

# 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 500	Russell 1000
	Gross*	Net*		
June	-7.02%	-7.02%	-5.23%	-5.57%
Qtr-to-Date	-11.78%	-11.87%	-11.43%	-11.44%
Year-to-Date	-7.43%	-7.66%	-6.65%	-6.40%
1 Year	10.15%	9.66%	14.43%	15.24%
3 Year	-8.52%	-9.02%	-9.81%	-9.54%
5 Year	1.03%	0.48%	-0.79%	-0.56%
7 Year	6.38%	5.82%	2.84%	3.29%
10 Year	5.73%	5.18%	-1.59%	-1.22%
Inception	11.69%	11.11%	5.48%	5.68%

\*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%	10.1%
Consumer Staples	5.0%	11.5%
Energy	0.0%	10.7%
Financials	0.0%	16.3%
Health Care	15.0%	12.1%
Industrials	0.0%	10.4%
Information Technology	35.0%	18.7%
Materials	0.0%	3.4%
Telecommunications Services	15.0%	3.0%
Utilities	0.0%	3.8%
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)	\$53.8	\$18.6
Price to Earnings: Trailing Operating	17.8x	15.6x
Price to Book	3.3x	2.9x
Dividend Yield	1.6%	2.2%

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

## ECONOMIC AND MARKET REVIEW

Recent data indicates that the economy will likely grow at a slower pace later this year compared to the burst of economic activity that we have seen since the economy turned up in the third quarter of 2009. We have discussed in previous *Monthly Investment Updates* that this transition to slower growth would be accompanied by a debate over whether the economy was headed back into recession. We are now in the midst of that double-dip debate. We firmly believe the data indicates that the key fundamentals of the recovery remain in tact.

Many investors, however, see things differently. Investors who are worried about the outlook for the economy and markets cite a long list of concerns. Record government budget deficits, slower growth in China, reduced fiscal stimulus, continued tight credit conditions, troubles with European banks, higher taxes and more are all on investors' minds. These are all very complex longer-term issues, and it will take some time before we understand their impact, if any, on the economy. But as investors, the difficult reality is that we don't always have the luxury of fully understanding risks like these before we must make investment decisions.

Fortunately, this is not a new challenge. Investors have always faced these types of broad concerns. And in the great majority of cases their actual impact was not nearly as negative as originally feared. Today, however, the difficulties of 2008 are still fresh in our memories. This makes it even more difficult to objectively assess the potential economic consequences of these risks. We believe that these broad risks will not derail long-term economic growth, but we will continue to closely monitor and evaluate their impact as they evolve and become more tangible.

Instead, we continue to focus our attention on the data and trends that will drive the economy in the intermediate term. One of the most pressing concerns among investors is that recent, softer than expected economic data reflects an increased risk of a return to recession. Investors who are anxious about a second recession point to a variety of issues, but two consistent concerns stand out. They believe that anemic job growth is a sign of a lack of vibrancy in the economy, and that a sustainable economic recovery is not possible without substantial improvements in both employment and

in housing. The most recent labor market and housing data have fanned these worries. We believe, however, that investors today overstate the impact of job creation and housing on the overall economy.

It seems intuitive that significant hiring must occur before we see a pickup in consumer spending. Historically, though, spending has turned up in advance of substantial payroll gains. The current recovery is no exception. Employees at all levels, from highly paid management to hourly workers, felt an improved sense of job security as layoffs ebbed last year and they began to work longer hours. It is job security that is the foundation of consumer sentiment, and it is shifts in consumer psychology that actually produce turns in spending. Positive and negative changes in psychology among the employed swamp the spending impact from those who have been laid off or just rehired. We have seen the upside of this relationship between job security and spending over the last year. Consumer spending has returned to an all-time high even as payrolls have only increased slightly from their trough. We don't need to have widespread hiring in the near term for the recovery to progress. We just need to avoid broad-based job losses that will undermine job security.

Investors need to focus on more than just job security, however, when they examine the prospects for consumer spending. Personal income growth is the second key factor that will drive consumer spending. The combination of limited hiring and a pickup in economic activity has produced strong personal income growth -- wages and salaries increasing at an outsized annualized rate of +4.8% through the first five months of this year. And the substantial rebound in corporate profits from last year's trough supports a continued positive outlook for personal income growth.

Just as we believe it is appropriate to emphasize job security and income gains instead of new hirings in the outlook for consumer spending, investors should focus on which segments of the economy will likely lead the economy in the period ahead, rather than elements of the economy that provided growth in the past. Housing was a powerful engine for the economy prior to the recession. But that does not mean growth today is dependent on housing. In fact, we expect housing, which had attracted so much capital in the past, will

likely lag the overall economy in the next period of growth.

Business investment, instead, will likely fill the leadership void left by housing. Corporate managers, who have substantial excess capacity in their companies' production facilities but still need to find ways to boost profits, will find enterprise-wide technology investments compelling. The resulting increases in worker efficiency and productivity translates directly into higher profits. Plus, managers who are skeptical about the sustainability of the economic recovery and their ability to drive profits through strong top line sales growth will like the relatively small resource commitment required for technology projects. These factors, together with record levels of cash on corporate balance sheets, should make corporate capital expenditures directed to enterprise technology a major source of strength in the economy. And after consumer spending, corporate expenditures are next in size, ahead of federal, state and local government spending.

Despite investors concerns about the recent spate of softer economic data, the elements for growth in the period ahead are in place. The key drivers of consumer spending - job security and income growth - are healthy. And beyond the consumer, companies are highly profitable and are making substantial investments in their businesses. The biggest risk we see is that the stock market's recent decline undermines confidence among the wealthiest and most important consumers. We don't expect this will be the case since the market is still 60% above its March 2009 lows, and investors have not given up on the likelihood of improving markets and economic conditions ahead. We continue to emphasize the segments of the overall market that we believe will deliver outsized earnings growth, even as overall earnings growth moderates. The Large-Cap Core Equity portfolio remains overweight the Consumer Discretionary Sector and the Information Technology Sector.

*Robert L. Pharr, Chief Investment Officer*

*Edmund N. Durden, Investment Analyst*

*Frederick O. Porter, Investment Analyst*

*July 16, 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 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 March 31, 2010, WestEnd Advisors had approximately \$146 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 March 31, 2010 by Beacon Verification Services. WestEnd Advisors' **Large-Cap Core Equity Composite** has received a performance exam from composite inception through March 31, 2010. A copy of the verification report is available upon request. Revised May 2010