HAVERFORD

2014 FALL OUTLOOK

The Economy: Economic Momentum Is Building

August 2014 marked the one hundred year anniversary of the start of the First World War. The "Great War" affected countless lives, destroyed empires, redrew borders, and many of the geopolitical conflicts around the globe today can trace their roots back to the war to end all wars. Armed conflict is almost always accompanied by humanitarian disaster and the horrific hostilities in the Ukraine, Gaza, and Iraq are no exception.

While these issues rightly deserve our attention and should not be blithely pushed aside, it is important as investors to ascertain whether or not regional conflicts will have a meaningful effect on economic growth. So far, the conflicts in Eastern Europe and the Middle East have had little effect on the U.S. economy. Our economy, in fact, is as strong as it's been in over five years as measured by many metrics. The conflicts have probably had more of an effect on European economies, but even then, the effects differ widely across countries.

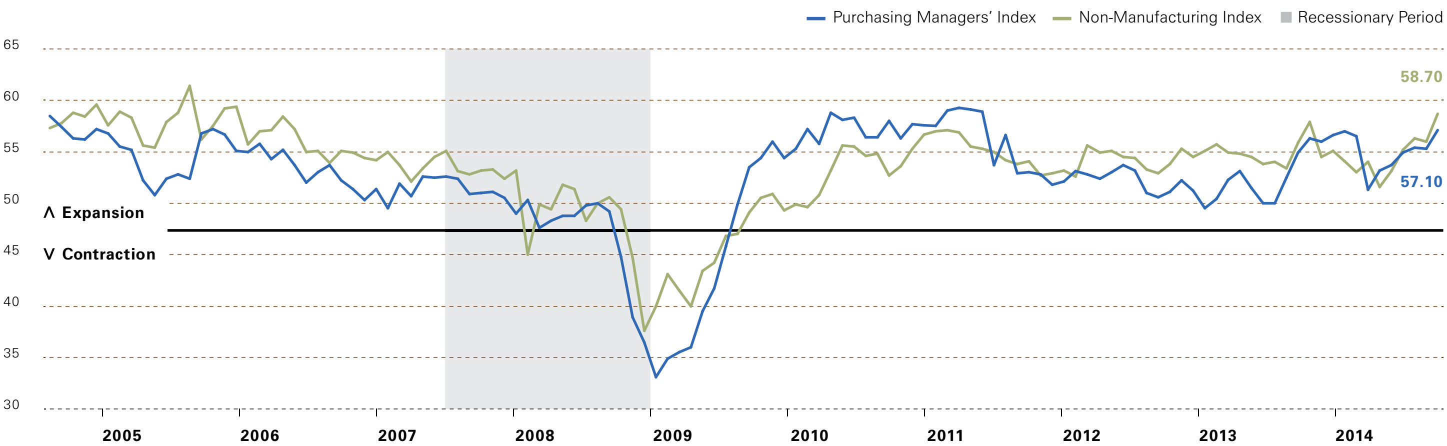
This summer has been filled with disturbing news around the globe. As veteran investors, we know it's important to remain focused on the economy and the markets despite perfectly warranted reservations and concerns regarding the geopolitical landscape. Recent data and positive trends leave us little choice but to remain optimistic that the U.S. economy continues to strengthen.

All data as of September 5, 2014 unless otherwise noted.

Forward-Looking Indicators Show Economic Expansion

The Institute for Supply Management (ISM) conducts several surveys that gauge the health of both the manufacturing (PMI) and non-manufacturing (NMI) sectors of the economy. They are excellent forward-looking indicators. According to the Institute's latest *Report On Business*®, economic activity in the **non-manufacturing** sector grew in July for the 54th consecutive month while the manufacturing sector expanded for the 14th consecutive month. The underlying components of the indices are very encouraging, including strength in new orders, business activity, employment, production, and inventory levels. These surveys validate the improvements in jobs, wages, and sentiment that we will highlight.

