

## U.S. LARGE-CAP CORE EQUITY

DATA AS OF DECEMBER 31, 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**

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### Performance vs. Benchmark\*

	WestEnd Composite		S&P	Russell
	Gross*	Net*	500	1000
December	5.60%	5.60%	1.06%	1.60%
Qtr-to-Date	-22.64%	-22.76%	-21.94%	-22.48%
Year-to-Date	-36.21%	-36.61%	-37.00%	-37.60%
1 Year	-36.21%	-36.61%	-37.00%	-37.60%
3 Year	-7.07%	-7.61%	-8.36%	-8.66%
5 Year	0.96%	0.40%	-2.19%	-2.04%
7 Year	3.11%	2.57%	-1.53%	-1.21%
10 Year	4.55%	4.00%	-1.38%	-1.09%
Inception	11.48%	10.90%	4.78%	4.85%

\*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	25.0%	8.4%
Consumer Staples	10.0%	12.9%
Energy	0.0%	13.3%
Financials	0.0%	13.3%
Health Care	15.0%	14.8%
Industrials	0.0%	11.1%
Information Technology	35.0%	15.3%
Materials	0.0%	3.0%
Telecommunications Services	15.0%	3.8%
Utilities	0.0%	4.2%
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)	\$50.5	\$15.7
Price to Earnings: Trailing Reported	16.5x	19.7x
1-Year Projected Earnings Growth	1.7%	16.3%
Price to Book	3.2x	2.3x
Dividend Yield	1.5%	3.1%

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

## ECONOMIC AND MARKET REVIEW

*While the economic developments of fourth quarter 2008 will impact 2009...*

The U.S. economy continues to experience the repercussions of last year's credit market turmoil. Tighter credit markets led to a deterioration in general demand throughout the economy. Industrial production among manufacturers declined over 9% from August through the end of 2008. The housing market continued to deteriorate as the pace of housing starts hit a record low in November, down 73% from their peak in January 2006. The labor market softened substantially in the last three months of 2008, and concerns over inflation just six months ago have transformed into worries about price deflation. Even after the U.S. and foreign governments' rapid response to this unprecedented pull back in credit, the consequences of tighter credit and weak general demand will impact economic growth in 2009.

In addition to these economic difficulties, investors must digest the tremendous price declines across virtually every asset class in 2008, as well as the impact of unprecedented government intervention in the financial system. Investors, justifiably, are uncertain what 2009 will hold.

*...there have been signs of thawing in the credit market and other parts of the economy...*

Three-month London Inter-Bank Offering Rate (LIBOR), a key interest rate for inter-bank, corporate and consumer lending, has declined to 1.1% from its peak of 4.8% in October. Banks' perception of lower risk among their bank counterparties has contributed to this decline. Yields on corporate bonds and other debt securities have also declined significantly, leading to a sizable increase in debt issuance. Global debt issuance was \$153 billion in the first week of January 2009 – four times the pace as recently as October of last year. Lower mortgage rates have stimulated refinancing activity among consumers which should support activity in the housing market and increase disposable income.

The stock market has rallied from its November 20<sup>th</sup> closing low, and the VIX, or the Chicago Board Options Exchange Volatility Index, has declined from its unprecedented levels in October and November. There have also been positive developments outside the financial markets. Commodity prices have declined significantly since their peak last summer. The average price of a gallon of regular gas has fallen 57% to \$1.78 a gallon from its peak of \$4.11 in July. The Obama administration has proposed an \$800+ billion fiscal stimulus package, including both substantial tax cuts and

federal government spending, to boost the economy.

*...which could lead to the beginning of an economic recovery later this year.*

Historically low rates, thawing of the credit markets, tremendous fiscal stimulus and enhanced consumer disposable income from lower commodity prices and mortgage rates are among the ingredients that should produce an economic recovery later this year. Investors are beginning to recognize this possibility. We do not expect economic activity to immediately return to the levels seen prior to the recession, but the sharp drop in economic activity itself along with pent up demand and low inventory levels may all contribute to a more substantial recovery than others project.

*Investors remain nervous...*

A tremendous amount of cash currently sits on the investment sidelines. The equivalent of 42% of the market capitalization of the S&P 500 is held in U.S. money-market funds, the highest level in the last 25 years. Investors seeking "risk-free" assets following the outbreak of the credit crisis drove the yield on the 3-month Treasury bill down to 0% and even into negative territory for short periods of time. Treasury yields, which remain at historically low levels, demonstrate investors' unprecedented aversion to risky assets.

*... but investor psychology should improve...*

Psychology will be a key factor that drives an economic recovery. If consumers conclude that equity market losses have permanently impaired their wealth, the potential for a significant rebound in the economy has to be called into question. To avoid this outcome consumers must believe they will recover their wealth and standard of living over some reasonable period of time, although not necessarily immediately. We contend that the U.S. and foreign government actions, combined with low interest rates and other improved economic fundamentals will produce an improved economic climate soon enough that consumers and investors will not view their losses as permanent. Time, however, is not on our side. The longer it takes to turn around sentiment the greater the risk consumers will come to see their losses as irreversible and an economic recovery and a stock market rally will be delayed.

*... so now is the time to invest.*

Despite the prospect of an improved economic environment later this year, we anticipate that we will continue to see a stream of ugly economic data in the near-term that reflects the current economic difficulties. Investors

must recognize, however, that the stock market and the economy do not move in lock-step. The stock market typically rallies well in advance of economic recoveries. As investors' aversion to risk thaws, the cash on the sidelines will begin to chase attractively valued assets. It is likely that investors will consider equities, which declined more in 2008 than any year since 1937, among these attractive assets. The anticipatory nature of the stock market and the degree of investment capital on the sidelines argues that investors should invest in stocks today to benefit from the anticipated improvements in corporate profits as the economy recovers.

Lower corporate and consumer leverage is a likely outcome of the credit crisis. It is also likely that this lower leverage environment produces a period of higher price-to-earnings (P/E) multiples as investors anticipate less earnings variability in the post-recession world. Reduced commodity prices and the associated lower risk of inflation are factors that could foster an extended period of low interest rates. And low interest rates should also contribute to an expansion of P/E multiples, which would further support a stock market rally.

*We don't know* exactly what will trigger the improvement in investor psychology we foresee. The catalyst may simply be the expectation that the economic data will improve. *We do know*, however, that by the time this shift in psychology is fully accepted by the market it is likely that the market will have already rallied significantly.

Investors may have already begun to discount an improved economic and earnings environment as economically sensitive Sectors led the stock market rally from the November lows. There is still the possibility, however, that stock prices could revisit the November lows, or even decline further. If this does happen, the market's rally from the November lows could serve as a preview of what segments of the market will outperform from any new market bottom. The Large-Cap Core Equity portfolio is positioned for the improved economic environment we anticipate by late this year. The portfolio is overweight economically sensitive Sectors such as Technology and Consumer Discretionary that should participate in a rally as the market anticipates an economic recovery.

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

**Edmund N. Durden, Investment Analyst**

**Frederick O. Porter, Investment Analyst**

**January 16, 2009**

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

Revised November 2008