeping monetary policy loose before inflation becomes a problem.
- The consumer savings rate has risen to 7% from zero three years ago. While we believe the deleveraging process is far from over, it will likely be less and less of a drag on economic growth in the coming years.
- With the prospect of better employment conditions, the economy could well benefit as consumers and businesses undertake spending on goods and services that were deferred in recent years.

Equities

- There is still a great deal of public pessimism regarding future returns of equities. This pessimism “bubble” should give way to a much more constructive view of equities.
- Seasonal factors, historical precedent, strong fundamentals, and compelling valuations augur well for higher stock prices in 2011.
- In both our Quality Growth and Quality Dividend Value portfolios we will continue to emphasize firms with global exposure, particularly to emerging economies that are growing faster than developed economies.
- The generous above-market dividend yield in the Quality Dividend Value Portfolio continues to look attractive compared to bond yields.
- Haverford’s Quality Global Strategy will continue to opportunistically add investments that offer good growth prospects relative to their valuation and that increase diversification in order to reduce overall portfolio risk.

Fixed Income

- Caution is merited with respect to longer-dated fixed-income securities based on our forecast that an improving economy will lead to higher interest rates.
- Given the continued improvement in credit quality we are much more constructive regarding short- and intermediate-term corporate securities.
- The risk of owning low-coupon mortgage-backed securities will increase when the FOMC ends its asset purchase programs.
- We believe 2011 will be a good year for municipal bond investors as municipal finances improve and the current supply glut is worked off.

The Economy: Exceeding Expectations?

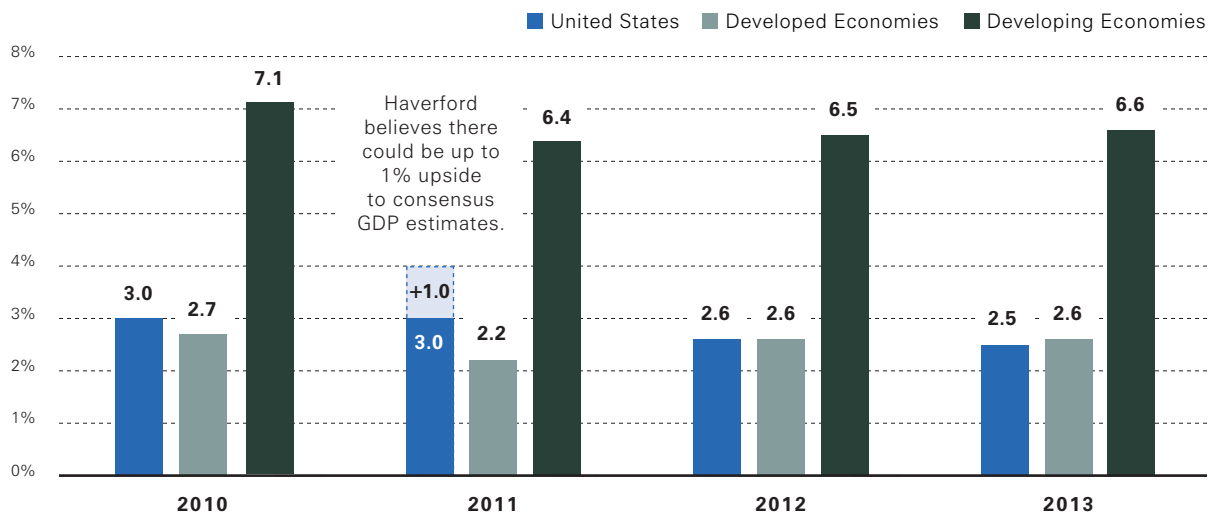
We expect the economic recovery to pick up steam in 2011, with the transition to a durable expansion now within sight. In fact, we are only a calendar quarter away from the point at which real GDP will exceed its previous peak set in 2007. Fiscal policy has once again turned accommodative, monetary policy remains extraordinarily stimulative, and the drag from deleveraging is subsiding as consumers have made great progress in repairing their balance sheets. We acknowledge the myriad issues, both cyclical and structural, that the economy faces: stubbornly high unemployment, a struggling national housing market, ballooning fiscal deficits, European sovereign debt concerns, and the reliance on the continued growth in emerging markets. At this juncture we believe the positives outweigh the potential risks, which should lead to a continuation of the economic momentum witnessed in the latter part of 2010.

