

# 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
December	3.10%	3.10%	1.93%	2.43%
Qtr-to-Date	4.82%	4.73%	6.04%	6.07%
Year-to-Date	30.60%	29.98%	26.46%	28.43%
1 Year	30.60%	29.98%	26.46%	28.43%
3 Year	-2.96%	-3.50%	-5.63%	-5.36%
5 Year	2.98%	2.42%	0.42%	0.79%
7 Year	10.01%	9.43%	5.52%	6.02%
10 Year	5.56%	5.01%	-0.95%	-0.49%
Inception	12.75%	12.16%	6.20%	6.38%

\*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%	9.6%
Consumer Staples	10.0%	11.4%
Energy	0.0%	11.5%
Financials	0.0%	14.4%
Health Care	15.0%	12.6%
Industrials	0.0%	10.2%
Information Technology	35.0%	19.9%
Materials	0.0%	3.6%
Telecommunications Services	15.0%	3.2%
Utilities	0.0%	3.7%
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)	\$62.3	\$19.9
Price to Earnings: Trailing Operating	21.1x	28.2x
Price to Book	3.8x	3.2x
Dividend Yield	1.4%	1.9%

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

### ECONOMIC AND MARKET REVIEW

The economy began to recover in the second half of last year after the steep fall off in economic activity that started with the credit market turmoil of 2008. The latest economic data, in fact, indicates that the economic recovery has gained strength in recent months as consumer and business sentiment has improved. Stronger consumer demand produced higher retail sales in the fourth quarter, and improved global economic conditions resulted in a 14% increase in exports from May through November of last year. These factors contributed to a pick-up in manufacturing as U.S. industrial production increased substantially in the second half of 2009. Not every aspect of the economy turned positive in 2009, however. But even the segments of the economy which had been major drags on growth, such as housing and the labor market, are no longer significant impediments to a recovery. Payrolls, for example, fell by only 200,000 in the fourth quarter of 2009 compared to a decline of 2,100,000 in the first quarter of last year.

These indications of economic progress have given investors confidence that the economic free fall has ended, but now investor focus is on the pattern of growth ahead - what will be the pace of the economic recovery? And will the recovery be sustained?

The positive momentum that has built up in the economy should carry over into 2010. Consumers will likely feel more assured that widespread layoffs have ended. This improved job security should further boost consumer confidence and lead to an additional pick-up in demand for consumer goods and services. Production will also continue to grow in 2010 as businesses meet increased demand, and reverse the sharp drawdown in inventories over the last year and a half. Businesses are also likely to allocate more of their sizable profits and cash reserves to capital expenditures to make up for delayed investments.

These and other factors will contribute to the burst in economic activity we expect over the next several quarters. Companies across the economy will show strong, rebounding earnings growth during this period ahead, particularly those companies that cut costs sharply during the recession. This period of above-average economic growth will likely be short-lived, however. Some of the factors that will contribute to the burst in activity, such as an end to inventory liquidations and a boost from pent-up demand, are unsustainable.

We believe the economy in 2010 will transition from this unsustainable, high-growth period ahead, to more trend-like growth in the second half of the year. Corporate

earnings should continue to grow in the high single digits in this second stage of the economic recovery as businesses benefit from improved demand and reduced cost structures. Personal incomes should also continue to rise as employees work harder and more hours, and as strong productivity gains limit the need for businesses to hire additional workers. This second portion of the recovery will produce less dynamic growth than we experienced prior to the recession as lower financial leverage, higher taxes and less risk taking will restrain growth rates. At the same time, however, this more moderate pace of expansion may extend the growth phase of this economic cycle. We expect that *growth rates* in the second half of 2010 will be lower than in the first half of the year, but that this economic environment should still support healthy economic growth and corporate earnings growth.

Some investors are likely to interpret the decline in *growth rates* in the second half of 2010 as the beginning of a new economic downturn - a *double-dip recession*. Improved demand and positive momentum in the economy coupled with normal competitive pressures, however, should sustain growth. Companies will need to develop new products, ensure they have sufficient inventories, and invest in more efficient operations to avoid losing profits to competitors. These are some of the factors that will support the *virtuous cycle* that has started to take hold. This *virtuous cycle* will likely be difficult to derail, particularly as it follows a period of such severe economic contraction, during which a substantial increase in pent-up demand by businesses and consumers occurred.

Some investors believe that higher interest rates could push the economy back into recession. We agree that short-term rates are likely to rise this year, but we believe higher short-term rates will simply reflect the improved economic conditions and less monetary accommodation by the Federal Reserve. A more normalized level of short-term interest rates will not choke off growth. Longer-term rates are unlikely to rise substantially as inflation concerns will be allayed by the slack in the economy, and in the labor markets in particular.

The burst of economic activity during the initial portion of the recovery will likely benefit stocks across all Sectors of the economy. We believe, however, that Sector performance will be much more differentiated in the slower growth-rate period that follows. The Large-Cap Core Equity portfolio has significant allocations to Sectors of the S&P 500 that we believe will perform well in

both the initial period of growth ahead as well in the second, slower but more lengthy growth stage of the economic recovery.

Many investors are still skeptical about the likelihood that consumer spending will improve further. We, however, see things differently. Consumers that faced heightened economic uncertainty increased their savings rate from 1.5% in early 2008 to nearly 5% by mid-2009. We believe that consumers will reduce the portion of new income they allocate to savings as they gain confidence that their jobs are safe and the economy is positioned for growth. The savings rate has not yet declined, but it was stable in the second half of 2009 after the sharp increase in the first half of the year. In addition, consumers should see their incomes grow in the period ahead as companies recognize the value of workers' experience and productivity as well as reward them for more hours worked. These fundamental economic factors, together with the operating strengths of the Consumer Discretionary stocks in the Large-Cap Core Equity portfolio, give us great confidence in our allocation to this Sector.

Significant cash on companies' balance sheets, ongoing substantial cash-flow generation, and the desire to drive profitability in the moderate growth environment that we foresee in the second half of this year should support increased corporate investment in productivity-improving technologies in the quarters ahead. These re-directed corporate capital expenditures should boost revenue and earnings growth for Information Technology and Telecommunications Sector companies.

We believe that the Large-Cap Core Equity portfolio companies will benefit from the period of strong, rebounding growth immediately ahead. More importantly, however, these same companies are well positioned to deliver *above average earnings growth* in the second portion of the economic recovery which will likely be characterized by an extended period of *moderate economic growth*. We can not be certain the economic backdrop will unfold exactly as we believe it will, but we are confident that the high quality companies in the portfolio can perform well in a wide range of economic environments.

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

**Edmund N. Durden, Investment Analyst**

**Frederick O. Porter, Investment Analyst**

**January 15, 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, 2009 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' 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 September 30, 2009, WestEnd Advisors had approximately \$98 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 September 30, 2009 by Beacon Verification Services. WestEnd Advisors' **Large-Cap Core Equity Composite** has received a performance exam from composite inception through September 30, 2009. A copy of the verification report is available upon request. Revised November 2009