

# 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

### WESTEND ADVISORS

Two Morrocroft Centre  
4064 Colony Road, Suite 130  
Charlotte, NC 28211

Phone: (704) 556-9300  
Toll Free: (888) 500-9025

Website: [www.westendadvisors.com](http://www.westendadvisors.com)  
Email: [info@westendadvisors.com](mailto:info@westendadvisors.com)

## PERFORMANCE VS. BENCHMARK

	WestEnd Composite		S&P	Russell
	Gross*	Net*	500	1000
February	4.24%	4.24%	3.10%	3.30%
Qtr-to-Date	0.20%	0.05%	-0.61%	-0.42%
Year-to-Date	0.20%	0.05%	-0.61%	-0.42%
1 Year	49.71%	48.99%	53.62%	55.32%
3 Year	-3.37%	-3.91%	-5.67%	-5.54%
5 Year	2.22%	1.65%	0.37%	0.77%
7 Year	10.50%	9.92%	6.06%	6.65%
10 Year	6.76%	6.20%	-0.31%	-0.09%
Inception	12.61%	12.02%	6.08%	6.28%

\*Returns are preliminary, not verified, and subject to change.  
Returns greater than one year are annualized.  
Source: [standardandpoors.com](http://standardandpoors.com), [russell.com](http://russell.com)

## MODEL SECTOR WEIGHTINGS

	WestEnd	S&P 500
Consumer Discretionary	30.0%	9.8%
Consumer Staples	5.0%	11.6%
Energy	0.0%	11.1%
Financials	0.0%	16.0%
Health Care	15.0%	12.6%
Industrials	0.0%	10.3%
Information Technology	35.0%	18.8%
Materials	0.0%	3.4%
Telecommunications Services	15.0%	2.8%
Utilities	0.0%	3.5%
Cash	0.0%	0.0%

Source: [standardandpoors.com](http://standardandpoors.com)

## PORTFOLIO CHARACTERISTICS

	WestEnd	S&P 500
Number of Stock Holdings	20	500
Average Market Cap (\$ billions)	\$59.0	\$19.9
Price to Earnings: Trailing Operating	20.5x	19.4x
Price to Book	3.8x	3.4x
Dividend Yield	1.4%	2.0%

Source: Telemet, [standardandpoors.com](http://standardandpoors.com)

### ECONOMIC AND MARKET REVIEW

A detailed and ongoing analysis of the macroeconomic backdrop is central to WestEnd Advisors' investment process. An examination of fixed-income markets is a key element of this analysis as interest rates and companies' access to capital are critical to our macroeconomic outlook. Our current outlook leads us to question the prospects for bond investors, who have purchased corporate bonds in unprecedented numbers over the last year.

#### Record Corporate Bond Spreads and Fund Flows

Corporate yield spreads, or the additional yield demanded by investors to hold a corporate bond rather than a Treasury bond, widened to record levels in late 2008 as the credit crisis unfolded. After spreads expanded, valuations of many investment grade corporate bonds, like those of other risky investments, looked compelling relative to historical measures. These attractive valuations lured investors into the bond markets in record numbers. Investment-grade corporate bonds, purchased in late 2008 and early 2009 outperformed historical bond returns as bond spreads tightened significantly throughout 2009 (see Figure 1).

Investors added \$375 billion to bond mutual funds in 2009, or more than four times the ten-year average. The peak in contributions, however, didn't occur until September 2009, almost a year after spreads peaked and after a majority of the outsized gains in bonds had already been realized. The record flows into bond funds helped to close the gap between corporate bond yields and Treasury yields. The amount of capital that shifted into corporate bonds last year should lead investors to

consider whether or not the crowd has bid up bond prices so high that future returns are no longer appealing.

We know spreads can't repeat their *400 basis point* decline as current spreads are only *200 basis points* over Treasuries. This also means that recent outsized returns can't be replicated either. There may still be some room for spreads to tighten, but the opportunity to buy bonds at record spreads is gone.

