

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
September	3.57%	3.57%	3.73%	4.06%
Qtr-to-Date	13.52%	13.38%	15.61%	16.07%
Year-to-Date	24.60%	24.10%	19.26%	21.08%
1 Year	-3.60%	-4.15%	-6.91%	-6.14%
3 Year	-3.15%	-3.70%	-5.43%	-5.10%
5 Year	3.83%	3.26%	1.02%	1.49%
7 Year	11.29%	10.70%	5.86%	6.31%
10 Year	5.56%	5.01%	-0.15%	0.41%
Inception	12.61%	12.02%	5.86%	6.05%

*Returns are preliminary, not verified, and subject to change.
Returns greater than one year are annualized.
Source: standardandpoors.com, russell.com

MODEL SECTOR WEIGHTINGS

	WestEnd	S&P 500
Consumer Discretionary	25.0%	9.1%
Consumer Staples	10.0%	11.5%
Energy	0.0%	11.7%
Financials	0.0%	15.2%
Health Care	15.0%	13.1%
Industrials	0.0%	10.3%
Information Technology	35.0%	18.7%
Materials	0.0%	3.5%
Telecommunications Services	15.0%	3.2%
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)	\$59.0	\$18.7
Price to Earnings: Trailing Operating	19.7x	26.6x
Price to Book	4.0x	1.8x
Dividend Yield	1.4%	2.0%

Source: Telemet, standardandpoors.com

ECONOMIC AND MARKET REVIEW

The third quarter of 2009 will likely mark the first quarter of GDP growth since spring of last year. Despite this recent improvement in the economy, investors continue to worry. Among their concerns is a belief that the government programs which contributed to the stabilization of the financial system and led to the economic recovery will in turn lead to a period of sustained high inflation. And inflation is a potential risk to both equity and fixed-income investments.

The Federal Reserve cut interest rates and established numerous programs last fall to prevent the collapse of the financial system. These monetary policy actions expanded the Fed's balance sheet dramatically - from \$900 billion in August, 2008 to \$2.2 trillion at year-end. This compares to 4% growth per annum in the previous five years. The rapid expansion of the Fed's balance sheet concerns some investors who believe that it is a precursor to systemic inflation.

The majority of the recent increase in the Fed's balance sheet came as banks borrowed \$800 billion from the Fed last fall in order to shore up their balance sheets. Most of these funds, however, remain on banks' balance sheets today, as banks have increased credit standards, and seen muted demand for new loans. Only a small amount of the funds lent to banks by the Fed has entered the money supply. The money supply, as measured by M2, has increased 8% since August 2008, while the Fed's balance sheet has more than doubled over the same period. In fact, the money supply is unchanged since March of this year.

The key question for investors is whether the Fed can effectively reign in this emergency liquidity without inflationary effects. Many investors have argued that the Fed has "crossed the line" by adding liquidity to the banking system, and that this liquidity can not be removed. We believe that this view is wrong as it ignores the tools the Fed has at its disposal to withdraw funds from banks and thus execute its *exit strategy*. Some of these tools, like adjustments to bank interest rates and reserve requirements have been available to the Fed for decades. Other tools were only established in the last year. The Fed, for example, now has the ability to pay interest to banks for reserves held on the banks' balance sheets. This is a powerful tool as it can reduce incentives for banks to make new loans, and thus prevent excess reserves from entering the money supply as a flood of the funds

might fuel inflation.

The Fed not only needs to determine which tools are the most effective to implement its *exit strategy*, but, more importantly, the Fed must decide *when* to utilize those tools. The timing aspect of this decision is the most critical component of the Fed's *exit strategy* and must be considered in the context of the overall economic environment. If the Fed implements its *exit strategy* too soon, it runs the risk of harming the still fragile financial system and snuffing out the nascent economic recovery. If it waits too long, the Fed runs the risk of creating excess liquidity. And if this occurs during a time when economic resources, particularly labor, are constrained, it could lead to inflation.

The severe economic downturn that began last fall, however, created significant slack in the economy. The unemployment rate, which is at its highest level since 1983, indicates that there are substantial excess resources in the labor market. Production resources are also widely underutilized, as capacity utilization stands near 70%, just above the index's all-time low reached in June. The significant slack across the entire economy should limit companies' pricing power and reduce the risk of inflation. In fact, without the Fed's current monetary stimulus, we believe that the risks would be skewed towards *deflation*, rather than *inflation*.

The degree of economic slack in the U.S. economy expands the time period for the Fed to successfully implement its *exit strategy*. The Fed can wait for confirmation of improved economic conditions before it takes significant action, as hiring is likely to lag the economic recovery, and because accommodative monetary policy only causes inflation in a resource constrained economy.

We continue to monitor the economic data closely for a shift in conditions that could lead to a more pronounced threat of inflation, which in turn might necessitate changes to the Large-Cap Core Equity portfolio. For example, we believe *unit labor costs* are a key economic indicator to watch. *Unit labor costs* are the cost of worker compensation per unit of output. *Unit labor costs* are a critical component of inflation as it represents nearly 70% of the inputs into the Consumer Price Index (CPI). Higher hourly wages tend to increase *unit labor costs* while greater labor productivity

boosts output and thus tends to lower *unit labor costs*.

Outsized increases in money supply may contribute to wage growth that exceeds productivity growth, and thus produce higher *unit labor costs*. Sustained increases in *unit labor costs* can lead to inflation throughout the economy, and to a wage-price spiral. Imbedded wage-price spirals are painful to stop, as was seen in the 1970s and the early 1980s. Fortunately, recent *unit labor costs* growth has been low and even negative, and should remain limited as productivity growth is strong and wage growth is tempered by significant unemployment.

Other investors may argue that we should also closely monitor changes in commodity prices for signals of inflationary pressures in the economy. Numerous factors can influence commodity prices, however, including temporary supply shortages and even speculators. These factors may cause prices for certain commodities, and even some finished goods, to increase in the short term. But higher commodity prices alone, in contrast to *unit labor costs*, are not likely to lead to *sustained inflation* as raw materials and energy constitute less than 30% CPI. Sustained inflation from commodity prices also requires continued price increases over multiple time periods. Historically, sharp commodity price increases, unaccompanied by a wage-price spiral, reverse quickly as the market resolves short-term supply/demand imbalances or speculators move out of the market. These commodity price round-trips have minimal inflationary impact on the overall economy.

Current economic conditions, including muted money supply growth and substantial economic slack, indicate there is limited risk of high inflation in the short to intermediate-term. Our economic outlook calls for a substantial snapback in economic activity, followed by more trend-line economic growth over the longer term. The Large-Cap Core Equity portfolio is positioned for a return of growth in the economy even as the risk of inflation remains limited.

Robert L. Pharr, Chief Investment Officer

Edmund N. Durden, Investment Analyst

Frederick O. Porter, Investment Analyst

October 15, 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 June 30, 2009, WestEnd Advisors had approximately \$66 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 June 30, 2009 by Beacon Verification Services. WestEnd Advisors' **Large-Cap Core Equity Composite** has received a performance exam from composite inception through June 30, 2009. A copy of the verification report is available upon request.

Revised August 2009