WESTEND ADVISORS

MONTHLY INVESTMENT UPDATE

U.S. LARGE-CAP CORE EQUITY

DATA AS OF JUNE 30, 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

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Performance vs. Benchmark

	WestEnd Composite Gross	WestEnd Composite Net	S&P 500	Russell 1000
June	1.34%	1.34%	-1.66%	-1.91%
Year-to-Date	10.50%	10.19%	6.96%	7.18%
1 Year	23.32%	22.64%	20.59%	20.43%
3 Year	16.46%	15.84%	11.68%	12.34%
5 Year	15.84%	15.26%	10.71%	11.33%
7 Year	12.50%	11.93%	2.16%	2.57%
10 Year	14.87%	14.29%	7.13%	7.55%

Returns greater than one year are annualized.
Source: standardandpoors.com, russell.com

Model Sector Weightings

	WestEnd	S&P 500
Consumer Discretionary	35.0%	10.2%
Consumer Staples	0.0%	9.3%
Energy	0.0%	10.8%
Financials	0.0%	20.9%
Healthcare	0.0%	11.8%
Industrials	20.0%	11.1%
Information Technology	35.0%	15.5%
Materials	0.0%	3.1%
Telecommunications Services	10.0%	3.7%
Utilities	0.0%	3.5%
Cash	0.0%	0.0%

Source: standardandpoors.com

*Portfolio Characteristics**

	WestEnd	S&P 500
Number of Stock Holdings	20	500
Average Market Cap ($ billions)	$81.9	$26.7
Price to Earnings: Trailing Reported	23.7	17.6
1-Year Projected Earnings Growth	17.0%	7.1%
Price to Book	4.9	2.8
Dividend Yield	1.0%	1.7%

Source: Reuters, standardandpoors.com

Please see disclosures on Page 2

ECONOMIC AND MARKET REVIEW

"*And now for something completely different*."
Monty Python

We thought we would try something new for our commentary this month. Rather than give you our usual review of the markets and the economy, we decided to go right to the source and interview WestEnd Advisors' founder and Chief Investment Officer, Robert L. Pharr. This month Rob discusses his outlook for our two most heavily weighted Sectors in client portfolios, Consumer Discretionary and Technology.

Q: Consumer Discretionary names are a large part of your portfolio, yet this Sector has under-performed this year. Do you still like this Sector?

A: Yes, we certainly do. We see an underappreciated and undervalued Sector that's been held back because of some misconceptions about what drives performance of companies in the Sector. We see Consumer Discretionary stocks being held back by concerns that we think are largely inappropriate: everything from high oil & gas prices, to the fallout from recent difficulties in the mortgage market, to weakness in housing.

Q: Let's talk about one of these concerns. How can you be bullish on the consumer when gas prices and energy prices are so high?

A: Energy prices are a good example of one of these misplaced concerns. The increase in energy costs is certainly a negative, but it's a small negative compared to what is far and away the most significant factor that drives earnings and stock performance in the Consumer Discretionary Sector: growth in consumer incomes. For example, the negative impact on a typical consumer of increases in energy prices is something on the order of only one tenth as large as the positive impact on a typical consumer of the growth in that consumer's income. That statistic goes back about a year but we suspect it still holds true. In other words, higher energy prices are a negative but they are overwhelmed and overridden by the decided strength in the growth of consumer incomes.

Q: It sounds like you think consumer income is a determinant factor when assessing the health of the consumer and companies in the Consumer Discretionary Sector.

A: Exactly. The key fact missed by investors is that growth in consumer income is the driving force for Retailers and the Consumer Discretionary Sector as a whole. We're very comfortable consumer incomes are increasing strongly, as evidenced by the recent 5.8% year over year increase in consumer income. And we've learned from experience that this is the most important economic statistic to watch when assessing consumer spending, earnings and stock performance in this Sector.

Q: How do consumer incomes relate to consumer spending? Consumer spending has not been as strong recently.

A: True. While consumer spending is certainly related to and correlated to consumer income, consumer spending is more volatile, and in recent months consumer spending has not kept pace with growth in consumer incomes. We would bet that that's a temporary phenomenon. If consumer incomes continue to grow strongly, consumer spending will follow suit, although imperfectly. Also, if consumer incomes grow strongly, and consumer spending does not keep pace for some period of time, there will be a build up in demand for consumer goods and services. Consumers will spend the money if their incomes are growing strongly.

Q: Some analysts say that consumers are over levered and tapped out. What's your reaction to that?

A: There's been a lot of discussion about the degree of debt taken on by consumers. The absolute amount of debt held by consumers is at an all-time high, as you would expect in an expanding economy with a growing population. But a more appropriate statistic to track is the degree of debt coverage for consumers. Debt coverage statistics take into account the growth of consumer incomes as well as their debt obligations and their ability to handle debt. Those numbers are in a middling range, compared to where they've been historically. This tells us that consumers can take on further debt without any difficulty. So we don't think the consumer is tapped out. That's another presumption that the market may be making that is hindering the performance of the Consumer Discretionary Sector.

Q: Sounds like you think the consumer is in good shape. How does this play out for stocks in the Sector?

A: We do believe that they're in good shape, and we think investors currently have an incorrect view of consumers and the factors affecting their actions. So, we have our highest allowable weighting in the Consumer Discretionary Sector, 35% of client portfolios, and we're very happy with that weighting. We think we're well-positioned, and we expect substantially better performance from stocks in that Sector in the second half of the year.

Q: What are valuations like in the Sector?

A: I would call them reasonable. Certainly not expensive. Earnings growth is still strong, and the valuation question may have gotten answered by Best Buy's recent decision to buy back a substantial portion of their stock.

Q: Almost 25%, right?

A: Correct. Our take is that if a bell-weather company like Best Buy is willing to buy back almost a quarter of their shares, this speaks well for valuations in the Sector.

Also, I want to point out that this deal shows the kinds of things that we look for in our stock selection process. Conservative finances, including low debt-to-equity ratios, is a desirable characteristic for companies we might purchase. Best Buy is under-levered, and while the company will take on some additional debt to fund the share repurchases, it will be only moderately leveraged following the buybacks. Their solid balance sheet gives them the ability to buy back substantial stock while taking on only a moderate level of debt.

Q: You also have large exposure to the Technology Sector, which has performed well so far in 2007. Do you expect this good performance to continue?

A: We do. Capital expenditures by corporations are growing, and are increasingly targeted to computer software and equipment as companies attempt to keep their profits improving by increasing their workers' efficiencies and productivity. We see that not only in the U.S., but also globally. In fact, capex growth directed to technology is even stronger overseas than in the U.S. The technology companies in our portfolio have over half of their sales overseas. These are truly global companies, and they're able to capture some of these positive global trends.

Q: So, continued capex growth both here and abroad should continue to help the Sector?

A: It will and that will help continue the acceleration of earnings that we're already seeing for companies in the Technology Sector.

Robert L. Pharr, Chief Investment Officer

William L. Bachrodt, Investment Analyst

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July 13, 2007