

U.S. LARGE CAP CORE EQUITY

DATA AS OF JULY 31, 2006

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 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
July	-3.92%	-4.06%	0.62%	0.22%
Year-to-Date	-1.25%	-1.67%	3.34%	2.98%
1 Year	1.17%	0.64%	5.38%	5.23%
3 Year	13.55%	12.94%	10.80%	11.39%
5 Year	8.44%	7.90%	2.82%	3.45%
7 Year	7.11%	6.57%	1.01%	1.63%
10 Year	15.57%	14.99%	8.88%	9.12%

Returns greater than one year are annualized

Sector Weightings

	WestEnd	S&P 500
Consumer Discretionary	25.0%	9.8%
Consumer Staples	0.0%	9.7%
Energy	0.0%	10.7%
Financials	0.0%	21.9%
Healthcare	0.0%	12.9%
Industrials	30.0%	10.9%
Information Technology	30.0%	14.2%
Materials	10.0%	2.9%
Telecommunications Services	0.0%	3.5%
Utilities	0.0%	3.5%
Cash	5.0%	0.0%

Source: standardandpoors.com

Portfolio Characteristics

	WestEnd	S&P 500
Number of Stock Holdings*	19	500
Average Market Cap (\$ billions)*	\$53.0	\$23.1
Price to Earnings: Trailing Reported**	18.4	17.6
5-Year Projected Earnings Growth***	15.8%	10.8%
Price to Book****	4.0	2.7
Dividend Yield*****	1.3%	1.9%

*Source: standardandpoors.com month end data

**Source: month end price from Yahoo, Earnings from Barrons Market Lab

***Source: for S & P 500 use Yahoo Analyst Estimates (next 5 years)

****Source: TIF report for S & P 500

*****Source: Barrons Market Lab

ECONOMIC AND MARKET REVIEW

The S&P 500 eked out a small gain of 0.5% in July, but there was a wide disparity in sector performance. Investors expressed their concerns about the health of the economy and the bull market by shifting capital to defensive and non-cyclical sectors. The best performing sectors in the month were health-care, utilities, energy, and telecommunications services – all defensive in nature. On a market cap weighted basis, these sectors of the S&P 500 gained 5.0% in July. The worst performing sectors in July were the most economically sensitive: technology, consumer discretionary, industrials, and basic materials. These sectors lost 4.1% on a market cap weighted basis in July. Our portfolio, which is concentrated in these four cyclical sectors, declined as well in July, although our performance last month was helped by our stock selection. However, we clearly fought strong market headwinds last month by being in sectors that have recently been out of favor.

Because we view the recent deceleration in economic growth as part of a mid-cycle *soft patch* rather than the start of a pronounced and lengthy economic downturn, we do not expect the market's avoidance of cyclical sectors to be very long lasting. While the rate of growth in a number of key economic aggregates, including consumer spending, employment, and residential construction, have downshifted in recent months, the weight of the evidence does not support the idea of a hard landing in the economy.

As a result of rising inflation pressures and debt service costs, combined with a flattening out of housing prices, head-

winds to consumer spending have increased and are the greatest area of concern for the markets. Investors are worried that the housing downturn will precipitate a sharp drop in consumer spending, which will send the economy into recession. House prices in a number of real estate markets undoubtedly have become excessive, and a correction process is underway. But any adjustment in the real estate market will be gradual, cushioned by still-low mortgage rates, a low unemployment rate, and strongly positive wage growth. We think the scenario of a housing-induced economic recession is unlikely. Historically, recessions have involved the combination of asset price weakness and a contraction in employment. While payroll *growth* has fallen to slightly below trend in the past few months, the unemployment rate is very low at 4.8%. The outlook for employment remains positive. Corporations are in excellent financial shape, with record profits and strong balance sheets, so they are unlikely to reduce payrolls to defend profits even in the event that the recent sluggishness in the economy persists. In addition, corporate capital spending is likely to continue to grow strongly.

Outside of a slowing residential real estate sector and a moderation of consumer spending, the overall economic backdrop remains healthy. Non-residential construction is growing at its fastest pace in over 20 years, overall capital spending remains very firm (growing at 10% to 12% rates over the last twenty-four months), and the strong global economy is increasing demand for U.S. exports. The fundamental strength of the economy is reflected in corporate earnings, which again surprised on the upside in the second quarter. For the S&P 500, the median second

quarter EPS growth is tracking at 13%, with positive earnings surprises outnumbering negative surprises by over 4:1.

After 17 consecutive quarter-point rate hikes over the past two years, the Fed on August 8th called what is likely to be a temporary halt to its tightening campaign. The Fed elected to leave rates unchanged at this meeting in deference to a string of soft economic data and the financial markets' expectations of a pause. With all of the government's measures of core price inflation at new highs for this cycle and running above the Fed's implicit target range, the Fed could not credibly announce an end to the tightening cycle. And with inflation pressures broadening out beyond the pass-through of elevated energy and materials prices (i.e. wage inflation has increased at a 4.3% annualized rate in 2006, a rate of increase not seen since 2000-2001), its official statement had to leave the door open for future rate hikes. Markets may continue to worry about a *stagflationary* economic backdrop for the time being, but such concerns are exaggerated. Inflation pressures remain manageable and the economy in the aggregate remains firm. In fact, we believe that the economic backdrop on balance remains reasonably strong — with enough strength to surprise again on the upside, and to withstand additional monetary tightening without becoming derailed.

Robert L. Pharr, Chief Investment Officer
J.D. Steinhilber, Director of Research

August 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 on January 1, 1996. 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 for the full historical period 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.

The Benchmark: the Standard and Poor's 500 Index is a market capitalization weighted index of 500 major U.S. corporations. There are 400 industrial firms, 20 transportation firms, 40 utilities, and 40 financial firms. The index provides a broad snapshot of the overall U.S. equity markets.