

# LARGE-CAP CORE EQUITY

## 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 will experience economic **tailwinds**, and avoids Sectors we perceive to be untimely. We target **high quality, market leading** companies within favored Sectors.

The result is a **core investment style** that shifts portfolio Sector and style emphasis to remain properly oriented and timely over a full economic and market cycle.

Boutique Investment  
Management Firm

Sector-Focused  
Large-Cap Core Manager

18 to 20 Stock Holdings

### WESTEND ADVISORS

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## PERFORMANCE VS. BENCHMARK

	WestEnd Composite		S&P	Russell
	Gross*	Net*	500	1000
November	4.38%	4.38%	6.00%	5.89%
Qtr-to-Date	1.66%	1.58%	4.03%	3.55%
Year-to-Date	26.68%	26.07%	24.07%	25.38%
1 Year	33.76%	33.12%	25.39%	27.38%
3 Year	-4.30%	-4.83%	-5.79%	-5.71%
5 Year	2.98%	2.42%	0.71%	1.02%
7 Year	8.47%	7.90%	4.33%	4.78%
10 Year	5.81%	5.26%	-0.57%	-0.15%
Inception	12.59%	11.99%	6.09%	6.24%

\*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%	9.4%
Consumer Staples	10.0%	11.7%
Energy	0.0%	12.0%
Financials	0.0%	14.4%
Health Care	15.0%	12.8%
Industrials	0.0%	10.4%
Information Technology	35.0%	18.9%
Materials	0.0%	3.6%
Telecommunications Services	15.0%	3.1%
Utilities	0.0%	3.6%
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)	\$59.9	\$19.3
Price to Earnings: Trailing Operating	20.3x	27.7x
Price to Book	3.7x	1.9x
Dividend Yield	1.4%	2.0%

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

### ECONOMIC AND MARKET REVIEW

*Weak economic conditions at the end of 2008 carried over into 2009...*

The credit crisis that unfolded in the fall of 2008 had immediate consequences for financial markets, but it took time for these traumatic events to impact the broad economy. Much like a volcanic eruption, the financial crisis destroyed markets and Wall Street firms that were located too close to its crater. The force of the eruption, however, did not stop there, as the fallout from the credit crisis hit the general economy in late 2008 and into 2009. Investors, consumers, and business leaders struggled as the year began to determine how severe the damage to the general economy would be, and how long the impact would last.

*...as consumers, and especially businesses, reacted aggressively to the challenges that they saw ahead.*

Many investors believed at the start of 2009 that corporate profits and stock prices would continue to plunge as the economy, in many respects, was in a freefall. Companies' immediate reaction to this very challenging environment was to reduce costs as quickly as possible. Managers, however, reacted not only to steep declines they saw in their businesses, but also to the further sharp declines that they saw ahead. Substantial cost reductions at many businesses, which had started in late 2008, accelerated into the first quarter of 2009, as managers prepared for continued economic fallout.

Managers slashed orders to quickly reign in costs. A rapid decline in orders from businesses in all sectors of the economy forced manufacturers to cut production so quickly and so severely that industrial production fell 4.5% in just the first quarter of 2009 alone. Companies also cut capital expenditures at the same time in an effort to conserve cash. These actions drove the 6.4% decline in GDP in the first quarter, the largest quarterly decline in GDP since 1980.

Consumers also took a hard look at their financial situations as layoffs mounted and the unemployment rate climbed. The savings rate which rose rapidly in late 2008, reached 5% in the spring, as consumers protected themselves against the economic challenges they saw ahead. Concerns about consumer debt also dampened expectations for consumer spending.

*In spite of this turmoil in the economy, markets rallied...*

Weak economic data at the beginning of the year, coupled with uncertainty about the new administration and its plans to revitalize the financial system, made investors

extremely pessimistic about the prospects for stocks in 2009. Nevertheless, the stock market bottomed in early March and has continued to rally. We can not be sure what sparked the move up, but we do believe that a number of fundamental factors have supported this year's stock market advance.

