

# 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 500	Russell 1000
	Gross*	Net*		
May	-7.20%	-7.20%	-7.99%	-7.93%
Qtr-to-Date	-5.12%	-5.21%	-6.53%	-6.22%
Year-to-Date	-0.44%	-0.69%	-1.50%	-0.88%
1 Year	17.99%	17.46%	20.99%	22.33%
3 Year	-5.86%	-6.37%	-8.69%	-8.38%
5 Year	2.88%	2.32%	0.31%	0.67%
7 Year	7.72%	7.14%	3.83%	4.33%
10 Year	5.66%	5.12%	-0.82%	-0.41%
Inception	12.33%	11.74%	5.90%	6.13%

\*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%	10.7%
Consumer Staples	5.0%	11.3%
Energy	0.0%	10.7%
Financials	0.0%	16.3%
Health Care	15.0%	11.7%
Industrials	0.0%	10.6%
Information Technology	35.0%	18.9%
Materials	0.0%	3.4%
Telecommunications Services	15.0%	2.9%
Utilities	0.0%	3.6%
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)	\$57.2	\$19.7
Price to Earnings: Trailing Operating	19.3x	16.5x
Price to Book	3.6x	3.0x
Dividend Yield	1.5%	2.1%

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

### ECONOMIC AND MARKET REVIEW

May proved to be a tumultuous month for investors as issues in the U.S. and abroad roiled financial markets. The computer driven flash crash, the oil spill in the Gulf of Mexico and the debate over financial regulatory reform all impacted stock markets, but investors followed the developments related to European sovereign debt most closely. The U.S. stock market sold off as investors worried that European countries' financial difficulties might set off another banking crisis and undermine the U.S. economic recovery. We take these issues seriously, but we believe that investors' concerns about the impact of European sovereign debt on the U.S. economy and corporate earnings is largely overblown.

The most serious risk associated with sovereign debt troubles in Europe is that these difficulties could lead to another global banking crisis. We believe the probability is low that the challenges in Europe will spread to the U.S. banking system. U.S. banks own essentially no Greek sovereign debt and hold very little debt from the other troubled Southern European countries. U.S. banks also have limited exposure to European banks. And in any case the European Union countries are committed to protecting their banking system, the Euro and investors in their sovereign credit issues.

The U.S. intra-bank lending market also indicates that the chance of another financial crisis in the U.S. is low. Despite difficulties in the European intra-bank lending market, and some weakness in the U.S. intra-bank market recently, conditions in our intra-bank market are much better today than they were even in early 2008 - let alone after the collapse of Lehman Brothers in the fall of 2008. We are encouraged that confidence in the U.S. banking system remains solid, but we will continue to watch closely the activity in the banking system because a major disruption in lending could have serious consequences for our economy.

Investors' reservations about Europe go beyond the potential threat to the banking system. The austerity plans approved by individual European countries to cut their budget deficits will likely depress European growth. The prospect of slower growth in Europe, together with worries about the long-term viability of the Euro, have driven down the value of the Euro relative to other major currencies. Investors are concerned about how these fiscal and currency developments in Europe will impact the U.S. economy and the earnings of U.S. multinational firms.

Weaker demand from Europe for U.S. exports is seen by

many as a threat to U.S. economic growth. We believe these concerns are misguided. Total U.S. exports account for 12% of U.S. GDP, while exports to Europe are only 3% of GDP. In addition, the Southern European countries that will implement the most serious federal spending cuts only account for about 12% of our exports to Europe or less than 0.4% of GDP. The U.S. economy in general has limited exposure to Europe through trade, but even more importantly, exports to the most troubled countries are less than many believe.

Investors, however, may still be concerned that a European slowdown and a decline in the value of the Euro will hurt U.S. based multinational companies disproportionately, even though our economy is not significantly exposed to the difficulties in Europe.

It is true that S&P 500 Index companies are more exposed to Europe than smaller and more typically domestically focused firms. A decline in the value of the Euro impacts these large U.S. companies' financial performance as sales are lower in dollar terms. But these facts need to be considered in the context that European sales account for only a tenth of S&P 500 companies' total sales. Plus, companies that have substantial sales in Europe also generally have significant operating costs denominated in Euros, which impacts what really matters - profits from Europe.

Large-Cap Core Equity portfolio company Oracle, for example, generates around 33% of its revenue from Europe. Oracle's currency exposure, however, is naturally hedged with approximately 26% of the company's operating costs also in Euros. The earnings impact for Oracle and other firms is significantly less than the amount of European sales alone would indicate.

Large companies in many cases further reduce their exposure to currency fluctuations through financial hedges. These hedges have limited lives, but they should insulate U.S. companies from the fall in the value of the Euro in the intermediate-term. Overall, we believe that a 10% decline in the Euro would lower S&P 500 earnings by less than a dollar on the \$90+ of earnings that S&P 500 companies are forecast to earn in 2011.

The most likely risk we see from the difficulties in Europe is that investor and consumer sentiment sours from the financial market volatility. We have seen this start to play out already. European investors have sold U.S. stocks and risky assets in general as they have seen the difficulties unfold across their continent. Traders in the U.S. have piled on, contributing to the pickup in market volatility,

and rattling the confidence of some long-term investors.

Fortunately there is strong positive momentum across our economy to offset the weakness in the financial markets in May. Strong consumer spending growth and a pickup in production over the last year have contributed to a significant rebound in corporate profits. Healthy profits and cash flows have in turn led to increased capital investments and hiring by businesses. The early May economic data including comparable-store sales, the ISM Manufacturing survey and the Consumer Confidence index all indicated these positive fundamentals remain in place. Plus, the increased job security for consumers that accompanies an improved labor market should offset, in large part, the negative effects of the recent stock market pull back. A significant additional decline in stock prices would likely hurt sentiment in the U.S. and could threaten the economic recovery, but we expect that the strong economic fundamentals will win out and positively sway sentiment to limit any further downside risk and equity markets weakness.

The European sovereign debt difficulties should not set off a new credit crisis in the U.S. but could be a modest headwind for economic growth. Even if Europe's troubles weigh on the pace of growth it should not snuff out the recovery in the U.S. or significantly impact corporate profits here.

The Large-Cap Core Equity portfolio's exposure to Europe is also limited. Our portfolio companies generate approximately 15% of their revenues from Europe. The Sector in the portfolio with the most European exposure is Health Care followed by Information Technology, with each generating less than 28% of their revenues from Europe. This revenue exposure, however, overstates the risk to profits as sales for each portfolio company are skewed to the healthier Northern European economies, and each company has substantial Euro denominated costs. The portfolio's Consumer Discretionary companies have much more limited exposure to Europe. These companies may actually benefit from a weaker Euro which could lead to reduced import prices and to lower energy costs for consumers. This marginally positive impact on our Consumer Discretionary stocks should offset the marginally negative impact on our stocks with European exposure.

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

**Edmund N. Durden, Investment Analyst**

**Frederick O. Porter, Investment Analyst**

**June 10, 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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