

LARGE-CAP CORE EQUITY

INVESTMENT PHILOSOPHY

The cornerstone of WestEnd Advisors' investment philosophy is that Sector and Industry performance is highly correlated with particular stages of the business cycle.

WestEnd Advisors overweights Sectors we believe will experience economic **tailwinds**, and avoids Sectors we perceive to be untimely. We target **high-quality, market-leading** companies within favored Sectors.

The result is a **core investment style** that shifts portfolio Sector and style emphasis to remain properly oriented and timely over a full economic and market cycle.

Boutique Investment
Management Firm

Sector-Focused
Large-Cap Core Manager

18 to 20 Stock Holdings

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PERFORMANCE VS. BENCHMARK

	WestEnd Composite		S&P	Russell
	Gross*	Net*	500	1000
April	2.24%	2.14%	1.58%	1.85%
Qtr-to-Date	2.24%	2.14%	1.58%	1.85%
Year-to-Date	7.28%	7.01%	7.05%	7.65%
1 Year	28.19%	27.62%	38.84%	40.21%
3 Year	-2.00%	-2.53%	-5.05%	-4.71%
5 Year	5.12%	4.55%	2.63%	3.07%
7 Year	9.89%	9.30%	5.84%	6.41%
10 Year	6.43%	5.86%	-0.19%	0.16%
Inception	12.99%	12.40%	6.55%	6.78%

*Returns are preliminary, not verified, and subject to change.
Returns greater than one year are annualized.
Source: standardandpoors.com, russell.com

MODEL SECTOR WEIGHTINGS

	WestEnd	S&P 500
Consumer Discretionary	30.0%	10.6%
Consumer Staples	5.0%	10.9%
Energy	0.0%	11.2%
Financials	0.0%	16.5%
Health Care	15.0%	11.6%
Industrials	0.0%	10.8%
Information Technology	35.0%	18.9%
Materials	0.0%	3.5%
Telecommunications Services	15.0%	2.7%
Utilities	0.0%	3.5%
Cash	0.0%	0.0%

Source: standardandpoors.com

PORTFOLIO CHARACTERISTICS

	WestEnd	S&P 500
Number of Stock Holdings	20	500
Average Market Cap (\$ billions)	\$62.2	\$21.5
Price to Earnings: Trailing Operating	20.9x	18.2x
Price to Book	3.9x	3.8x
Dividend Yield	1.4%	1.9%

Source: Telemet, standardandpoors.com

ECONOMIC AND MARKET REVIEW

Media coverage of topics like falling home prices and increased consumer debt levels raises the profile of these issues among the public and investors. Topics like these are often oversimplified, and subject to mischaracterization and misunderstanding. We believe that it is important to analyze these hot-button issues more extensively, and in their appropriate context, to understand the significance of the information. Only then with that proper perspective can the information help us make sound investment decisions.

Just a few quarters ago it was widely believed that consumers were overwhelmed with debt. Investors who supported this idea believed that consumers' debt loads would lead to an extended period of weak consumer spending. And there was evidence to support this view - household debt was at an all-time high, and household debt growth had outpaced personal income growth.

Many investors, however, neglected to put these concerns into the proper context. Over the same period that absolute debt levels increased, *interest rates had fallen significantly*. Thirty-year mortgage rates, for example, fell from 15% in 1980 to 5% in 2008. The lower interest rates enabled a borrower to support an increased level of debt with the same income. And consumers took advantage of the lower rates. Consumers' *debt-service-ratio* (required debt payments as a percentage of after-tax income), which was 11% in 1980, peaked at just under 14% in 2008. This relatively small increase in the debt-service demands highlights that borrowers were not overwhelmed with debt. They had the ability to continue to spend, and even to take on additional debt. Our conclusion that consumers are in better financial shape than generally believed has been supported by the strong pickup in consumer spending over the last year.

Today, the U.S. national debt has supplanted consumer debt as a key investor worry. Investors are rightfully concerned about the growth of both the U.S. Federal budget deficit and the U.S. Federal debt. In addition, the Chinese government's ownership of U.S. debt has become a focal point for investor anxiety. Many investors and politicians have argued that the Chinese government, as the largest foreign holder of U.S. debt, could force the U.S. government's interest costs substantially higher by reducing purchases of U.S. Treasuries, and in turn influence U.S. economic growth.

