

## U.S. LARGE-CAP CORE EQUITY

DATA AS OF MAY 31, 2009

### 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

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### Performance vs. Benchmark\*

	WestEnd Composite		S&P 500	Russell 1000
	Gross*	Net*		
May	0.83%	0.83%	5.59%	5.53%
Qtr-to-Date	12.64%	12.49%	15.70%	16.22%
Year-to-Date	10.20%	9.89%	2.96%	4.07%
1 Year	-29.63%	-30.04%	-32.57%	-32.95%
3 Year	-4.97%	-5.52%	-8.24%	-8.23%
5 Year	3.04%	2.44%	-1.90%	-1.55%
7 Year	4.41%	3.85%	-0.17%	0.21%
10 Year	4.07%	3.52%	-1.71%	-1.28%
Inception	11.92%	11.32%	4.85%	5.01%

\*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	25.0%	8.9%
Consumer Staples	10.0%	12.0%
Energy	0.0%	13.0%
Financials	0.0%	13.5%
Health Care	15.0%	13.9%
Industrials	0.0%	10.1%
Information Technology	35.0%	17.8%
Materials	0.0%	3.4%
Telecommunications Services	15.0%	3.5%
Utilities	0.0%	3.9%
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)	\$52.5	\$16.1
Price to Earnings: Trailing Operating	17.5x	21.4x
Price to Book	3.7x	2.0x
Dividend Yield	1.7%	2.3%

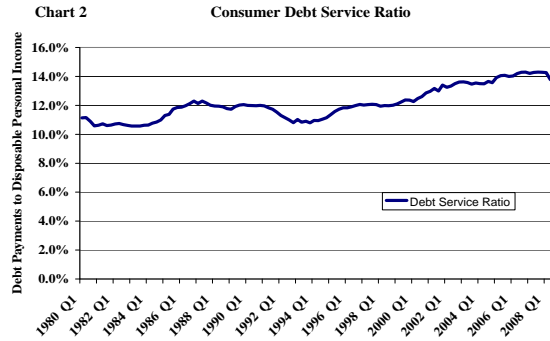
Source: Telemet, [standardandpoors.com](http://standardandpoors.com)

ECONOMIC AND MARKET REVIEW

The current economic environment has created significant challenges for businesses throughout the U.S. economy. Many investors believe that companies in the Consumer Discretionary Sector face some of the stiffest headwinds. The sharp increase in consumer debt over the last three decades is often at the center of investors' concerns. These higher debt levels, coupled with rising unemployment and soft consumer income growth from the current recessionary environment, have led some investors to conclude that consumer spending will likely stagnate, or even decline in the months and years to come.

There is another side to the story, however. Disposable personal income (personal income less taxes) has grown substantially over the last three decades. Despite this strong income growth, household debt increased from 56% of disposable personal income in 1980 to 130% of disposable personal income at the end of 2008. This increase in consumer debt, however, coincided with a significant drop in the cost of money. The interest rate on a 30-year fixed-rate mortgage, for example, declined from 15.3% in 1980 to 5.3% in 2008. Thanks to this decline in interest rates, debt payments in 2008 were 6.8 times what they were in 1980 while household debt in 2008 was 10.5 times the level of debt in 1980 (See Chart 1).

Additionally, consumers' *debt service ratio* (required debt payments as a percentage of disposable income) only increased from approximately 11% in 1980 to 14% in 2008, despite the significant increase in the absolute level of consumer debt. This means that today 86% of consumers' after-tax income is available after debt payments compared to 89% in 1980.



The relatively small increase in the *debt service ratio* demonstrates that borrowings have not suffocated consumers.

With manageable consumer debt burdens, other drivers of consumer spending - such as consumer sentiment and personal income growth - will likely prove critical to the outlook for consumer spending, and in turn Consumer Discretionary Sector stocks.

Fewer layoff announcements and a rebound in the stock market are among the factors that have contributed to improved consumer sentiment in recent months. The expectations portion of the *University of Michigan Consumer Sentiment Index* increased from 53.5 in March to 69.4 in May. This is the largest two-month increase in the expectations index since March 2005. This shift in consumer sentiment is critical because as individuals become more positive they spend more and save less. Improved consumer sentiment indicates it is unlikely that the savings rate will move significantly higher in the near-term and even leaves open the possibility that the savings rate may decline moderately.

Additionally, investors should recognize that it is the sentiment and actions of the 90-plus percent of the labor force that are employed that determine consumer spending, not the decisions of the relatively small portion of the labor force that are recently unemployed. Reduced spending by the unemployed may impact the economy on the margin, but it is the level of

spending by the *employed* that drives the economy. The unemployment rate does not need to decline before employed consumers will increase their spending. Sentiment among these current job holders just needs to improve.