#### Interest Rates will Drive Corporate Bond Returns

The outlook for interest rates today is critical as rates will likely drive corporate bonds returns in the intermediate-term now that yield spreads have returned to more normal levels. Our interest-rate outlook actually consists of two separate outlooks as the factors that drive short-term interest rates differ from those that drive long-term rates.

Demand for credit, which is influenced by the Federal Reserve through monetary policy, is the main driver of short-term interest rates. We believe that short-term rates are likely to increase over the next 12 to 24 months as the economic recovery gains further traction and the Fed moves to a less accommodative monetary policy.

Inflation expectations are the key determinant of long-term interest rates, and are mostly outside the Fed's influence. We do not anticipate a substantial pick-up in inflation any time soon, as there is currently excess capacity across the economy and especially in the labor markets. Nevertheless, long-term rates are at the low end of their historical range, and as economic growth picks up, inflation expectations should move up modestly, which in turn should push up long-term interest rates.

#### The Impact of Interest Rate Changes on Bond Prices

We quantified the impact of interest-rate changes on bond returns in order to refine our outlook for the fixed-income markets. We analyzed the returns for a 10-year Treasury bond with a 3.75% coupon over the next two years if interest rates fell by 100 basis points and, alternatively, if interest rates rose by 200 basis points. The 2.75% yield after a 100 basis point drop approximates the trough in Treasury yields during the credit

crisis, while the 5.75% yield after a 200 basis point increase is just above the average yield on 10-year Treasuries over the last twenty years.

A 100 basis point decrease in rates would produce an annual return of 7% on the Treasury over the two year period. Alternatively, a 200 basis point increase in rates would result in an annual return of -3% as the bond's principal value would fall by 13%.

This interest-rate analysis provides insight into how investment-grade corporate bonds would perform over the same time period with a similar move in interest rates. We believe that Treasury yields would decline 100 basis points only if there was a significant deterioration in economic and financial market conditions. Were this the case, then spreads on corporate debt would probably widen as they did in 2008, which would in turn wipe out the any positive returns for corporate bonds.

If rates rise, however, it is unlikely that corporate bond yield spreads would tighten, and corporate bonds would likely produce negative returns similar to those we would see in Treasuries. Corporate bond investors therefore face an unattractive set of return scenarios in either a rising or a falling interest-rate environment, as higher long-term interest rates will drive down bond prices, and the upside from lower rates is likely capped by wider yield spreads.

#### The Current Risk-Return Profile of Corporate Bonds

Last year at this time, yield spreads on corporate bonds were near all-time highs, but now spreads have reverted to more normal levels. We have likely seen the vast majority of return potential from tighter spreads, therefore changes in long-term interest rates will likely drive corporate bond returns over the next two years. Our forecast is long-term interest rates will rise over the next 18 to 24 months, and bond investors will likely face a bumpy road in this rising-rate environment. This risk includes the potential for negative returns and capital losses, even on high-quality fixed-income instruments.

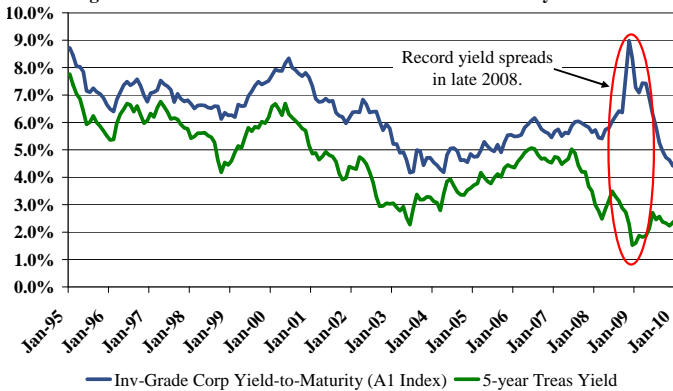
**Robert L. Pharr, Chief Investment Officer**

**Edmund N. Durden, Investment Analyst**

**Frederick O. Porter, Investment Analyst**

**March 15, 2010**

Figure 1: Investment-Grade Bond Yields & 5-Yr Treasury Yields



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 values 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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