The Institute for Supply Management (ISM) Report on Business



Source: FactSet Research Systems

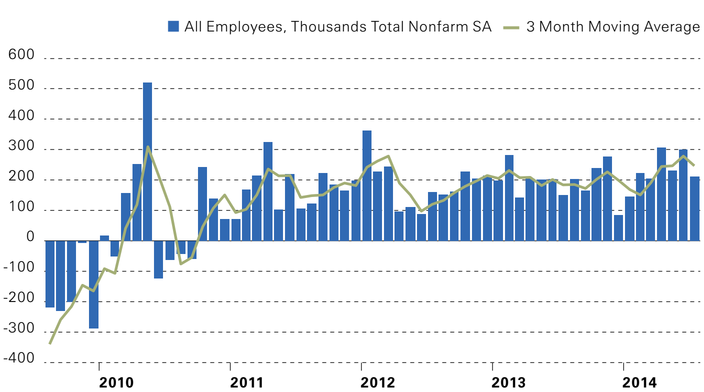
Job Growth Has Improved and Wages Are Firming

A lackluster jobs market has been common to both the post-2003 and post-2009 economic recoveries. Advances in technology, shifting demographics, and especially a lack of construction jobs are the major culprits behind poor job growth, but the economy has recently strung together six consecutive months in which private payrolls increased in excess of 200,000 new jobs. This hasn't occurred since the late 1990s.

In addition to new job creation, initial unemployment claims are approaching cycle lows. A dynamic economy will always produce some level of unemployment, known as frictional unemployment, but we expect the average length a worker is unemployed will continue to decrease. In fact, recent data from the Department of Labor's Job Openings and Labor Turnover (JOLT) Survey estimates that job openings recently hit a seven-year high of 4.7 million positions in July.

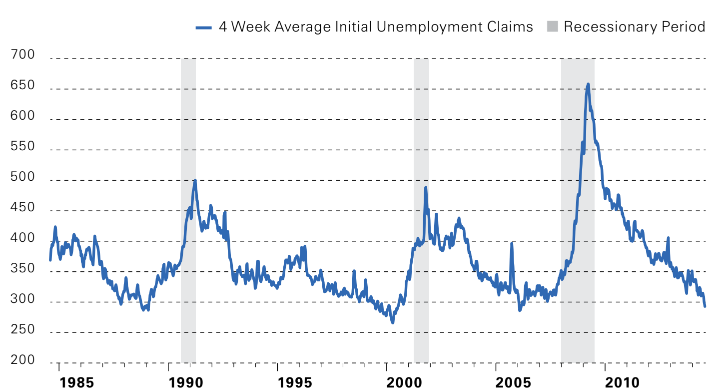
Wage growth, meanwhile, has been below average due in part to slack in the labor force, but this trend could well be reversing. Wage growth typically accelerates during the latter stages of

Monthly Change in U.S. Non-Farm Employment



Source: FactSet Research Systems

Initial U.S. Unemployment Claims



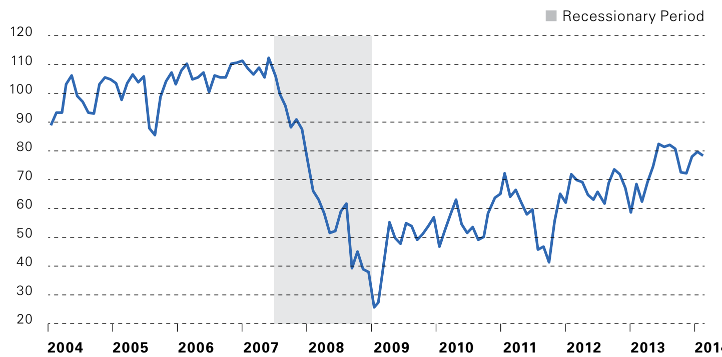
Source: FactSet Research Systems

the business cycle, which we are currently observing. Increased competition and the desire for growth often render cost-cutting less effective. The National Federation of Independent Business's (NFIB) June survey shows that an increasing number of companies plan to increase wages in the coming year. Wage growth momentum would be a welcome development.