Politics and fiscal policy weighed on the minds of corporate managers for much of 2010. With the mid-term elections now behind us, there appears to be a much more conciliatory tone in Washington, with a willingness to pursue pro-growth policies while addressing the enormous national debt. Recent tax legislation is certainly a step in the right direction, with many economists increasing their estimates for GDP growth following the announcement of the deal. Not only does the legislation head off one of the largest tax increases in history, it provides for a substantial, albeit temporary, reduction in payroll taxes and significant incentives for businesses to invest in capital equipment. Consensus GDP estimates for 2011 have now risen above 3%, having recently been below 2.5%.

If the administration continues to promote pro-growth measures such as signing more trade pacts, lowering the cost of repatriating foreign corporate earnings, and/or lowering the corporate tax rate, GDP estimates will likely continue to rise. However, increased government regulation will likely continue to create considerable economic uncertainty as government agencies write the rules of health care and financial reform. As we have written in the past, compliance with new regulations carry an overt cost, and thus act as a “hidden” tax. Looking on the bright side, we will soon have much more clarity as healthcare and financial industry regulations are promulgated, and that should help businesses plan for the future and perhaps make them more willing to hire new employees as future labor costs can be better estimated.

CHANGE IN REAL GDP

Estimated Annual % Change in Real GDP



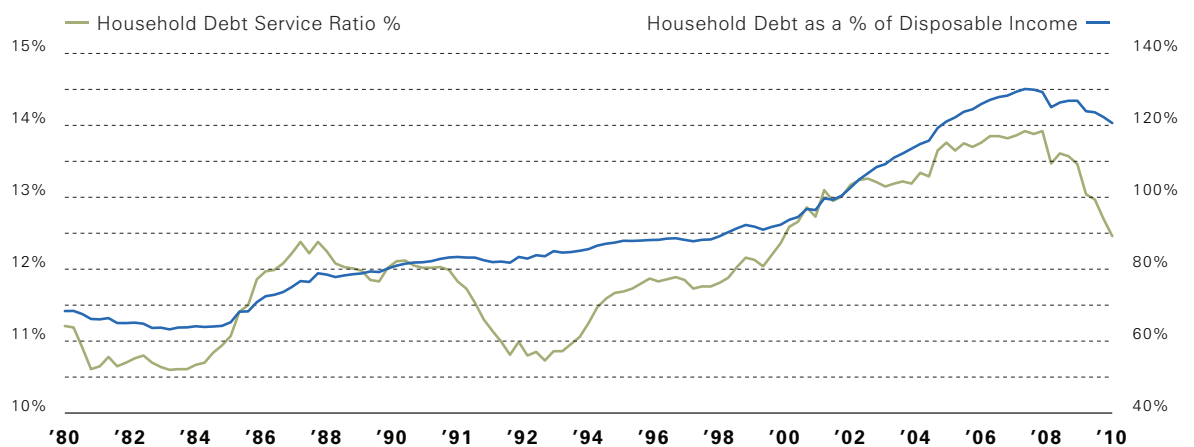
Source: International Monetary Fund, Haverford Estimates

Turning to monetary policy, the Federal Reserve has indicated that it intends to keep short-term interest rates very low for the foreseeable future and is committed to completing its previously announced asset purchases under its second quantitative easing program, commonly referred to as QE2. Since QE2's announcement last August, Fed policy has come under much criticism for possibly sowing the seeds of future inflation. Although we acknowledge the potential risk of future inflation, we are quick to point out that the alternative might not be so attractive. The Fed has kept its foot on the gas pedal far longer than forecasted, and that has probably helped avert a double-dip recession following one of the worst credit crises in financial history.