Many Americans don't realize that foreign governments hold less than a third of U.S. Federal debt, and that the Chinese government holds *only 7%* of the total U.S. Federal debt. It's also not widely appreciated that the Chinese government has reduced its U.S. Treasury holdings by an estimated \$60

billion, or 7% of their U.S. Treasury holdings, since last summer, even as interest rates paid by the U.S. government remained essentially unchanged.

The Chinese economy's dependence on U.S. consumers also receives scant attention. Nearly 20% of Chinese exports go to the United States - China's top destination for exports. In addition, the \$220 billion of exports sent to the U.S. in 2009 were more than four times the exports sent to any other Western country. This interdependent relationship between the two countries doesn't eliminate the possibility that the Chinese government might pursue a more confrontational stance with the U.S. to satisfy its domestic political agenda. But the mutual dependence indicates that if the Chinese choose a more aggressive policy, they would likely suffer their own economic and domestic difficulties. Weaker U.S. demand for Chinese manufactured goods would produce slower Chinese economic growth and reduce the pace of job creation in China's growing cities.

The analysis of Chinese holdings of U.S. Federal debt shows how a broader perspective is sometimes necessary to better understand an issue. But other times a more detailed examination of the headline data is required to provide the proper context to effectively analyze an issue. Investors, and even the Federal Reserve, have recently highlighted the pickup in business capital expenditures (CapEx) as a sign of economic recovery. The real story, however, is how this overall increase in business investment has been directed.

Some investors believe that business CapEx consists almost exclusively of purchases of manufacturing equipment for factories. They likely question whether this spending is large enough to influence overall economic growth. These same investors don't realize that business CapEx contributes more to GDP than commercial and residential construction combined, and contributes only slightly less than Federal government spending. They also do not appreciate that businesses' direct CapEx spending is affected by the overall economic environment -- companies spend more on new manufacturing equipment to expand production capacity in certain environments, while at other times firms spend more on technology to improve efficiencies.

In addition, many investors don't realize that today technology equipment and software, which are critical to companies across all industries, account for nearly two-thirds of business CapEx. Technology CapEx grew at annual rate of 21% over the last two quarters, even as spending on traditional equipment only increased at a 7% annual rate. This acceleration in technology spending compared to other categories of

CapEx is consistent with the pattern we have seen over the last few years as technology CapEx has gone from 48% of total CapEx in 2006 to 63% in 2009. One reason this recent increase in technology spending makes sense to us is that this type of investment appeals to corporate managers who are uncertain about the economic recovery. Technology CapEx can improve efficiency and boost growth without a significant on-going capital commitment in uncertain economic times.

Business CapEx, and in particular spending on technology equipment, is likely to be one of the drivers of overall economic growth in the period ahead. This will surprise investors who believe that housing needs to lead the economy as was the case prior to the recession. These investors contend that we will not have a sustained economic recovery unless housing also recovers substantially. They believe that consumers will only increase spending after the negative wealth effect from home price declines is reversed.

We believe that the economic impact of changes in home prices needs to be examined in the appropriate context. Wealthy consumers have a disproportionately large influence on spending. But the homes of wealthy consumers generally account for a much smaller portion of their assets than for the typical consumer. The top 10% of income earners in U.S., for example, have only 10% of their assets in their homes. Changes in home prices thus do not drive sentiment among the most important consumers, which means a housing recovery is not required for a sustainable economic recovery. We have already seen consumer spending improve substantially without a rise in home prices as consumer sentiment has recovered with higher stock prices, reduced threats of job cuts and a pickup in income growth.

We have learned over the years that economic and company data must be examined in their appropriate context to understand the data's investment significance. To achieve this proper point of view you sometimes need to take a step back to gain greater perspective on an issue. Other times you need to analyze the drivers behind a general trend. Regardless of which shift in perspective is required, we have found that this appropriate context helps us place a particular data point properly in the overall economic and investment backdrop.

