

## U.S. LARGE-CAP CORE EQUITY

DATA AS OF SEPTEMBER 30, 2008

### 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 are experiencing economic **tailwinds** while avoiding Sectors we perceive to be untimely. Within favored Sectors, we target high-quality, market-leading companies.

The result is a core investment style capable of shifting portfolio Sector and style emphasis to remain properly oriented and timely over a full economic and market cycle.

**Product Inception: January 1, 1996**

**Benchmark: S&P 500**

### WestEnd Advisors

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### Performance vs. Benchmark\*

	WestEnd Composite		S&P 500	Russell 1000
	Gross*	Net*		
September	-12.00%	-12.00%	-8.91%	-9.53%
Qtr-to-Date	-6.54%	-6.69%	-8.37%	-9.35%
Year-to-Date	-17.55%	-17.93%	-19.29%	-19.50%
1 Year	-22.81%	-23.29%	-21.98%	-22.10%
3 Year	2.38%	1.81%	0.22%	0.13%
5 Year	9.26%	8.67%	5.17%	5.49%
7 Year	8.92%	8.35%	3.50%	4.00%
10 Year	9.61%	9.04%	3.06%	3.49%
Inception	14.00%	13.40%	6.93%	7.07%

\*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	35.0%	8.5%
Consumer Staples	0.0%	12.2%
Energy	0.0%	13.4%
Financials	0.0%	15.8%
Health Care	0.0%	13.1%
Industrials	15.0%	11.1%
Information Technology	35.0%	16.0%
Materials	0.0%	3.4%
Telecommunications Services	15.0%	3.0%
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	499
Average Market Cap (\$ billions)	\$60.0	\$20.4
Price to Earnings: Trailing Reported	17.6x	22.6x
1-Year Projected Earnings Growth	13.7%	-6.0%
Price to Book	3.8x	2.5x
Dividend Yield	1.7%	2.5%

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

## ECONOMIC AND MARKET REVIEW

The U.S. federal government has taken unprecedented steps to address the challenges in the credit markets and in the economy. The government's latest and most dramatic move was the announcement on October 10<sup>th</sup> that the U.S. Treasury would take equity stakes in financial institutions. But the government's action was just the most recent step in a series of policy announcements that have been made at a previously unthinkable pace to address the current financial crisis.

A wide range of extraordinary moves had been instituted already by the Treasury Department and by the Federal Reserve, including the **Emergency Economic Stabilization Act** that was signed into law on September 26<sup>th</sup>. A component of this legislation is the \$700 billion **Troubled Asset Relief Program (TARP)** that authorizes the U.S. Treasury to purchase toxic mortgages and mortgage-related securities from financial institutions. In addition, the TARP enables the Treasury to purchase *equity* in financial institutions, for which Treasury has said it will commit up to \$250 billion of the \$700 billion authorization. The program's goals are to restore confidence in banks which should lead to more normal lending activity between banks, and to improved conditions in the credit markets. We view the TARP as the most critical element in the multifaceted government strategy to contain the turmoil in the credit markets.

In addition to the TARP the Fed established the **Commercial Paper Funding Facility (CPFF)** on October 7<sup>th</sup> to provide corporations access to Fed dollars on an unsecured basis. The CPFF, which will begin buying commercial paper on October 27<sup>th</sup>, is another critical element of the government's strategy, and will minimize the impact from distressed credit markets on business operations, and therefore the real economy.

The Fed's strategy has also reached beyond the U.S. banking system. The Fed provided unlimited **reciprocal currency arrangements** to a number of key economic partners on October 13<sup>th</sup> to address dollar funding pressures worldwide with foreign central banks. These agreements enable foreign central banks to provide dollar funding to financial institutions in their jurisdictions, which improves conditions in dollar funding markets globally.

The Federal Housing Finance Agency (FHFA) put **Fannie Mae and Freddie Mac into conservatorship** on September 14<sup>th</sup>. This move was designed to prevent a disruption in the mortgage markets, and has resulted in lower mortgage rates for home buyers because of federal guarantees.

The government also took action to prevent individuals and institutions from pulling assets out of financial firms and short-term investment vehicles. The Treasury established a temporary guarantee of existing holdings of **money-market funds** on September 19<sup>th</sup> and increased the limit on **federally insured bank deposits** from \$100,000 to \$250,000 as part of the Emergency Economic Stabilization Act. The guarantee of money market funds is intended to prevent redemptions which would further exacerbate the difficulties in the commercial paper and other short-term credit markets. Similarly, the increased limit for deposit insurance protects consumer savings, and banks from a flight of deposits.

The Fed and other central banks executed a **coordinated interest rate cut** on October 8<sup>th</sup>. The Fed lowered both the target Fed funds rate and the discount rate. The TARP and the Commercial Paper

Funding Facility are more precise instruments to address the causes and symptoms of the credit market turmoil than the interest rate cut. The coordinated rate cut, however, has little near-term cost and demonstrated that the governments of the leading economies can work in a coordinated fashion. This orchestrated strategy among the leading industrialized economies should also reduce the risk of destructive cross-border capital flows.

The guidelines released by the G7 governments on October 10<sup>th</sup> to address the current financial turmoil included a commitment to ensure that financial firms can **raise capital from private and public sources**. In response, the U.S. government on October 14<sup>th</sup> announced a plan to make \$250 billion of TARP funds available to U.S. financial institutions in the form of preferred equity. The announcement by U.S. officials came the day after England, Germany and Italy outlined similar plans to provide equity capital to banks. Nine leading U.S. financial institutions have agreed to participate in the Treasury's plan that should rebuild confidence in financial firms as investors wait for the government to purchase compromised mortgage assets.