It is true that commodity prices have risen a great deal since last summer, but in our view the rise has more to do with strong global growth — particularly in emerging economies — than with the Fed targeting asset prices. We believe the Fed has ample leeway in keeping monetary policy accommodative before inflation becomes a problem. Although we have experienced a marked increase in commodity prices, wage inflation has been virtually non-existent. This is extremely important since most previous periods of insidious inflation have been accompanied by spiraling wage costs. Given the high unemployment rate, combined with the global glut of labor, it is hard to make the case for troublesome wage inflation occurring any time soon.

Despite stubbornly high unemployment, consumers have shown a great deal of resiliency recently, with consumer spending surprising on the upside. We believe that improved consumer finances, together with a better job market, will be a significant driver of the reacceleration of GDP growth in 2011. After three years of deleveraging, consumer balance sheets are now in much better shape. Consumer debt has fallen by \$1 trillion, with credit card debt shrinking by 16% and auto loans by 12%. The total cost of households to service debt, known as the household debt service ratio, is now down to 12.5% of disposable income, below the peak of 14% in 2007. The consumer savings rate has risen to 7% from zero three years ago. This rapid improvement of the consumer's balance sheet is important as consumer spending makes up approximately 70% of domestic GDP.

HOUSEHOLD SAVINGS LEAD TO HEALTHIER BALANCE SHEETS



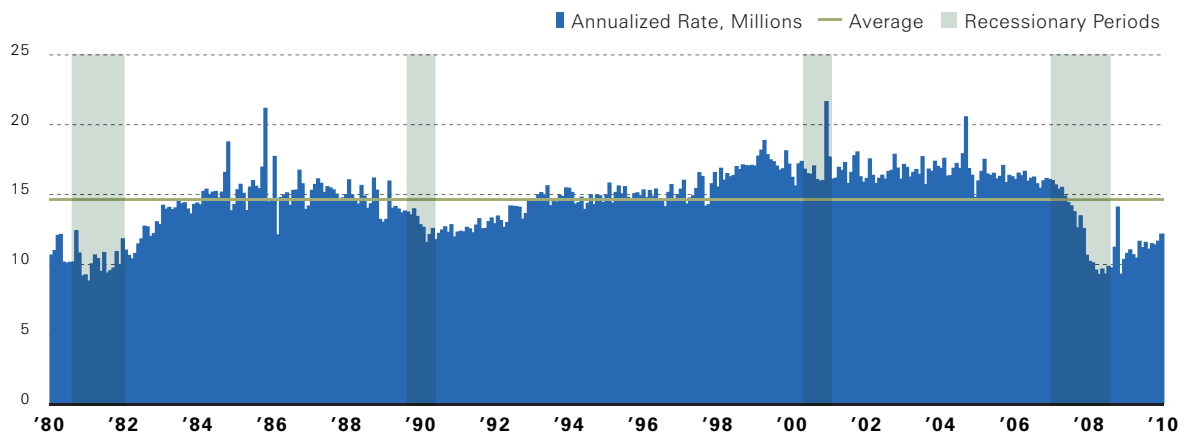
Source: FactSet Research Systems, Federal Reserve

The Household Debt Service Ratio is an estimate of the ratio of debt payments (required payments on mortgage and consumer debt) to disposable personal income.

While we believe the deleveraging process is far from over, it will likely be less and less of a drag on economic growth in the coming quarters and years, especially as the employment outlook improves. Here we have also grown increasingly optimistic. Job losses have stabilized, but job creation has been decidedly lackluster and the unemployment rate has stayed at nearly 10% for some time. Digging deeper into the data, we find some encouraging statistics. Although employers have been loath to add permanent workers, they have been using overtime and temporary workers as a transitory fix. Indices that track temporary help and hours worked are at high levels; we view both as precursors to more permanent hiring. This data, along with increased consumer spending, strong corporate balance sheets, and more political certainty should result in a noticeable decline in unemployment in 2011 and beyond.

