

## U.S. LARGE-CAP CORE EQUITY

DATA AS OF FEBRUARY 29, 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
February	-3.25%	-3.25%	-3.25%	-3.06%
Qtr-to-Date	-8.35%	-8.49%	-9.05%	-8.87%
Year-to-Date	-8.35%	-8.49%	-9.05%	-8.87%
1 Year	-0.95%	-1.51%	-3.60%	-3.77%
3 Year	7.01%	6.40%	5.37%	5.87%
5 Year	17.17%	16.57%	11.64%	12.24%
7 Year	8.66%	8.10%	2.80%	3.28%
10 Year	11.72%	11.15%	4.07%	4.42%
Inception	15.72%	15.11%	8.34%	8.52%

\*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%	8.7%
Consumer Staples	0.0%	10.7%
Energy	0.0%	13.6%
Financials	0.0%	17.1%
Healthcare	0.0%	12.2%
Industrials	20.0%	11.8%
Information Technology	35.0%	15.5%
Materials	0.0%	3.6%
Telecommunications Services	10.0%	3.3%
Utilities	0.0%	3.5%
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)	\$72.6	\$23.3
Price to Earnings: Trailing Reported	19.0	19.8
1-Year Projected Earnings Growth	17.2%	17.2%
Price to Book	4.7	2.9
Dividend Yield	1.3%	1.9%

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

## ECONOMIC AND MARKET REVIEW

*Stagflation* was a widely used term during the economic slowdowns of the 1970's. The term was coined by British Parliamentarian Iain Macleod in 1965: "We now have the worst of both worlds -- not just inflation on the one side or stagnation on the other, but both of them together. We have a sort of 'stagflation' situation."

*Stagflation* is not an official statistic that the government tracks, and because of this there are a variety of ways to define and measure the phenomenon. For example:

[Investopedia.com](#)

A condition of slow economic growth and relatively high unemployment - a time of stagnation - accompanied by a rise in prices, or inflation.

[TheStreet.com](#)

A slippery word that seems to defy clear definitions. The generic meaning is sluggish growth coupled with price pressures, something that classical and neoclassical economists did not think possible.

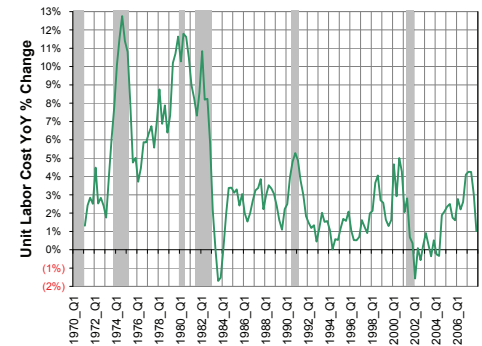
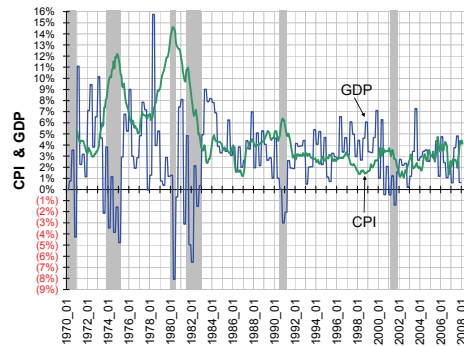
We believe the term might best describe a period of dramatically slowing or faltering economic growth coupled with a substantial and alarming rise in inflation.

The U.S. economy has successfully kept stagflation at bay since the early 1980's. However, the recent economic slowdown in the U.S. has coincided with rising prices, and has some pundits arguing that we are in danger of revisiting the stagflationary angst.

Those who fear stagflation's return like to draw comparisons between today's economy and some of the apparent similarities with the 1970's and 1980's.