Improving Consumer Sentiment Continues to Spur Auto Sales

We often focus on the auto business more than other industries because its supply chain tendrils and dealer network stretch across many sectors of the economy. Furthermore, auto sales are a very tangible expression of consumer sentiment. Although consumer sentiment remains far below peak levels, it continues to improve at a steady pace. The automobile industry is now selling approximately 16 to 17 million cars and light trucks annually in the United States. For basis of comparison, at the depths of the Great Recession[1] auto sales fell to 9 million cars!

U.S. Consumer Confidence



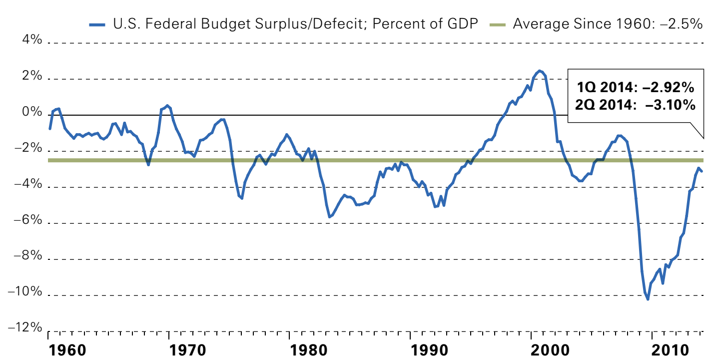
Source: The Conference Board; FactSet Research Systems

1 The term "Great Recession" applies to the global recession of 2008-2009.

Surprise! The Federal Deficit Has Improved Dramatically

During the past several years the deficit has fallen at a faster rate than even the most optimistic assumptions. Tax receipts have rebounded due mainly to improvements in the economy over the past several years. At the same time, growth in government spending has been relatively slow due to the lower defense spending and a grid-locked Congress, among other things. Naturally, a smaller deficit is better than a larger deficit because it reduces interest costs and future liabilities that at some point will have to be paid. The falling deficit also can have a marked impact on consumer confidence, which can positively affect the economy in so many ways.

U.S. Federal Budget Surplus / Deficit; Percent of GDP



Source: Strategas Research Partners

Lower Deficits Make the Fed's Job Easier

Since falling deficits result in lower debt issuance and thus lower interest rates, reduced budget deficits have provided the Federal Reserve cover, in the form of Quantitative Easing (QE), to reduce their bond buying program. QE is on track to be phased out by October, at which point the Federal Open Market Committee (FOMC) will begin to discuss the timing of an initial hike in short-term interest rates. We expect the first Fed Funds rate hike to occur in the second quarter of 2015. Aside from the small "taper-tantrum" exhibited by the market in early 2013, the end of QE has had little ill effects on the market. We expect a similar experience surrounding the first rate hikes. Initially, markets often react negatively to the first rate hike, but if history is any guide, we expect the stock market to be higher both six and twelve months later.

The Energy Renaissance Continues to Fuel Economic Growth

The U.S. energy renaissance has provided spectacular gains to many parts of the U.S. economy, in addition to benefiting the global economy by providing another stable source of supply. The Energy Information Administration (EIA) is continually having to increase U.S. production forecasts, and now believes that 2015 production levels will represent the highest annual average level of oil production since 1972. Increased production has caused a dramatic decline in petroleum imports. The EIA expects the import share of total consumption to fall to 22% in 2015 from 33% in 2013 — the lowest level since 1972. Increased U.S. energy production is one reason why the turmoil in the Middle East has not affected the price of oil globally. It also reduces America's trade deficit, keeping billions of dollars circulating within our own economy.