And finally, the Federal Deposit Insurance Corporation (FDIC) stated in conjunction with the Treasury's announcement on equity investments that the FDIC would establish the **Temporary Liquidity Guarantee Program (TLGP)**. The TLGP will guarantee new senior unsecured debt of FDIC insured institutions for up to three years and eliminate the limit on deposit insurance for the bank accounts principally used by small businesses. The FDIC's action to guarantee bank debt is consistent with the moves by the governments of other countries and is designed improve conditions in the inter-bank lending market which has been disrupted so severely. These most recent actions by the federal government to guarantee bank debt and make equity investments in financial institutions are critical components of the government's bold response to the financial turmoil.

*The actions outlined above are the largest set of government responses to any financial crisis.* The strategy is even more impressive when you consider that it was developed over such a short period of time. We believe that this significant and rapid response was necessary given the systematic risks to the U.S. and overseas economies. *Several key issues, however, must still be addressed by U.S. regulators.*

The **Credit Default Swap (CDS)** market is a \$50+ trillion unregulated, and opaque market in which parties make insurance bets on the survival of a company. The CDS market developed as a tool for bondholders to hedge exposure to a default. However, investors adopted CDS as a vehicle to speculate on the credit worthiness of companies. Speculators who buy default protection are incented to force a company into default. Fortunately, many officials recognize that the CDS market needs to be regulated. The New York State Insurance Commissioner announced in September that his office will regulate CDS as an insurance product beginning in January 2009 in cases where CDS holders have an insured interest. This action will force writers of CDS insurance to maintain adequate reserves to ensure performance under the insurance agreement. Only approximately one fifth of the current CDS market, however, is represented by this obvious insurance agreement. The remaining credit default swaps must be considered securities, and as such regulated by the SEC who would control the new issuance and the

centralized trading of the securities. Regulators have already conducted meetings with dealers and exchanges to review proposals for a CDS clearing house that would enhance market transparency.

**Mark-to-market** accounting was adopted by the Federal Accounting Standards Board (FASB) in 2006 to more accurately reflect the current value of a firm's assets. Mark-to-market presumes active and reasonable markets in order to value those assets. The market prices realized in illiquid and distressed markets, however, may not accurately reflect the intrinsic value of an asset. Mark-to-market accounting has forced financial companies to write down the value of illiquid assets and raise capital. Like the CDS issue, the authorities have begun to work to address mark-to-market difficulties. The FASB published new guidance on mark-to-market on September 30<sup>th</sup>, and the Emergency Economic Stabilization Act requires that a study of mark-to-market accounting be completed by January 2, 2009.

Abusive **short selling**, unlike the previous issues, does not require additional regulation, but instead requires enforcing the laws currently in place. Short sellers must be held accountable for delivering the shares that they sell short. This should prevent speculators from maliciously piling on battered stocks. If the open issues of CDS, mark-to-market and short selling are resolved in a timely manner, the actions already taken by government regulators will have a greater chance of success.

U.S. government's recent actions are designed to address the key issues facing the economy: lack of confidence in banks' assets and the need to enhance liquidity in the credit markets. Even if these plans are successful in reviving the credit market, it will take time to see the results. The TARP initiative to purchase mortgage assets won't likely be implemented for weeks. Despite our view that the time required to implement these strategies is a risk to the overall plan, we believe the actions can achieve their objectives. A successful implementation of the actions already taken combined with resolution of open issues should produce an environment in nine to twelve months that is better than today's situation. It is uncertain what this improved situation will precisely mean for equity markets. We do, however, take solace from history, which indicates that recoveries in the stock market normally occur closer to the recognition of problems rather than the resolution of those problems.

We are comfortable with our portfolio of high quality stocks, and remain committed to our investment philosophy in the midst of this extreme market turmoil. As a manager of a fully invested investment strategy, the Large-Cap Core Equity portfolio holds industry-leading, well-managed companies with solid balance sheets. We believe these firms are not only well suited to weather this difficult environment, but are also able to capitalize on current conditions to better position themselves for future growth.

**Robert L. Pharr, Chief Investment Officer**  
**Edmund N. Durden, Investment Analyst**  
**Frederick O. Porter, CFA, Investment Analyst**  
**October 16, 2008**

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

WestEnd Advisors' **Large-Cap Core Equity Composite** is an institutional-only composite and does not include portfolios in any wrap-fee program managed by WestEnd Advisors. WestEnd Advisors' **Large-Cap Core Equity Composite** is invested solely in U.S. Equity securities and/or high-grade money market instruments. Returns were 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 were weighted using end of prior month values plus weighted cash flows. Portfolios and composites were valued daily, were denominated in U.S. dollars only, and included all discretionary tax-exempt accounts with a minimum of \$1,000,000.

Composite performance results and 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.

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' Form ADV Part II Disclosure Document.

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 leading 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 represented within 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) may be obtained by phone (888-500-7501) or email (info@westendadvisors.com).

Additional information regarding policies for calculating and reporting returns is available upon request.

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 June 30, 2008 by Beacon Verification Services. WestEnd Advisors' **Large-Cap Core Equity Composite** has received a performance exam from composite inception through June 30, 2008. A copy of the verification report is available upon request.

Revised August 2008