With personal and corporate balance sheets in much better shape and with the prospect of better employment conditions, we believe the economy could well benefit as consumers and businesses undertake spending on goods and services that were deferred in recent years. Indeed, there is a great deal of pent-up demand for durable goods. Automobiles are a good example. The number of cars sold each year in the United States has been far lower than the scrappage rate for three years now. This cannot last forever, even though we acknowledge that drivers are keeping their cars longer rather than committing to a new purchase. We have been encouraged by the recent increase in auto sales, and most auto-related companies have been gearing up for higher demand. New home construction tells a similar story given the growth in household formation and immigration, but we believe we are at least a year away from any significant improvement in the housing industry due to the continuing supply and demand imbalance.

U.S. AUTO SALES



Source: FactSet Research Systems, Bureau of Economic Analysis

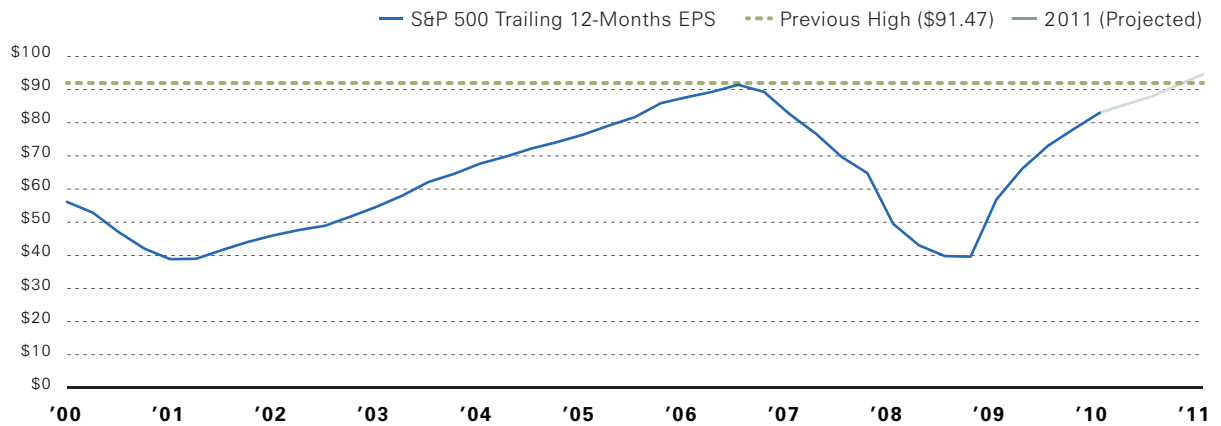
While we believe there is potential for GDP growth to exceed the current consensus of 3%, we are not ignoring the risks to both the U.S. and global economies. Financial contagion in Europe is still a risk, but ultimately it is in the interest of the stronger European Union economies, Germany and France, to prevent defaults from weaker economies such as Greece, Ireland, Portugal, Italy, and Spain. A similar situation exists in the United States with some of our states and municipalities. As we discuss in the fixed income portion of this Outlook, we believe that an improving economy along with some spending austerity will help improve the finances of those states and municipalities most at risk.

While there will always be plenty to worry about — even in the best of times! — we believe the preponderance of the evidence is positive for future economic growth as the United States and other developed countries take advantage of continued growth in emerging markets. These economies will likely grow at twice the rate of developed economies, with positive spillover effects for the rest of the world.

Equities: Bursting the Pessimism Bubble

In our opinion, the March 2009 bottom in equity prices represented a generational low similar to the stock market's bottom in August 1982. In early March 2009, every measure of sentiment exhibited the greatest levels of fear, pessimism and panic. For example, consumer confidence was at the lowest level since the survey began in 1956, and every bull/bear survey showed extremely high levels of bearishness and low levels of bullishness. Sentiment at an extreme is a useful contrary indicator. Fast forward to late August 2010 when sentiment soured to almost the same lows as 18 months prior, despite the rebound in real GDP and corporate profits that will soon eclipse their previous peak. This disconnect between fundamentals and sentiment made no sense rationally.