Housings Starts and Existing Home Sales Remain Lackluster

Housing starts — a huge driver of economic growth before the Great Recession — are well below our anticipated equilibrium rate of one million units. Existing home sales, meanwhile, have eased off recent highs. Housing starts often receive much more press than existing sales because housing starts directly influence GDP figures, and they put a great many people to work. When gauging economic growth, we like to focus a bit more on existing home sales, which represent a much larger piece of economic activity — consumer sentiment, mobility, jobs, etc. — but don't have as direct an impact on GDP. Either way one looks at the data, housing could certainly be doing better. We believe that housing will continue its slow climb higher in the coming years, commensurate with better household formation and continued job growth.

Student Loan Debt: The Solution Is a Better Job Market

According to the Project on Student Debt, 71% of college seniors who graduated last year had average student loan debt of $29,400. Because of higher future earnings potential, student loans — like mortgages — are typically viewed as "good" debt because they help the borrower obtain valuable assets. But excessive debt burdens, with poor job prospects and elusive earnings power, could hinder consumer spending for years. College graduates are delaying buying homes and getting married in addition to reducing their overall household spending. Hopefully, an improving jobs market will help to alleviate this burden as fewer students seek post-secondary education options as an alternative to employment. These debts are currently manageable, but only as long as our economy continues to produce well-paying jobs for these graduates.

Europe, Japan, and Emerging Markets Struggle to Grow Consistently

Europe continues the struggle to string together consecutive periods of growth. While the U.K. may post 2% GDP growth this year, it appears that almost every other developed economy will only tread water. Japanese GDP declined 1.7% in the most recent quarter, Germany is expected to decline 0.1% and France may advance only fractionally. These results are affected by a certain amount of noise, such as the Japanese tax increases and poor weather in Germany (we know the effects of poor weather after last winter!), but it is not *all* attributable to one-time events. Geopolitical events are certainly affecting Europe and emerging markets more acutely than the Unites States. Europe is also struggling with strong deflationary forces, which in the long-run may prove to be beneficial, providing political cover for the European Central Bank (ECB) to become more accommodative even as the U.S. and U.K. are embarking on a period of tighter monetary policy. Despite this current tepid growth, we still believe there is long-term value in emerging market equities, especially in companies that provide consumer goods and services to the burgeoning middle class.

Equities Remain Attractive

As the equity markets continue to build their gains into the autumn, we highlight some important points. Despite rising geopolitical tension, equities are responding favorably to the positive economic data discussed above. But most importantly, equities continue to exhibit strength in concert with Corporate America's strength. Rising revenues and increased profits — the primary drivers of every bull market — have underpinned this market. We have experienced a huge recovery in revenue and profits during the past five years, which have paced the market higher. Second quarter earnings growth came in at approximately 10%, with a low single-digit increase in revenue.

Admittedly, earnings have been aided to some extent by stock buybacks and lower interest costs. That does not change the fact that equities are more valuable because of tangible results, not just monetary policies at the Fed as many naysayers would have the public believe. Although we firmly believe the market's appreciation can be accredited to fundamental gains, we recognize the market may be in for a bumpy ride during the next two quarters heading into mid-term elections and the Fed ratcheting up their tightening rhetoric. The prospect for short-term volatility in no way reduces our optimism for the long-term potential return for equities.

The country goes to the polls in November for the mid-term elections, which has historically provided the impetus for stocks to sell off as the national narrative becomes more acrimonious. While past performance is no guarantee of future performance, investors have tended to bid stocks back up post-election, often resulting in strong returns to close out the year. We would not be surprised to see stocks experience moderate indigestion as investors digest the reality of higher rates. We believe the FOMC will begin to raise rates in the second quarter of 2015.

If history is any guide, investors should not fear the initial stages of tightening. The market has almost always rallied during the twelve months prior to the Fed raising rates, which makes sense because the Fed raises rates when the economy is strong and improving. Following the last three times the Fed first raised rates, (1994, 1999, and 2004) the market declined for the subsequent three month period but posted positive returns one year later. The coming rate hike is arguably the most anticipated, telegraphed, and — in many cases — hoped-for in a generation, which argues the market may not follow the same script should the rate hike occur.

