

## 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

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### PERFORMANCE VS. BENCHMARK

	WestEnd Composite		S&P	Russell
	Gross*	Net*	500	1000
March	4.72%	4.72%	6.03%	6.14%
Qtr-to-Date	4.93%	4.77%	5.39%	5.70%
Year-to-Date	4.93%	4.77%	5.39%	5.70%
1 Year	40.07%	39.40%	49.77%	51.60%
3 Year	-1.95%	-2.49%	-4.17%	-3.98%
5 Year	3.67%	3.09%	1.92%	2.31%
7 Year	11.12%	10.53%	6.80%	7.31%
10 Year	6.20%	5.65%	-0.65%	-0.36%
Inception	12.90%	12.31%	6.48%	6.68%

\*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%	11.3%
Energy	0.0%	10.9%
Financials	0.0%	16.5%
Health Care	15.0%	12.2%
Industrials	0.0%	10.5%
Information Technology	35.0%	18.9%
Materials	0.0%	3.5%
Telecommunications Services	15.0%	2.8%
Utilities	0.0%	3.4%
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)	\$62.0	\$21.1
Price to Earnings: Trailing Operating	21.0x	20.6x
Price to Book	3.9x	3.8x
Dividend Yield	1.4%	1.9%

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

### ECONOMIC AND MARKET REVIEW

The U.S. economy continued its dynamic rebound in the first quarter. Consumers spent on a wide range of products, from clothes and electronics to big-ticket items like cars. And with this, retail sales rose sharply. Manufacturing also strengthened further -- industrial production grew for the ninth month in a row, employment in the Sector grew, and the ISM manufacturing index reached a new cyclical high in March. In a new and positive turn in the quarter, labor markets have begun to improve -- the government's Household Employment Survey, for example, showed that businesses hired over a million workers in the first quarter!

Improved retail sales, along with higher corporate spending and investment contributed to the growing recovery. But more temporary factors -- like pent-up demand from businesses and consumers, inventory replenishment, government stimulus programs and highly accommodative monetary policy -- also added to growth. The economic strength has bolstered the ranks of investors who believe that the current above-average pace of growth will continue for some time to come. Few of these high-growth investors have detailed their economic outlook, but their views have been expressed in the positive performance of the stocks of companies in the most cyclical Sectors of the economy, including Materials, Energy, Industrials and Financials.

Other investors, however, remain skeptical about the *sustainability* of the recovery. They point to a wide range of concerns that they say could trigger a second recession, including increased government borrowings, the removal of government stimulus spending, the absence of a recovery in housing, and lessened appetite for risk-taking and lower financial leverage compared to the pre-recession environment. In fact, they argue that when the temporary factors boosting current growth disappear, the headwinds will be so great that the economy will fall back into recession.

What seems clear is that this past quarter of strong economic data has shifted the debate among economists and investors alike, from: *if or when* the economy will grow again?...to: *how sustainable is the current burst of growth?*

We agree with elements from each of the two predominant outlooks, but our view is that the current burst of economic growth will begin to moderate later this year, and that the economy will transition to a period of more *trend-like* growth. The next stage of growth will be a Gold-

locks-like environment for some businesses, while others will find the more moderate pace of growth less than ideal.

We recognize that a variety of factors will help restrain growth in this post-burst period, including the likelihood of only a limited housing recovery, higher taxes and reduced stimulus. The *pace* of economic growth will decline, but growth will stay positive -- and economic conditions, overall, should remain favorable. Corporate profits will grow in the high single digits (versus double-digit rate of profit growth currently), and consumers will feel an increased sense of job security as employment markets improve and companies pay higher wages. The clear difference between our outlook and those who are bearish on the economy is that we expect that the obvious hurdles in the economy will only *dampen* growth, not halt it altogether. The more lasting contributors to growth in the current environment, like improved corporate profitability, and improved consumer and business sentiment, should deliver moderate economic growth after the current burst of activity.

Despite the slowdown in the *pace* of economic growth we see ahead, corporate profit growth as a whole should continue to be solid. But the rate of earnings growth will not be the same in all Sectors of the economy. Earnings growth rates will vary by Sector in the environment ahead, unlike in the current environment in which earnings of companies in all areas are rebounding sharply as the economy snaps back from the severe economic downturn. Investors should be rewarded in this next period of growth if they invest in segments of the market that deliver the strongest earnings growth.

Workers will benefit from solid corporate profits in the post-burst stage of economic growth as companies are able to reward existing employees with higher pay. These higher incomes will in turn translate into increased spending as consumers, more secure in their jobs, save less. This economic tailwind will transform consumers into a driver of overall economic growth, and will lead to outsized earnings growth for companies in the Consumer Discretionary Sector.

Consumer spending has already started to pick up, despite the general public's belief that spending remains very depressed. In February the broadest measure of consumer spending, real Personal Consumption Expenditures, was only 0.1% below the *all-time high* reached in November 2007. Retail spending is stronger today than many investors recognize, but we are likely only in the early stages of

this favorable environment for consumer-focused companies.

The solid, but less dynamic, economic growth in the post-burst environment will also force corporate managers to look for ways to boost profit growth. The productivity benefits (and profit benefits!) of enterprise-wide technology will look compelling to managers whose companies continue to have substantial excess capacity in their production facilities. Managers who are skeptical today about the sustainability of growth will like the relatively small resource commitment necessary for technology projects. Managers in future quarters thus will likely allocate an even greater portion of their capital expenditures (CapEx) budgets to information technology.

Virtually every category of business CapEx has improved recently, but the pick-up in technology CapEx has been particularly strong. Technology CapEx grew at a seasonally-adjusted annual rate of 28% in the fourth quarter of 2009 compared to a 5% increase for non-tech CapEx. Initial readings from the first quarter point to another strong quarter of technology spending. And recent earnings reports from companies such as Oracle Corp. and Intel Corp. indicate that the pick up in technology spending has boosted companies in WestEnd's Large-Cap Core Equity portfolio.

We believe that the tailwinds of personal income growth and enterprise technology spending will likely remain in place for an extended period of time. Investors will raise their earnings expectations for consumer and technology companies as these trends become more evident. Our portfolio is accordingly overweight stocks in the Consumer Discretionary and Information Technology Sectors. Improved growth profiles in these Sectors will in turn make these stocks even more attractive compared to the stocks in more cyclical Sectors of the market, such as Materials, Industrials, Financials and Energy, whose earnings are likely to be hurt by the decline in the rate of economic growth we see ahead. The Large-Cap Core Equity portfolio companies are well positioned for the economic environment we expect to develop in the second half of this year.

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

**Edmund N. Durden, Investment Analyst**

**Frederick O. Porter, Investment Analyst**

**April 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 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.

Revised May 2010.