U.S. CORPORATE PROFITS HAVE REBOUNDED SHARPLY

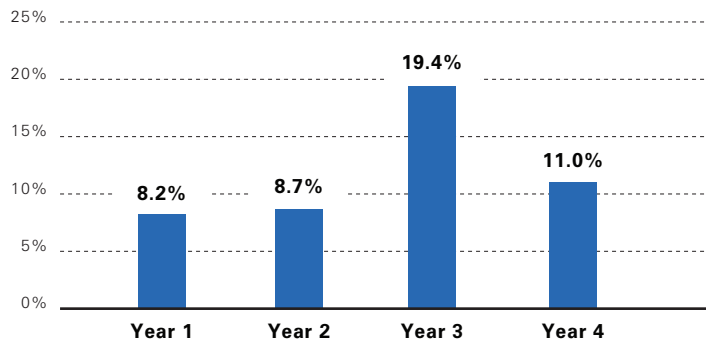


Source: FactSet Research Systems, Standard & Poor's, Haverford Estimates

What people do is much more important than how they respond to surveys, and throughout 2010, investors withdrew money from equity funds and invested money into bond funds. Investors' appetite for bonds and their disdain for equities did not change even in autumn as the stock market started appreciating and bond yields remained at record lows. Remarkably, it wasn't until the week of November 15th that we witnessed the first week of net outflows of money from bond funds after a whopping 99 consecutive weeks of net inflows. We are starting to see money trickle back into equities, and if investors' confidence continues to improve, that trickle could morph into something much more substantial, fueling higher stock prices in 2011.

S&P 500 RETURN BY PRESIDENTIAL YEAR

(Average 1938 – 2009)



Source: Haverford

Seasonal factors and historical precedent also augur well for higher stock prices in 2011. Since 1938, the third year of a Presidential term has been the best performing market year, with an average historical return of 19.4%, significantly higher than the first, second, and fourth years of a Presidential term. Furthermore, the S&P 500 has not witnessed a decline in the twelve months following a mid-term Congressional election since 1938. Coming off one of the most

influential mid-term election results, with our President shifting policy towards the ideological center (à la Bill Clinton), the potential for historical precedent holding true appears very promising.

Putting historical parallels and comparisons aside, the most persuasive argument for higher stock prices in 2011 is a combination of strong fundamentals and compelling valuations. Excluding financials, large U.S. corporations have never been in better financial shape. Corporate balance sheets are exceptionally strong, flush with record levels of cash. Profit margins are high and likely sustainable due to ongoing productivity enhancements and the positive operating leverage that almost always accompanies increases in sales growth. Indeed, if we are correct in our forecast that GDP growth can exceed 3% in 2011, revenue growth will be stronger than expected and today's profit growth estimates of 10-12% will likely prove to be too low. The S&P 500 is currently selling for 13.5 times 2011 estimates. This is well below the long term average P/E ratio of 16 times and very attractive given the low levels of inflation and interest rates.

The P/E ratio for the Haverford Quality Growth Portfolio is 12.5 times 2011 earnings estimates. We believe the valuation of our portfolio to be very attractive given its high-quality characteristics, higher earnings growth rate, and greater predictability relative to the overall market. We anticipate keeping the Quality Growth portfolio balanced between defensive companies (i.e., those companies that are less dependent on a growing economy to perform well) such as Pepsi, Coke, Proctor & Gamble, Johnson & Johnson, and McDonald's; and companies that have more cyclical exposure such as Air Products, Union Pacific, Eaton, United Technologies, DuPont, and Caterpillar. We will likely take profits in some of these companies throughout the year, but with emerging economies leading developed economies, we believe it will be important to maintain our overall exposure to the more cyclical side of the economy. With new purchases, we will favor companies that have global reach, particularly to developing economies.

In our Quality Dividend Value Portfolio, we will continue to seek higher yielding companies that also offer good growth prospects. This portfolio, at 12.5 times 2011 earnings, has a similar valuation to that of the Haverford Quality Growth Portfolio. While the earnings growth rate is not as high as that of the overall market, the generous above-market dividend yield more than offsets the lower potential earnings growth. The yield on this portfolio continues to look attractive compared to bond yields, even with the recent rise in interest rates.