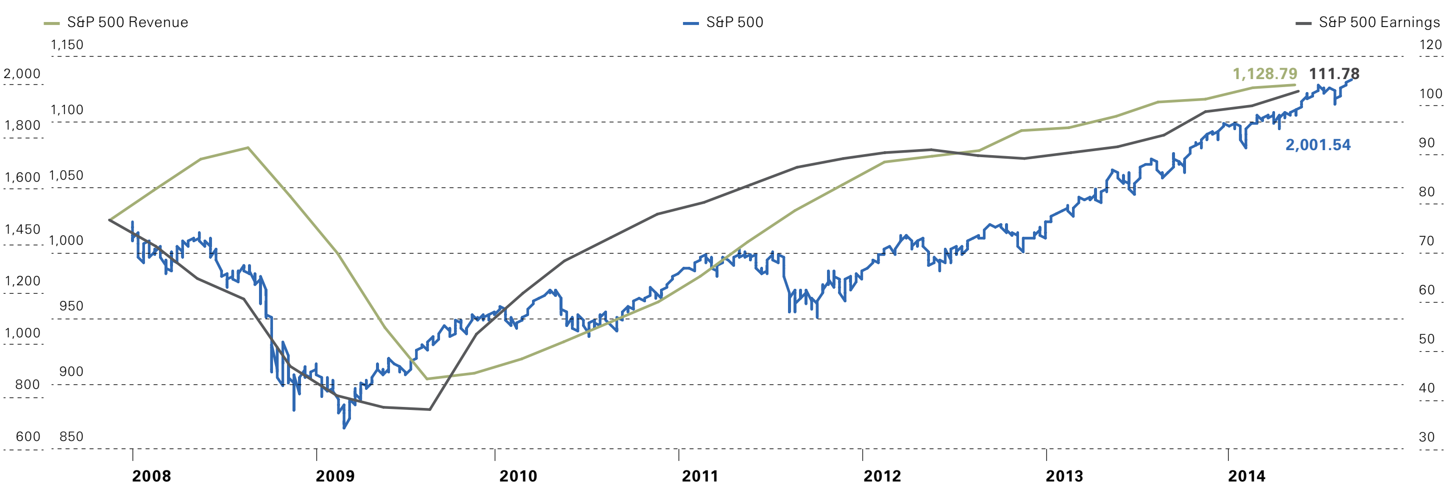
S&P 500 Performance Before and After First Fed Tightening

Date of First Raise	–6 Months	–3 Months	+3 Months	+6 Months	+12 Months
March 1983	27.0%	8.8%	9.9%	8.6%	4.1%
January 1987	0.2%	7.9%	19.1%	21.2%	2.6%
March 1988	–19.8%	4.1%	6.0%	5.4%	13.3%
February 1994	4.7%	2.7%	–3.9%	–2.4%	1.9%
June 1999	11.7%	6.7%	–6.6%	7.0%	6.0%
June 2004	2.6%	1.3%	–2.3%	6.2%	4.4%
Average	**4.4%**	**5.2%**	**3.7%**	**7.7%**	**5.4%**

Source: Strategas Research Partners

As we view the landscape today, we see that equity valuations have risen across the board, but high-quality companies are not trading at a meaningful premium to the overall market. The fact that investors have not bid up the price for high-quality stocks (i.e., highly predictable, "A" rated companies with high returns on capital) bodes well for future relative returns and downside protection.

Fundamentals Support Market Advance



Source: FactSet Research Systems. Earnings and revenue trailing 12 months. Indices are shown for illustrative purposes only. It is not possible to invest directly in an index.

