

A Message from the CEO

Gordon B. Fowler, Jr., President and Chief Investment Officer



A key and formative experience for my parents, and many in their generation, was the Great Depression. These were difficult times, and very few individuals or families escaped unscathed. But, surprisingly, some people will actually recount how their family experienced a “good Depression.” By this, they mean that while times were tough, and despite the belt-tightening, family members came through the period stronger, more united, and with a greater sense of confidence and purpose.

I feel, with a certain amount of pride, that the same can be said of Glenmede over this last year. The volatility in the markets that started in 2008 and continued into 2009 was an intense challenge for our clients. Many wealth management companies were forced to retreat from business pursuits while also resorting to severe cost-cutting tactics.

Unlike these firms, we walked into this period better prepared to withstand the headwinds of a collapsing market and faltering economy. By diligently assessing and streamlining our operational expenditures, Glenmede avoided mass employee layoffs and other maneuvers that would have compromised the integrity of our culture and how we conduct our business. We chose instead to carefully control our expenses. As a result, Glenmede took

advantage of its sound capital position to invest in opportunistic endeavors and expand our geographic footprint.

Investing at an Opportune Time

As we move forward, increasingly we find there is a growing interest from prospective clients and talented professionals who want to be part of our company. This trend further validates our commitment to remain independent and solely focused on investment and wealth management.

While other firms reduced their workforce, we took the opportunity to tap into the availability of key investment and relationship professionals who share our values and were attracted to our collaborative culture. Our most noteworthy initiative, which continues our organic growth strategy, came with the opening of a new, full-service office in New York.

Although the barriers to entry of this marketplace are formidable, Glenmede’s strength and stability offer a compelling value proposition to a population stricken by changing market dynamics. Against this backdrop, Glenmede stands out as an attractive alternative for current and prospective clients who have an increased interest in fostering a more intimate, trusting relationship with their wealth advisor.

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Strategic Hires

Howard E. N. Wilson,
*Executive Vice President and
Director of Client Services*



The strength of Glenmede’s independence continues to distinguish our firm and enables us to recruit exceptionally talented professionals:

- **Jason Pride, CFA,** joined Glenmede as Director of Investment Strategy, a newly created position. Jason will be responsible for formulating and, along with Chief Investment Officer Gordon Fowler, directing investment policy and strategy for Glenmede clients.
- With the establishment of our New York office, we are pleased to welcome **Lee Miller** as a Senior Trust Administrator and **Glenn Switzer** as a Senior Portfolio Manager. Together, they represent an average of more than 30 years of expertise, and both will serve as primary contacts as we further develop a presence in the New York City metropolitan region.
- **William (Bill) Robb** joined Glenmede’s Morristown office as a Portfolio Manager with over 11 years of experience providing investment counsel and wealth-advisory services to high-net-worth individual and institutional clients.

We believe this momentum will continue, and Glenmede is prepared to opportunistically hire skilled individuals who share our priority to serve clients from a platform that focuses exclusively on investment and wealth management.

As the number of independent wealth management firms big enough to provide broad and sophisticated advice shrinks, we have the opportunity to make inroads and not only establish a complete regional footprint from New York to Washington, but also reinforce our growing national presence.

A Year of Considerable Activity with Clients

An important effort during this volatile year was our intense campaign to reach out to our clients to ensure that our best ideas, from investment strategy to financial planning, were shared at a time of great uncertainty. In turn, client contact levels were greatly increased during the most stressful months of market declines and instability.

Account performance during this period held true to our mission to participate in market growth on the upswing and protect client assets on the downturn. This mindset serves the best interests of our clients in varying economic climates. During the steepest part of the declines, we earned the greatest level of relative performance, cushioning our clients' investments and leaving portfolios

with a narrower recovery gap when the market rose during the later part of last year.

