

## U.S. LARGE-CAP CORE EQUITY

DATA AS OF JANUARY 31, 2007

### 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

Two Morrocroft Centre  
4064 Colony Road, Suite 130  
Charlotte, NC 28211  
Phone: (704) 556-9300  
Toll Free: (888) 500-9025

Website: [www.westendadvisors.com](http://www.westendadvisors.com)  
Email: [info@westendadvisors.com](mailto:info@westendadvisors.com)

### Performance vs. Benchmark

	WestEnd Composite		S&P	Russell
	Gross	Net	500	1000
January	3.03%	2.88%	1.51%	1.93%
Year-to-Date	3.03%	2.88%	1.51%	1.93%
1 Year	17.18%	16.48%	14.51%	14.48%
3 Year	14.97%	14.33%	10.32%	10.99%
5 Year	13.30%	12.74%	6.82%	7.51%
7 Year	11.09%	10.54%	2.09%	2.56%
10 Year	15.38%	14.81%	7.93%	8.23%

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%	10.8%
Consumer Staples	0.0%	9.3%
Energy	0.0%	9.7%
Financials	0.0%	22.2%
Healthcare	0.0%	12.2%
Industrials	20.0%	10.8%
Information Technology	35.0%	15.1%
Materials	0.0%	3.1%
Telecommunications Services	10.0%	3.6%
Utilities	0.0%	3.4%
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)	\$76.7	\$25.9
Price to Earnings: Trailing Reported	24.5	17.7
1-Year Projected Earnings Growth	16.0%	9.2%
Price to Book	4.8	2.7
Dividend Yield	1.0%	1.8%

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

## ECONOMIC AND MARKET REVIEW

***The good times continue!***

The stock market in January followed through on its strong performance in the second half of 2006 as the S&P 500 posted a 1.51% gain for the month. WestEnd Advisors' Large-Cap Core Equity portfolio also posted a strong number to start the year with a return of 2.88% (after investment management fees) for the month. Strong performances from portfolio positions in two of our targeted Sectors (Consumer Discretionary and Telecommunications) led to our outperformance.

We made changes to the Large-Cap Core Equity portfolio in January to better position it for the continually evolving economic backdrop. We believe that over the course of the last 24 months the economy has moved out of the Early Phase and into the Mid Phase of the current economic cycle. The Mid Phase is characterized by sustained earnings growth (as evidenced in this economic cycle by the record fourteen straight quarters of double digit earnings growth through the end of Q3 '06), tight labor markets (unemployment now at cyclical and historical lows), and continued growth in wages (up 4.3% year over year in December!).

We believe that businesses, after conserving cash as earnings grew rapidly during the Early Phase, will spend more on technology and telecom infrastructure in this type of environment in order to improve efficiencies. Earnings growth will inevitably start to slow from mid-teen annual increases, but as this occurs management teams will be even more willing to use their companies' cash in an effort to sustain increases in their bottom lines.

WestEnd Advisors now has just under half of our portfolio (45%) in Technology and Telecom, two Sectors that should benefit from this additional business spending. At the end of last year we had 30% of our portfolio in Technology and no exposure to Telecom. We exited one of our remaining Early Phase Sectors to facilitate the moves in these Sectors by selling our 10% position in Basic Materials.

***...as strong profits and tight labor markets fill corporate and consumers' pockets...***

Not only are businesses looking for ways to improve their margins through increased efficiencies during this phase of the economic cycle, but managements also look to grow the top line by hiring more work-

ers to expand their lines of businesses. This in turn leads to the continued job growth, low unemployment and sustained wage growth that we are currently seeing, all of which puts more discretionary income into the pockets of consumers. We increased our exposure to the Consumer Discretionary Sector with the last of our portfolio changes to catch the market tailwinds that strong consumer income growth produces. We funded this move by reducing our exposure to Industrials, another Early Phase Sector, from 30% to 20%. While we maintain exposure to the Industrials Sector, our positions are in Industries that tend to continue to outperform as the economy progresses through the Mid Phase of the economic cycle, namely Airlines and Diversified Industrials.

Data from the fourth quarter of 2006 and the first month of 2007 point to continued strength in the economy. Initial readings of real GDP, the broadest measure of national economic health, put its growth last quarter at a surprisingly high +3.5%. Where was the sharp turn south from the Mid Phase to a significant slowdown/recession that many had feared and forecasted? The housing Industry, after its weakness through much of last year is now showing signs of stabilization. Although home builders cut production in the Q4 to pare their bloated inventories, this housing supply correction appears to have run its course. GDP in the Q4 was lower by 1.2 percentage points because of the housing weakness, but... 1) this impact on GDP was far less than many Chicken Littles had predicted earlier in the year, and 2) consumer and corporate spending more than made up for the decline.

***...and companies and consumers continue to spend freely...***

Once again, U.S. consumers' shopping power helped to drive strong economic growth. Consumer spending, which accounts for over 2/3 of the U.S. economy, surged at an annualized rate of 4.4% for the 4<sup>th</sup> quarter. Consumers are obviously not cowering in the face of a significant housing decline, as many pundits assumed. And why should they, when their economic circumstances are so rosy? Jobs are plentiful and real incomes are rising. Companies showed strong payroll growth in the November through January period, signaling the continuation of a buoyant job market. Employees are extracting higher wages from their employers with the increased demand for workers. Average hourly wages in January for nonmanagerial workers were 4% higher than in January 2005, significantly above the inflation rate of roughly +2.5% over the last year.

Companies are finding ways to offset these higher labor costs with increased productivity. Nonfarm productivity (output divided by hours worked) rose at a 3% rate last quarter, up significantly from the 3<sup>rd</sup> quarter rate. With the higher productivity, even companies facing higher labor costs can maintain their margins without raising their prices, and inflationary concerns.

Booming exports are also fueling the strong GDP growth. Exports rose 10% in the 4<sup>th</sup> quarter, thanks largely to a strong demand growth from overseas markets and a more competitive exchange rate. The improved performance from U.S. based exporters, which contributed 1.6 percentage points to 4<sup>th</sup> quarter GDP, more than offset the negative impact from housing. And with the current demand growth across all global regions, we expect growing demand for our exports to continue to help drive U.S. GDP higher.

***...alleviating many of last year's concerns.***

So what do investors think about all of this terrific economic data? Many of those that were in the *recession is just around the corner* camp are pushing out the arrival of any significant slowdown, or are starting to even throw in the towel on their pessimistic outlooks. Each new economic data release seems to add to the growing view that growth will continue through 2007, and possibly longer. And unlike 2006 when the outlook whipsawed with each new piece of data, we expect that this market consensus will stay consistent this year. Few looming issues exist, unlike last year with its housing bubble, which could cause the consensus outlook and therefore market direction to change. Instead, the strengthening consensus of continued growth should lead to powerful trends in the market directed to economically sensitive Sectors in particular, and for which our Large-Cap Core Equity portfolio is very well positioned.

**Robert L. Pharr, Chief Investment Officer**  
**William L. Bachrodt, Investment Analyst**  
**Edmund N. Durden, Investment Analyst**

**February 15, 2006**

Returns for WestEnd's *Large-Cap Core Equity Composite* include returns generated under its predecessor firm Providence Capital Management, Inc. 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 inception of this composite. The composite inception date is January 1, 1996.

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, 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 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 represents the extensive large-cap segment of the U.S. equity universe.