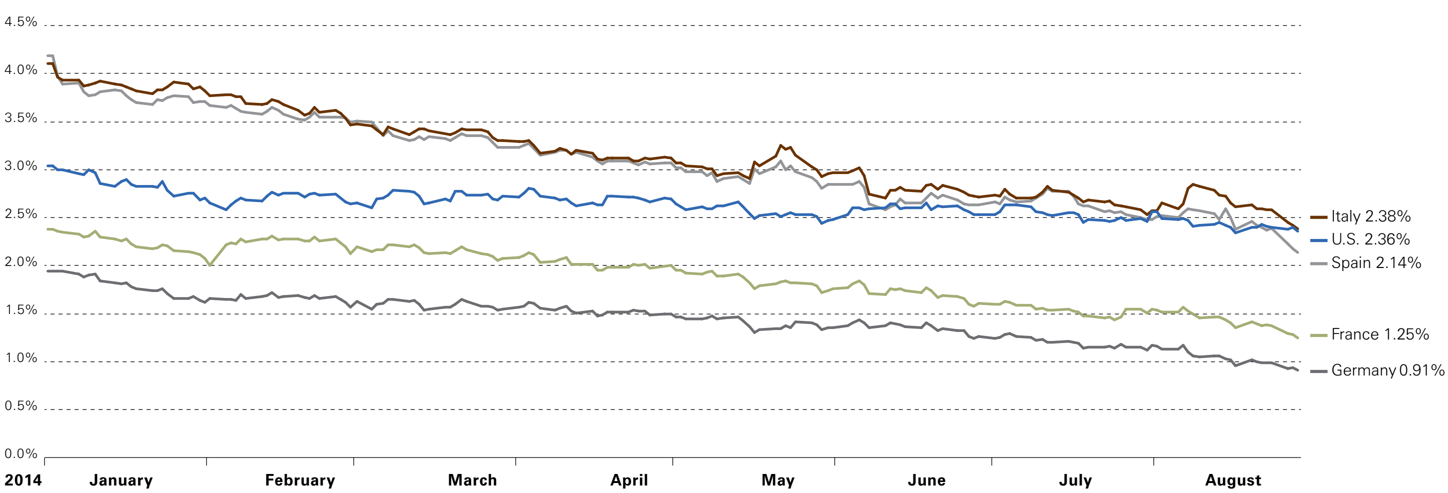
Fixed Income: Yields Under Pressure

Declining rates continue to confound most investors. While we were not alone in our forecast that 10-year Treasuries could yield 3.5-3.75% in 2014, it was certainly humbling to see the 10-year fall below 2.4% in late August. Yields have fallen despite a strengthening economy due, in our opinion, to three major factors. First and foremost, the U.S. Treasury remains a safe haven during times of geopolitical stress. As we noted earlier, the globe is not lacking for conflict and during such times one would expect dollars to flow into the Treasury safe-haven. Secondly, supply and demand dynamics have led to lower yields. As we previously noted, the Federal deficit has declined, reducing the available new supply of bonds while investors' appetite for fixed income has not waned. The supply of municipal debt is also down 13.5% year-to-date. Lastly, inflation remains a de minimis concern for the developed nations of Europe and Japan. Low inflation expectations, coupled with lackluster growth and talk of a European QE program have combined to push yields in Germany to 90 basis points. While we cannot fathom investing money for ten years with the expectation of a 0.9% total return, it is the reality in Europe. In a global market place, where capital easily flows between markets, yields in foreign securities are certainly placing downward pressure on the U.S. market.

The fall in yields has led to a 2.6% appreciation year-to-date in the value of Barclays U.S. Aggregate index, which includes long-duration bonds. Not to be outdone, the Municipal market has seen bond prices appreciate 4.2%. Combined with coupon payments of 2.1% and 3.0%, total YTD return for the two indexes are 4.5% and 7.2%, respectively. The demand for investors seeking tax-free income has far out-stripped the supply of new issues and we believe the improving condition of most municipalities will continue to support current market dynamics.