Haverford's Quality Global Portfolio continues to be over-weighted in U.S. large-cap stocks because of their undeniable valuation advantage, particularly when compared to U.S. small-cap stocks and emerging markets. We will continue to opportunistically add investments in additional asset classes and sub sectors of the economy that will strengthen and diversify the portfolio. The purchase of the REIT index (VNQ) in 2009 and the more recent addition of the Global Materials sector index (MXI) are examples of opportunities that offer good growth prospects relative to their valuation and that increase diversification in order to reduce overall portfolio risk.

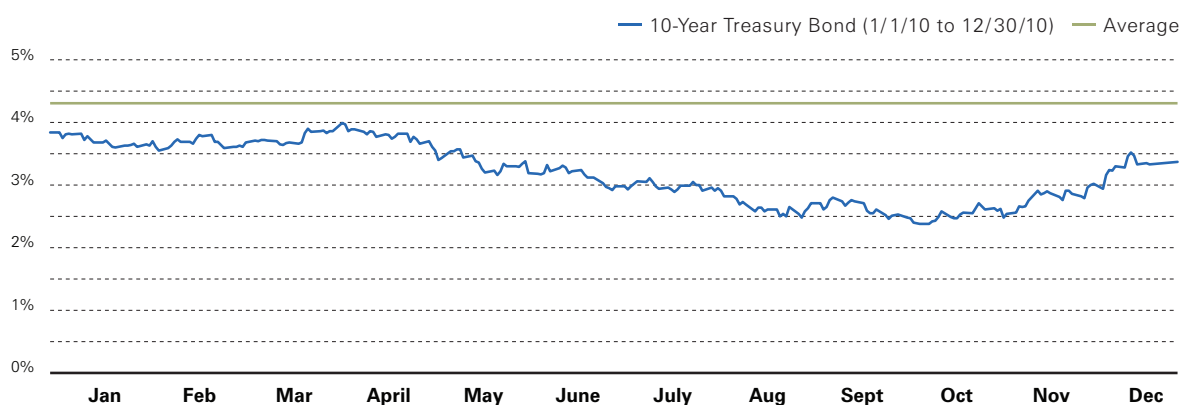
There is still a great deal of public pessimism regarding future returns of equities, and we expect this pessimism "bubble" to give way to a much more constructive view of equities. We have just begun to see the thawing of investor attitudes toward stocks and there is still a tremendous amount of money on the sidelines. That said, regardless of our enthusiasm for equities, as always we will remain vigilant in controlling the downside risk in our portfolios.

Fixed Income: Navigating Rising Rates

Haverford continues to be fairly cautious regarding longer-dated fixed-income securities based on our forecast that an improving economy will lead to higher interest rates, particularly on the long end of the yield curve. We are much more constructive regarding short- and intermediate-term corporate securities, given the continued improvement in credit quality. We also believe 2011 will be a good year for municipal bond investors. Signs of fundamental improvement in municipal finances are already evident, and the pressure on municipal yields will likely subside as the current supply glut is worked off.

Looking back to 2010, Treasury bonds experienced significant volatility, with fears of a double-dip recession pushing down the yield on the 10-year Treasury note to a low of 2.4% in early October from its April high of 4.0%. Although this range of 160 basis points represents only average historical volatility for a single year, the percentage decline is striking, as is the fact that the decline in yields occurred in a time span of only six months. Yields started to creep up in early autumn, coincident with more favorable economic data, and then increased sharply following the announcement of a tax deal that has great potential to spur economic growth in 2011 and beyond.

10-YEAR TREASURY YIELD — 2010 TRADING RANGE



Source: FactSet Research Systems

As we mentioned previously, the Federal Reserve will likely maintain its policy of extraordinarily low short-term rates for the immediate future, and will likely complete the balance of its targeted \$600 billion in asset purchases, primarily intermediate-term U.S. Treasury notes. Keeping interest rates low to foster economic growth is an explicit goal of the Fed's quantitative easing program, but reducing volatility in the fixed-income markets is a secondary, implicit goal. Accordingly, we would expect the Fed's open-market purchases to dampen volatility until the program is completed. We expect the Fed will keep short-term rates at the current levels of 0-0.25% for the better part of 2011, and we believe that pressure from continuing deficit financing will push the yield of the 10-year Treasury up toward the past decade's average of 4.2%.