The Next Phase of Glenmede's Growth

2009 was a time of transition for Glenmede. After 35 years of service, Al Piscopo retired as Glenmede's CEO. My colleagues and I are indebted to him. Under Al's stewardship, Glenmede made the necessary investments and ensured the stability of our foundation while preserving our long-term commitments to our clients and employees. He is why we are positioned today to confidently move ahead.

As part of the transition to new leadership, we engaged our management team and Board of Directors to develop a new set of strategic goals for Glenmede. These goals represent big-picture concepts that, if executed successfully, should lead to a richer client experience, profitable growth for shareholders, and rewarding careers for our employees. They are:

1. **Produce superior investment results.** Exceed our clients' expectations for investment return and risk management.

2. **Simplify the financial world of our clients.** Provide clients with a level of financial advice and service that improves the quality of their lives.
3. **Sustain our independence.** Maintain financial strength through periods of economic stability and turmoil so that Glenmede remains a reliable, independent organization focused on the needs of current and future generations of clients.

These strategic goals will last beyond 2010. They are intended to serve as an underlying charter for long-term initiatives, and bring us closer to reaching these objectives.

Closing Thoughts

I am very excited about Glenmede's future. We have a unique and competitive advantage in the investment and wealth management market, and an excellent opportunity to build from here. If we approach this opportunity with the same values that have guided us in the past—a commitment to service, thoughtful collaboration, a disciplined business focus, and a high level of integrity—I am quite confident that we will achieve our intended results.



Spring Cleaning

Time to gather those tax materials and send them off to your tax preparer. And while you are at it—what can you throw away or shred? Our recommendations:

Keep forever: Copies of tax returns, records to support nondeductible traditional IRA contributions, and gift tax records.

Keep until at least three years after the asset or home is sold: Cost-basis records for investments, including dividend reinvestment plans, partnership K-1s, and receipts for home purchase and major home improvements.

Keep for 10 years: All 1099 and W-2 forms; supporting documents, such as

anceled checks and receipts for all tax deductions, including deductions for charity, real estate taxes, tax preparation, and investment expenses; and year-end statements from investment advisors.

Shred: Monthly investment statements (but keep the year-end statement) and paycheck stubs (if they match the W-2).

Shred: Credit card and utility bills *unless* they relate to tax deductions.

An Overview of the State of the States

Shifting valuations require active monitoring and a disciplined investment approach

Laura LaRosa, Director of Fixed Income



States and municipalities have long issued debt as a way to fund the programs and initiatives that enable governments and communities to function and thrive. Yet the recent economic recession has hit many governments exceedingly hard, leaving them short of cash and with limited options.

Unfortunately, there is little cushion for budgets facing diminished revenue streams and a significant rise in administrative costs. Of particular concern, California, Illinois, Nevada, and New York are struggling under severe financial pressures. We expect that this downward trend will extend into 2011 and possibly beyond, depending on the nature of the economic rebound. This is especially important given that, until now, municipal debt has been viewed as one of the most trustworthy investments. The question that remains unanswered is this: Will governments initiate and then stick with the necessary reforms they need to enact?

At Glenmede, we continue to invest in states with healthy cash flows and ample capital reserves. The most powerful financial tool available to states and municipalities is their ability to raise taxes. Municipal General Obligation debt, a secure form of debt issuance, enables a state to raise funds while providing investors with the municipality's full-faith-and-credit guarantee to pay interest and principal at maturity. For the majority of states that remain above the fray, these bonds continue to be a viable source of funds. While it is rare for a municipality to default on

its payments, if this were to occur, government administrators would be forced to act as quickly as possible to remedy the problem.

State and local municipalities can also improve their financial conditions through many cost-cutting methods under their control. Although unpleasant, libraries and recreation centers can be closed, trash collection can be reduced to once a week, and cutbacks in the form of forced employee furloughs can be initiated. These tactics may be painful for constituents to bear, but such measures have been used in past recessionary times.