Most obvious of these similarities is the sustained run-up in commodities prices in the early 1970's as prices for base metals, energy and food jumped dramatically. Robust global growth led to strong demand for base metals, while grain shortages caused by a series of bad harvests forced food prices to spike higher. And of course energy prices skyrocketed in October 1973 due to severe oil shortages caused by OPEC's embargo of the U.S. Sharply higher commodity prices caused headline inflation (as measured by CPI) to increase from a low of 2.9% in August 1972 to 12.2% only 27 months later, as shown in Chart #1. And while inflation moderated briefly following the 1974-1975 recession, it soon resumed its steady march upward for the rest of the decade, peaking at 14.6% annualized rate in April 1980.

Recent commodity price increases, while not as abrupt as in the early 1970's, have still managed to make investors worldwide uncomfortable. Prices



across the G7 economies for agriculture commodities and crude oil both increased about 30% per year in the 2006-2007 period (vs. 29% for agriculture and 21% for oil from 1971-1973). Rising commodity prices have contributed to an increase in the current U.S. CPI rate from a relatively low 1.4% in October 2006 to 4.4% in January 2008. Clearly the effects of higher commodity prices today have had only a relatively muted impact compared to the 1970's.

Another presumed similarity between now and the 1970's relates to the growth component of stagflation. The change in the payroll growth rate might be one proxy for economic growth. By this measure, the 1970's saw several severe slowdowns. Payroll growth dropped from +4.6% annually in 1973 to -2.7% in 1975, a swing of over 7 percentage points. Another steep decline occurred from 1978 to 1980, when payroll growth declined from +5.4% to -0.4%, or almost 6 percentage points.

Recent payroll growth has slowed from an annual rate of +2.1% in early 2006 to the most recent reading of +0.6%, still positive, and a relatively shallow decline compared to those of the 1970's.

More important to the stagflation debate are two crucial differences between now and the 1970's. Hourly wages accelerated even before commodity prices in the 1970's. Faced with higher wages and raw material costs, companies began to raise their prices, which in turn caused employees to demand even higher wages. This wage-price spiral became pervasive and continued to drive inflation higher even after commodity prices moderated in the mid-1970's. The result of this spiral was record growth of *unit labor costs* for much of the decade. Today this same wage-push dynamic is unlikely to rematerialize. Trade has become global and labor competition has intensified. Labor unions have largely lost their ability to push wages higher as quickly as before.

But perhaps most importantly, today's high energy and commodity prices are largely driven by *growth in demand outstripping supply, rather than a curtailment of supply*. While oil prices more than doubled in 1974, it was due to severe supply restrictions. In contrast to that *cost-push* dynamic, the primary cause of today's higher oil prices is booming demand from strong global growth, or *demand-pull* price increases.

In addition, productivity increases that began in the early 1990's have continued, aided by more sustained economic growth over most of the last two decades. Thus, strong growth in productivity has made higher prices for both labor and materials have a more muted effect on inflation than in previous periods.

Yes, inflation recently has increased at the same time that the economy has slowed. We would argue, however, that this apparent period of stagflation is likely temporary and different from the experience decades ago. Growth can return quickly today, where before there were imbedded difficulties that restrained economic activity. With the resumption of economic growth (which is likely in the second half of 2008) will come increased productivity, as well as the means to mitigate some of the ill effects of higher prices. Because of this our general outlook on the economy and for our Large-Cap Core Equity portfolio remains unchanged.

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

**Edmund N. Durden, Investment Analyst**

**William L. Bachrodt, Investment Analyst**

**March 15, 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.

Composite performance results and percentage of firm assets from December 31, 1995 to December 31, 2007 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 investment decisions since creation of this 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.

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** 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 ending 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.

Unless otherwise indicated, performance results are presented *after* investment management fees as well as after brokerage or other commissions actually paid by clients in the management of their investment advisory account, but excluding any deductions for custodial fees. The current management fee schedule is described in WestEnd's Form ADV Part II.

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 ideal 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.

A complete list and description of all WestEnd Advisors' composites as well as a presentation that complies with the requirements of GIPS standards may be obtained by phone (888-500-7501) or email (info@westendadvisors.com).

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 to September 30, 2007 by Beacon Verification Services. WestEnd Advisors' **Large-Cap Core Equity Composite** has received a performance exam from composite inception through September 30, 2007. A copy of the verification report is available upon request.

Disclosure revised October, 2007