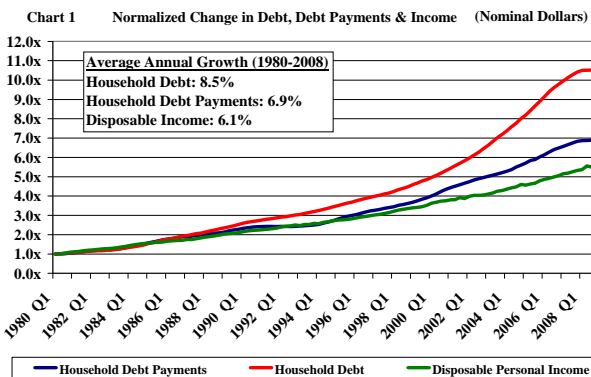
Consumer income growth, which remained resilient even as the economic downturn intensified, has moderated recently. Income growth will likely lag an economic recovery, but a rebound in corporate profits should benefit personal incomes. We believe the corporate earnings outlook is not nearly as dire as some investors suggest. Better-than-expected first quarter earnings from companies in the S&P 500 Index indicate that many firms reacted quickly to cut costs in the economic downturn, and that they have substantial operating leverage with improved demand.

We believe consumers are healthier than many investors realize, but a new shock to the economic system could cause consumers to become more risk averse. This type of event would delay an improvement in consumer spending and be a headwind for the entire stock market.

We have confidence in the Large-Cap Core Equity portfolio's Consumer Discretionary Sector investments regardless of the exact timing of a pickup in spending. These companies are market-leading firms and their stocks trade at attractive valuations relative to the companies' long-term earnings growth prospects. Market leaders such as Best Buy Co., Lowes Companies and Coach, Inc., demonstrated their operational strength in recent quarters as they cut costs to produce better than expected earnings as the firms captured market share. Our portfolio companies in the Consumer Discretionary Sector performed well over the last six months in a very challenging environment. We believe these firms should continue to outperform their industry peers and the broad market in the post-recession economic environment.

**Robert L. Pharr, Chief Investment Officer**  
**Edmund N. Durden, Investment Analyst**  
**Frederick O. Porter, Investment Analyst**

June 11, 2009



WestEnd Advisors is an SEC-registered investment advisor. The firm is an independent investment management firm, 100% owned by its active principals. WestEnd manages both equity and fixed-income assets for individual and institutional clients.

WestEnd Advisors' **Large-Cap Core Equity Composite** is invested solely in U.S. Equity securities and/or high-grade money market instruments. Returns are 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 are weighted using end of prior month values plus weighted cash flows. Portfolios and composites are valued daily, are denominated in U.S. dollars only, and include all discretionary tax-exempt accounts with a minimum of \$1,000,000. Portfolios managed by WestEnd Advisors in any wrap-fee program are not included in the composite.

Composite performance results and the percentage of firm assets from December 31, 1995 to December 31, 2002 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 the investment decisions since creation of the 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.

Net-of-fee performance results are presented after investment management fees paid to WestEnd Advisors, as well as after brokerage or other commissions actually paid by clients in the management of their investment advisory account, but exclude any deductions for custodial fees. The current management fee schedule, as described in WestEnd Advisors' SEC Form ADV Part II, is as follows: 1.00% for accounts valued at \$1,000,000 to \$4,999,999; 0.90% for accounts valued at \$5,000,000 to \$9,999,999; 0.75% for accounts valued at \$10,000,000 to \$24,999,999; 0.65% for accounts valued at \$25,000,000 to \$49,999,999; and 0.50% for accounts valued over \$50,000,000.

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' SEC Form ADV Part II.

The S&P 500 and Russell 1000 are used for comparative purposes only. The S&P 500, our primary benchmark, is considered an appropriate proxy for the overall U.S. equity market and is comprised of 500 leading companies in major 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.

The dispersion of annual returns is measured by the standard deviation of the asset-weighted portfolio returns included in the composite for the full year. Dispersion is calculated based on gross returns, and is not shown when there are five or fewer portfolios as the calculation is not statistically meaningful.

A complete list and description of all WestEnd Advisors' composites is available upon request by phone (888-500-7501) or email (info@westendadvisors.com).

Additional information regarding policies for calculating and reporting returns is available upon request.

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 through March 31, 2009 by Beacon Verification Services. WestEnd Advisors' **Large-Cap Core Equity Composite** has received a performance exam from composite inception through March 31, 2009. A copy of the verification report is available upon request.

Revised May 2009