

U.S. LARGE-CAP CORE EQUITY

DATA AS OF MARCH 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

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Performance vs. Benchmark

	WestEnd Composite		S&P	Russell
	Gross	Net	500	1000
March	0.22%	0.22%	1.12%	1.04%
Year-to-Date	1.73%	1.58%	0.64%	1.21%
1 Year	10.11%	9.47%	11.83%	11.84%
3 Year	14.18%	13.60%	10.06%	10.73%
5 Year	11.30%	10.75%	6.27%	6.92%
7 Year	10.04%	9.49%	0.89%	1.23%
10 Year	15.79%	15.20%	8.20%	8.61%

Returns greater than one year are annualized.

Source: standardandpoors.com, russell.com

Model Sector Weightings

	WestEnd	S&P 500
Consumer Discretionary	35.0%	10.5%
Consumer Staples	0.0%	9.6%
Energy	0.0%	10.1%
Financials	0.0%	21.6%
Healthcare	0.0%	11.9%
Industrials	20.0%	10.9%
Information Technology	35.0%	14.8%
Materials	0.0%	3.1%
Telecommunications Services	10.0%	3.7%
Utilities	0.0%	3.7%
Cash	0.0%	0.0%

Source: standardandpoors.com

Portfolio Characteristics*

	WestEnd	S&P 500
Number of Stock Holdings	20	500
Average Market Cap (\$ billions)	\$75.9	\$25.4
Price to Earnings: Trailing Reported	23.6	17.0
1-Year Projected Earnings Growth	16.9%	7.1%
Price to Book	4.7	2.8
Dividend Yield	1.0%	1.8%

Source: Reuters, standardandpoors.com

ECONOMIC AND MARKET REVIEW

March brought an end to the volatile first quarter, a continuation of the market gyrations that we saw in 2006. The S&P 500 ended up 0.64% for the quarter while our Large-Cap Core Equity portfolio gained 1.58% net of fees in Q1, led by a strong performance in our Telecom Sector positions.

Equity performance in the first quarter proved to be more directionless than we had anticipated going into the year. We believe that four issues are weighing on investors and creating uncertainty in their economic outlooks: subprime mortgages, higher energy costs, consumer debt levels and corporate profit projections.

Lately the media has gotten on the subprime mortgage bandwagon and made this the issue du jour. Why all the hype? As most now know, the popularity of subprime mortgages grew wildly over the last several years as they allowed buyers with poor credit to own homes for the first time. Most of these mortgages were adjustable-rate, and many borrowers stretched to get into these loans. Unfortunately, as rates began reset, some borrowers were not able to cover their higher monthly payments which lead to increased delinquency and foreclosure rates.

Why are equity investors worried? Mortgage lenders are tightening lending standards in the subprime market, increasing the difficulty for credit-challenged people to buy homes. This is further reducing demand for new and existing homes and could extend the housing downturn now underway. In addition consumer spending could take a hit as homeowners that are struggling to make mortgage payments could spend less on other goods and services, and consumers whose jobs are tied to the housing industry could reduce spending in reaction to job concerns.

These worries are certainly valid, but we feel they are way overblown and will not have nearly the negative impact on the economy that many believe. First, while mortgage availability is decreasing for credit-challenged households, housing affordability is increasing across the country. Research has shown that affordability (i.e., mix of income, mortgage rates and home prices) is the key driver of demand for home purchases. While some household incomes are undoubtedly impacted negatively by the housing industry's slowdown, aggregate personal income and spending continue to grow, with both up over 5.3% year over year in February. In addition,

mortgage rates have drifted down slightly, and home prices are expected to be flat or down moderately in 2007, both helping to increase home affordability.

But, in addition, this is not a far reaching problem. Less than 50% of households in the U.S. have any mortgage at all (i.e., they either own their homes outright or rent), and adjustable-rate subprime mortgages represent less than 10% of the outstanding mortgages. So fewer than 5% of households are involved in subprime mortgages, and a much smaller percentage of those households are delinquent on their mortgages or in foreclosure.

Higher energy costs, our second investor concern, is not a new phenomenon. U.S. consumers faced higher energy bills for their homes and autos in 2006, when oil prices peaked just under \$80/bbl and gasoline just over \$3/gal. Whereas in 2006 home prices were still increasing somewhat, consumers now face the double-whammy of higher energy costs in conjunction with decelerating housing wealth.

We believe that higher energy costs will not derail consumers from maintaining their lifestyles. Job and income growth continues to be strong. February saw the unemployment rate fall to 4.4%, a new low for this economic cycle. Rising incomes from continued strength in the job market will allow consumers to absorb the higher energy prices with only a slight reduction in their non-energy spending.

Another concern of investors is the rapid rise of consumer debt. Pundits like to point out that this expansion has been fueled by sky rocketing consumer debt, and at some point, we will have to pay the piper. However, we feel that these alarmists miss a key point as they fail to look at consumer debt in the context of consumers' overall balance sheets.

Consumer debt, defined as consumer credit plus mortgages, has grown 50% in the last five years, going from \$7.9 trillion in 2002 to \$12.1 trillion in 2006. Yet, consumers' debt to equity ratio, defined as consumer debt divided by the market value of households' net worth, has only increased by just over a percentage point over the same time period (going from 20.6% to 21.8%). So, while consumer debt has grown, thanks to the strength of the economy, household net worth has grown significantly as well. In these times of historically low interest rates, a slight increase in consumer debt to equity ratios is not very scary, despite what some believe.

Last, but not least, a favorite worry is that in Q2 '07 corporate profit growth will slow from double digits to single digits for the first time in over three years. This slowdown to some can mean only one thing: recession is right around the corner. We disagree for two reasons.

First, a decline in *earnings growth* is not a decline in *earnings*. Companies are still growing their earnings, and will continue to do so for the foreseeable future. Second, it is not unusual for *earnings growth* to slow or even turn negative in the middle of the growth phase economic cycle. In the last two economic cycles, *earnings growth* declined during the mid-phase (in 1986 and 1998), only to reaccelerate several quarters later. This phenomenon occurs because companies now flush with cash after years of sustained profitability start to spend again on technology and infrastructure to improve margins and positively impact bottom lines.

Reading today's headlines has led some to believe that we are nearing a doomsday scenario like that described by Dr. Peter Venkman and friends in the cinematic classic *Ghostbusters*:

[Dr. Peter Venkman](#): This city is headed for a disaster of biblical proportions.

[Mayor](#): What do you mean, "biblical"?

[Dr. Ray Stantz](#): What he means is Old Testament, Mr. Mayor, real wrath-of-God type stuff.

[Dr. Peter Venkman](#): Exactly.

[Dr. Ray Stantz](#): Fire and brimstone coming down from the skies. Rivers and seas boiling.

[Dr. Egon Spengler](#): Forty years of darkness. Earthquakes, volcanoes...

[Winston Zeddemore](#): The dead rising from the grave.

[Dr. Peter Venkman](#): Human sacrifice, dogs and cats living together - mass hysteria.

Fortunately, the last time we looked, the rivers around Wall Street have not started boiling (even though they are dirty) and dogs and cats are not living together. So, while recent financial news has not been perfect, we believe that continued earnings growth, strong employment, and rising consumer incomes indicate the economy is in good shape, and the markets should be as well.

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April 17, 2007

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.