*... as consumers and businesses leaders, who had expected the worst, realized that economic conditions were not as bad as they had feared....*

Improved consumer sentiment, driven by healthier credit markets, rising stocks prices and a drop in the pace of layoffs, led consumer spending to stabilize in the first half of the year, to the surprise of many investors. The savings rate consequently stabilized in the second quarter and has declined moderately since then, as the fears that drove increases in savings receded. Also, it became more widely accepted that consumers were not drowning in debt as previously feared, as low interest rates kept debt service ratios in line with historical measures. (See our May 2009 *Monthly Investment Update* for full discussion.) The American consumer proved once again to be more resilient than many anticipated, and consumer spending actually grew in the third quarter.

Not only did the consumer's resiliency surprise investors, but business leaders were equally surprised as well. In fact, it is likely that many managers *overreacted* in their cost cutting at the beginning of the year, as they prepared for a continued freefall in demand that never materialized. Lower cost structures did carry a significant benefit for many businesses though, as companies delivered better than expected margins and profits when demand did not fall off as much as anticipated. Companies' production cuts also made for record declines in inventories. The nearly 10% drop in business inventories from August 2008 to May 2009 necessitated a pick-up in orders this past spring to replenish inventories, which in turn led to a recovery in industrial production during the summer and fall.

*Yet, there remain many outstanding concerns about the economy...*

Companies' cost cutting did, however, have negative implications for the economy, as these actions resulted in significant job losses and an unemployment rate that topped 10%. These job cuts have obviously been very painful for many Americans, but the recent trends in the labor market data are consistent with the trends from prior economic recoveries. We highlighted in our April 2009

*Monthly Investment Update* that in the previous five recessions the unemployment rate has peaked approximately eight months after troughs in the stock market and seven months after troughs in the economy.

*...and the markets...*

The stock market bottomed in advance of the economic recovery this year, as has happened in virtually every previous recession. Some investors, however, are worried that the market has risen too far too fast. We are not concerned that the stock market rally is overdone based on the market's large percentage increase from the March bottom. Investors need to consider the magnitude of the increase in the context of the sharp and deep fall off in equity prices that preceded the current recovery. In fact, the 57% decline in the S&P 500 index is larger than any drop in the last 50 years. Therefore the recovery of 63% since the March lows is not out of line.

*...as investors reflect on 2009 and prepare for 2010.*

A year ago we thought that the fallout from the financial crisis would be severe for the entire economy. We expected that the economy would recover in 2009, however, as businesses, consumers and investors picked up the pieces and moved on, much as they have always done in the aftermath of financial and economic crises. We also believed that the recovery would be stronger than many expected as pent-up consumer demand, a need to replenish depleted inventories and other factors would fuel the recovery.

It is now widely accepted that the economy troughed during the middle of 2009, and then improved in the third quarter as GDP grew at an annualized rate of 2.8%. Recent increases in retail sales, industrial production, business sentiment and exports indicate that the recovery has gained strength in recent months. This progress, however, does not mean that job growth is imminent or that every aspect of the economy will perform well in the recovery. Nevertheless, we see additional growth ahead, but understand that significant questions remain about the pattern and shape of the growth ahead, and how particular Sectors and stocks will perform as the recovery unfolds.

**Robert L. Pharr, Chief Investment Officer**

**Edmund N. Durden, Investment Analyst**

**Frederick O. Porter, Investment Analyst**

**December 14, 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 as well as a presentation that complies with the requirements of the Global Investment Performance Standards (GIPS) 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.

Total firm assets do not include assets in any account where WestEnd Advisors does not execute trades on behalf of the account. These assets are sometimes referred to as "Advisory-Only Assets." As of September 30, 2009, WestEnd Advisors had approximately \$98 million of Advisory-Only Assets. This information is included as supplemental information only.

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 September 30, 2009 by Beacon Verification Services. WestEnd Advisors' **Large-Cap Core Equity Composite** has received a performance exam from composite inception through September 30, 2009. A copy of the verification report is available upon request. Revised November 2009