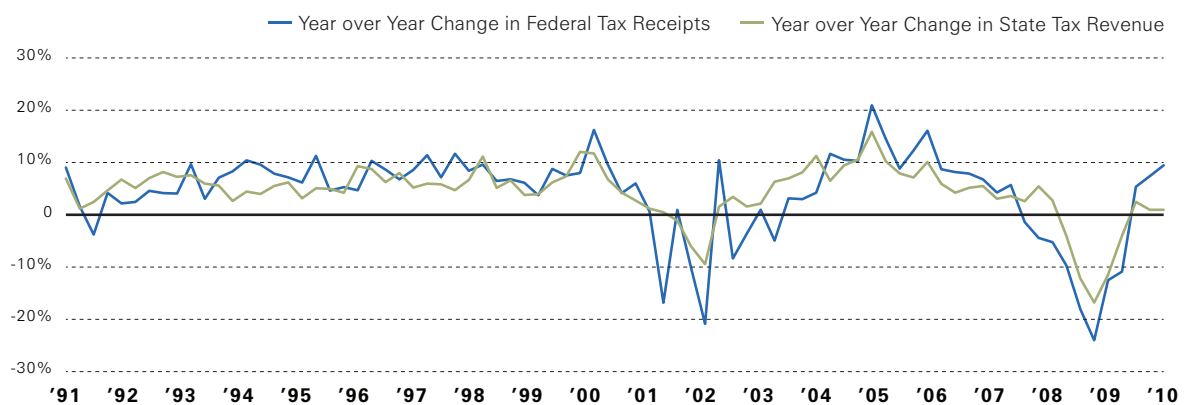
Given our outlook for continued low inflation, we do not believe Treasury Inflation-Protected Securities (TIPS) represent the most attractive asset class within fixed income. Since the yield on TIPS is derived from the yields on traditional Treasury securities — the TIPS yield equals the treasury yield minus the expected rate of inflation — low nominal yields on traditional Treasury notes greatly affect the attractiveness of TIPS. In recent weeks we have actually seen TIPS issues with *negative* nominal yields. While conventional wisdom might dictate that TIPS would offer investors more protection from a rise in interest rates, we believe that the absolute low level of yields on TIPS provides little offset to any decline in bond prices stemming from higher rates.

Turning to the mortgage-backed security market, we will be very selective when initiating new positions. The FOMC is concentrating its purchases on the intermediate maturity range. Since this is the portion of the yield curve that most directly affects mortgage yields, we expect mortgage rates to remain relatively stable until the completion of their program. After that, we expect that low-coupon mortgage securities will have rather longer durations as they will not be subject to any significant refinancing. As a result, those low-coupon issues could well track longer-term yields rather than intermediate term-yields and will thus carry more risk of price deterioration when longer rates rise.

As previously noted in our equities discussion, corporate balance sheets are in excellent shape with cash reserves at their highest levels in decades. We continue to favor high quality corporate bonds supported by improving earnings and stable balance sheets even if the economy grows only modestly. Event-driven risks to the corporate bond sector, such as leveraged buyouts, tend to occur in the later stages of the business cycle when the economy has moved into expansion and credit standards are relatively lax. Since we believe the economy is a long way from that part of the cycle, event risk in the corporate bond sector is very manageable. Corporate bond prices continued to be supported by relatively little new supply as already-strong balance sheets that are flush with cash have precluded the need for additional financing. Total 2010 Investment Grade corporate bond issuance has been \$844 billion, 21% below 2009's supply of \$1.07 trillion.

The municipal bond market has been roiled by continuing negative press regarding the status of state and local government finances. As we have written in the past, municipal finances tend to lag the improvement seen in the rest of the economy, so it isn't surprising that there are still many negative headlines being written and that the consensus is decidedly negative. While there have been well publicized financial troubles and a few bankruptcies, we are actually beginning to see signs of improvement in state and local finances. Not often reported is that state and local governments held a surplus of \$50 billion at the end of the 3rd Quarter of 2010. Even California, with all of its budget issues, began to see some improvement as November 2010 revenues from corporate, individual and sales taxes were all in excess of 2009 levels and ahead of their budget projections. A total of 42 states have recently reported year-over-year monthly tax revenue increases.