Robert L. Pharr, Chief Investment Officer

Edmund N. Durden, Investment Analyst

Frederick O. Porter, Investment Analyst

May 14, 2010

WestEnd Advisors is an SEC-registered investment advisor. The firm is an independent investment management firm, 100% owned by its active principals. WestEnd manages both equity and fixed-income assets for individual and institutional clients.

WestEnd Advisors' **Large-Cap Core Equity Composite** is invested solely in U.S. Equity securities and/or high-grade money market instruments. Returns are achieved without the use of options, derivatives, or leverage of any kind. Results are time weighted, account size weighted, net of withholding taxes, use trade-date valuations, and include cash as well as the reinvestment of dividends, interest income, and other earnings, if applicable. Portfolio returns are weighted using end of prior month value plus weighted cash flows. Portfolios and composites are valued daily, are denominated in U.S. dollars only, and include all discretionary tax-exempt accounts with a minimum of \$1,000,000. Portfolios managed by WestEnd Advisors in any wrap-fee program are not included in the composite.

Composite performance results and the percentage of firm assets from December 31, 1995 to December 31, 2002 were realized under WestEnd Advisors' predecessor firm Providence Capital Management, Inc. in the **Large-Cap Core Equity Composite**. Providence Capital Management was a registered investment advisor founded October 1, 1995 by Robert L. Pharr. Mr. Pharr served as President and Chief Investment Officer, and made all the investment decisions since creation of the composite. The **Large-Cap Core Equity Composite** creation date is December 31, 1995, and the investment strategy for the **Large-Cap Core Equity Composite** has been consistent since creation.

Net-of-fee performance results are presented after investment management fees paid to WestEnd Advisors, as well as after brokerage or other commissions actually paid by clients in the management of their investment advisory account, but exclude any deductions for custodial fees. The current management fee schedule, as described in WestEnd Advisors' SEC Form ADV Part II, is as follows: 1.00% for accounts valued at \$1,000,000 to \$4,999,999; 0.90% for accounts valued at \$5,000,000 to \$9,999,999; 0.75% for accounts valued at \$10,000,000 to \$24,999,999; 0.65% for accounts valued at \$25,000,000 to \$49,999,999; and 0.50% for accounts valued over \$50,000,000. Fees are negotiable where circumstances warrant.

In April 2010, the date that a contribution to a portfolio was recorded was corrected. This affected February 2010 performance of the WestEnd Advisors' **Large-Cap Core Equity Composite**. This presentation includes the updated returns. Additional information is available upon request. Past performance is not indicative of future results. It should not be assumed that recommendations made in the future will be profitable. The information contained herein is not intended to be an offer to provide investment advisory services. Such an offer may only be made if accompanied by WestEnd Advisors' SEC Form ADV Part II. The S&P 500 and Russell 1000 are used for comparative purposes only. The S&P 500, our primary benchmark, is considered an appropriate proxy for the overall U.S. equity market and is comprised of 500 leading companies in major industries of the U.S. economy. The Russell 1000 is used as our secondary benchmark, and represents the extensive large-cap segment of the U.S. equity universe.

The dispersion of annual returns is measured by the standard deviation of the asset-weighted portfolio returns included in the composite for the full year. Dispersion is calculated based on gross returns, and is not shown when there are five or fewer portfolios as the calculation is not statistically meaningful.

A complete list and description of all WestEnd Advisors' composites as well as a presentation that complies with the requirements of the Global Investment Performance Standards (GIPS) is available upon request by phone (888-500-7501) or email (info@westendadvisors.com). Additional information regarding policies for calculating and reporting returns is available upon request.

Total firm assets do not include assets in any account where WestEnd Advisors does not execute trades on behalf of the account. These assets are sometimes referred to as "Advisory-Only Assets." As of December 31, 2009, WestEnd Advisors had approximately \$118 million of Advisory-Only Assets. This information is included as supplemental information only.

WestEnd Advisors has been verified for its claim of firm-wide compliance with the Global Investment Performance Standards (GIPS) for the periods December 31, 1995 through December 31, 2009 by Beacon Verification Services. WestEnd Advisors' **Large-Cap Core Equity Composite** has received a performance exam from composite inception through December 31, 2009. A copy of the verification report is available upon request.

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