For those investors who find the stream of negative news too uncomfortable, pre-refunded or escrowed municipal bonds offer the ultimate safety. These bonds, which are tax-exempt, are created when municipalities issue new debt to refinance previous debt issued at higher interest rates. The issuer uses the proceeds from the new bond issue to purchase U.S. Treasuries as collateral. The U.S. Treasury collateral is then used to pay interest and principal on the bonds when due. A pre-refunded bond therefore provides an investor with a tax-exempt municipal bond backed by U.S. Treasuries.

It remains to be seen how and when certain states will emerge from their current crisis. The housing market collapse along with high unemployment rates could take many years to correct. We expect further deterioration of state and municipal financial conditions to



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receive noticeably more media coverage. Nevertheless, we believe that municipal securities remain an appropriate and important investment for our clients to consider, provided that such investments are made using a disciplined investment approach and thoughtful due diligence. Glenmede continues to navigate the changing landscape and identify opportunities, and we will keep you, our clients and colleagues, informed.



Conversion of a Traditional IRA to a Roth IRA: A Good Opportunity for Some, All, or Nobody?

Melissa L. Burke, Director of Personal Income Tax
Charles M. Aulino, Director of Financial Planning

Beginning in 2010, owners of traditional IRAs (Individual Retirement Accounts) have the right to convert to a Roth IRA regardless of income. Conversions may occur in any year in the foreseeable future, but there is a potential tax advantage to making the conversion in 2010. Owners must pay income tax on the value of the traditional IRA at the time of the conversion, but income taxes payable on 2010 conversions may be deferred over two years (2011 and 2012). Conversion by a beneficiary of an inherited IRA is not permitted.

Traditional IRAs and Roth IRAs differ in three fundamental ways. First, withdrawals from traditional IRAs are subject to income tax, while withdrawals from Roth IRAs are not. Second, traditional IRAs are usually funded with tax-deductible contributions, while Roth IRAs are funded with after-tax dollars. Third, traditional IRA owners must make annual minimum withdrawals after age 70, while Roth IRA owners need not do so during their lifetimes.

Variables to Consider Before Converting a Traditional IRA

The decision to convert a traditional IRA into a Roth IRA is complex and not determined solely by reference to income tax rates or dollar amounts. Some questions to consider include:

1. Can IRA owners foretell, with reasonable confidence, that they will never need to draw on the IRA as a financial resource?

Studies suggest that conversions (and payment of related income tax) are most efficient when the funds remain intact for a long period. This means that conversion is beneficial primarily to young owners (under age 40) or those who intend to pass IRAs intact to heirs.

2. Will the IRA owner pay the income tax on the conversion from financial resources other than the IRA itself? If the income tax is paid from the converted IRA, much or all of the long-term advantage of conversion may be lost.
3. Will the beneficiaries of the converted IRA be individuals or charities, and how soon will they need to use the funds? Conversion of a traditional IRA to a Roth IRA seems unwise when a charity is the designated beneficiary because charities pay no income tax on a traditional IRA. Alternatively, if the heirs draw down the funds soon after the owner's death, will the amount of time that has passed be sufficient to recoup the income taxes previously paid?
4. Are there any specific attributes in the IRA owner's tax profile that might create an advantage to conversion? Although the conversion creates taxable income, owners may have excess charitable contribution carryovers or net

operating losses that offset taxable income caused by the conversion. Similarly, owners may have Alternative Minimum Tax (AMT) credits available for use if the conversion income pushes them out of AMT.

5. What is the future of income tax rates? Future tax rates affect the decision of whether to convert all now or in pieces over time. For example, if in the future the government changes policy and decides to subject Roth IRAs to income tax, then, despite all the planning, will conversion have been a detriment?

For older IRA owners, the decision to convert a traditional IRA ultimately comes down to an analysis of long-term financial security. Will you need to rely on these funds for living expenses? Glenmede's financial planners can help clients parse this decision-making process. For younger IRA owners, a careful analysis of the time required to recoup the income tax is an important factor.

For a more complete analysis of this topic, visit your Glenmede WebView account for our white paper on this subject or contact your Glenmede Relationship Manager.

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