TAX RECEIPTS HAVE INCREASED



Source: FactSet Research Systems

The municipal market was under significant pressure in the latter part of 2010 due to higher supply, expectations of future tax rates, and an increase in overall interest rates. We believe 2011 will be more kind to municipal bond investors. Municipal bonds saw record supply in 2010 with long-term issuance topping \$400 billion for the first time in history. The expiration of certain provisions in the 2008 federal stimulus legislation led many municipalities to issue large amounts of debt in order to beat the deadline, after which the cost of funding will increase significantly. Specifically, the Build America Bonds program

(taxable muni bonds) is set to expire, and certain new bond issues will no longer qualify for alternative minimum tax (AMT) exemption at the end of 2010. We believe that fears regarding continued supply pressures are overstated since the rush to beat the expiring programs is, in fact, supply brought forward from 2011 into 2010. In other words, the glut is temporary, and will likely result in lower supply during 2011, which all other things equal will be good for bond prices.

Prior to the mid-term elections, the municipal market had anticipated higher tax rates in 2011, making municipal bonds more attractive on an after-tax basis. That expectation was priced into bond yields. The election results and subsequent tax legislation clearly reversed that expectation, causing a one-time shift in yields to reflect more certain tax policy — and lower rates — for the next two years. We find current yield levels in the municipal bond market to be very attractive, but as always, selectivity is key.

In closing, we expect the pessimism bubble to burst as certainty and decisiveness impact market prices and bond yields. We remain vigilant of balancing risks and reward, and we will continue to work with our clients to meet their income needs and other investment goals. The last several years have tested the mettle of many investors, even those of us with a continued focus on the long-term. Owing to their very nature and the severity of the recent economic climate, returns will continue to be volatile. Notwithstanding volatility, we believe that investors, especially equity investors with a long-term focus and the luxury of time, will be well rewarded in the years to come.

About Haverford

Refined over three decades, Haverford's *Quality Investing*[™] approach is a strategy committed to maximizing returns while minimizing risk throughout the entire market cycle. *Quality Investing* focuses on "A" rated equities that deliver consistent earnings and dividend growth, and investment grade fixed income securities that seek to protect both principal and income over the long term.

HAVERFORD'S PRODUCTS

EQUITY

- Quality Growth
- Quality Dividend Value
- Quality Global Strategy
- Quality 250[™]
- Quality SRI (Socially Responsible)

FIXED INCOME

- Quality Intermediate
- Quality Core
- Quality Municipal
- Client Specific Mandates

BALANCED

- Customized Allocations

HAVERFORD CLIENTS

Since its inception in 1979, Haverford serves a range of clients including:

- Individuals and Families
- Trusts and Estates
- Religious Organizations
- Private and Public Companies
- Corporate and Employee Benefit Plans
- Endowments
- Non-Profit Organizations
- Private Foundations
- Institutions & Institutional Consultants
- Financial Advisors

HAVERFORD SERVICES

Haverford clients enjoy a range of services designed to provide the best in personalized service and sophistication. Some of our additional offerings include:

- **BANKING SERVICES**, delivered through an FDIC-insured state-chartered trust company. We offer below-prime loans and competitive rate deposit accounts to meet our clients' financing and depository needs.
- **TRUST SERVICES**, including the management of revocable ("living") trusts, testamentary trusts, guardian accounts, irrevocable lifetime trusts, charitable trusts and estate settlement.
- **RETIREMENT PLAN SERVICES**, supporting every type of qualified and non-qualified plan. Haverford provides education, fee transparency, and an open architecture investment platform for plan participants.

To learn more about Haverford and its services, or to schedule an appointment to review your financial future, please call us at 888-995-5995 or visit www.HaverfordQuality.com.

HAVERFORD

QUALITY INVESTING

Three Radnor Corporate Center, Suite 450
Radnor, Pennsylvania 19087-4546
T 610-995-8700 / 888-995-5995 / F 610-995-8796
www.haverfordquality.com