Contrary to the central trend in municipal finances, Moody's downgraded the Commonwealth of Pennsylvania from Aa2 to Aa3 in July. Moody's cited budget pressures, most notably pension costs, as basis for the downgrade. In our opinion,

Sovereign Debt Yields (Benchmark: 10-Year)



Source: FactSet Research Systems

despite all of the credit improvements since the end of the recession, this is a reminder of the continuing challenges for state and local governments. We do not believe the downgrade will materially affect Pennsylvania's borrowing costs, nor do we believe PA credit should decline in value. In confirmation of our view, the market has essentially shrugged off the downgrade and PA bond prices have remained strong.

As we get closer to the Fed's first move towards higher short-term rates there has been a lot of commentary regarding the impact on different parts of the yield curve. Initially, the front-end of the yield curve will likely increase at a faster rate than long rates, but we conclude that longer bonds will still prove to be more sensitive to any rise in rates. Only in a scenario where the yield curve inverts (that is, short-term rates are higher than long-term rates) would shorter-term bonds lose more in value. The curve inverts when the Fed wants to raise rates so high as to put the brakes on an overheated economy. We are a long way from such a scenario occurring.

Hence, investors fearing rising rates should continue to favor shorter- and intermediate-term maturities. In addition, the best defenses against rising rates are to maintain a fixed income allocation close to the low end of your stated asset allocation range and keep bonds well within the intermediate maturity sector, as we have always done.

Contemplating Market Highs

The S&P 500 is flirting with the 2,000 level, bond yields are at generational lows, global economies can't seem to get into gear, and geopolitical risks are numerous. Now may seem like the perfect time to raise cash and "sit this one out." But we have always cautioned against such market timing, adhering to Warren Buffet's assertion that "America has faced the unknown since 1776" and "American business will do fine over time."

The last decade and a half provides the case in point: When the S&P first passed 1,000 in February of 1998 it traded at 22.8 times trailing earnings, notably higher than today's trailing multiple of 17.8. Subsequently, it has undoubtedly been a bumpy road, but the S&P 500 has doubled during that time period, earnings have risen 150%, dividends have more than doubled, and an investor's total return has been approximately 170%.

Time in the market is what matters; timing the market is extremely difficult and costly. Now is a great time to look at one's asset allocation to ensure your portfolio is correctly positioned for long-term investment to meet your long-term financial needs.

About Haverford

Refined over three decades, the Haverford *Quality Investing*™ strategy is 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 Products

EQUITY

- Quality Growth
- Quality Dividend Yield
- Quality Growth & Income
- Quality Core Global Strategies
- Quality ETF Global
- Quality 250™
- Quality SRI (Socially Responsible Investing)

FIXED INCOME

- Quality Taxable
- Quality Municipal
- Quality Total Return ETF
- Client Specific Mandates

BALANCED

- Customized Allocations

Haverford Clients

Haverford serves a range of clients including:

- Individuals & Families
- Institutions & Institutional Consultants
- Private Foundations
- Employers
- Employee Benefit Plans
- Nonprofit Organizations
- Trusts & Estates
- Religious Organizations
- Endowments
- Financial Advisors

Haverford Services

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

Banking Services

Haverford is a member of the Federal Reserve System and is a state-chartered trust company with banking capabilities. We offer two products: certificates of deposit, and loans secured by assets with us.

Nonprofit Services

Tailored to the unique needs and vision of your organization, we work to identify strategies that enable growth with purpose.

Personal Trust & Estate Services

Caring and continuity are the hallmarks of our approach — securing your family's financial future, for generations.

Retirement Services

Our approach to retirement plans matches our strength as an investment manager. Haverford's own employees are covered by the same program and investment menu we offer to our clients.

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.

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

HAVERFORD

QUALITY INVESTING

THE HAVERFORD TRUST COMPANY
Three Radnor Corporate Center, Suite 450 Radnor, Pennsylvania 19087-4580
T 610-995-8700 / 888-995-5995 / F 610-995-8796 / www.haverfordquality.com