MANAGER COMMENTARY

SMALL CAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

FIRST QUARTER 2017

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Investment Results

The Russell 2000 Index gained 2.5% in the first quarter of 2017, primarily driven by a strong rebound in the healthcare sector. Small cap health care companies gained more than 12.5% in the quarter, rebounding from 2016's poor performance in which they declined by almost 8%, trailing the index by almost thirty percentage points. The broader large company S&P 500 Index gained more than 6%, and most major U.S. equity indices continue to trade at or very near all-time record levels.

International equities also fared well; the EAFE index gained almost 8%, emerging markets advanced more than 12%, and China's market moved higher by 11%. Russian equities (-2.5%) were the only meaningful equity market to decline in the quarter.

Crude oil closed the quarter 9% lower at about $50.50/barrel, and natural gas lost almost 19% as temperatures were mild across much of the U.S. and the world. Metals prices continued to strengthen, with gold gaining 8% and silver up more than 14%. Most agricultural prices were flat, though sugar prices did decline by 15%. The U.S. dollar was down slightly (-2%) while the Euro and British Pound both gained a bit more than 1% and the Yen appreciated by almost 5%.

The 10-year Treasury note closed the quarter little changed, with its yield declining 9 basis points to finish at 2.39%. As expected, the Federal Reserve raised the Federal Funds rate by 25 basis points in March, and clearly suggested that several more rate hikes before year-end are in the offing.

Our Small Cap model portfolio appreciated 0.9% in the quarter, lagging the index by 150 basis points. Much of the underperformance occurred in the Health Care sector; more detailed information related to those factors helping and hurting our quarterly results follows.

Sector	GLA Weighting	GLA Return	R2000 Weighting	R2000 Return	Active Contribution
Financials	17.3%	-4.7%	23.6%	-1.2%	-0.4%
Technology	17.0%	-1.9%	16.9%	6.4%	-1.3%
Health Care	6.5%	0.1%	12.7%	12.7%	-1.3%
Consumer Discretionary	22.8%	3.3%	12.6%	1.5%	0.3%
Industrials	24.4%	5.3%	14.9%	0.7%	1.0%
Utilities	0.0%	0.0%	3.6%	4.2%	-0.1%
Materials	0.8%	-17.3%	5.3%	5.2%	-0.2%
Real Estate	3.7%	10.3%	3.9%	0.6%	0.3%
Consumer Staples	0.0%	0.0%	2.7%	-2.9%	0.1%
Energy	0.8%	-2.9%	2.9%	-13.0%	0.3%
Telecom	0.0%	0.0%	0.9%	-6.2%	0.1%
Cash	6.7%	0.2%	0.0%	0.0%	-0.2%
TOTAL	**100.0%**	**1.1%**	**100.0%**	**2.5%**	**-1.4%**

Source: GLA, FactSet

First Quarter Attribution

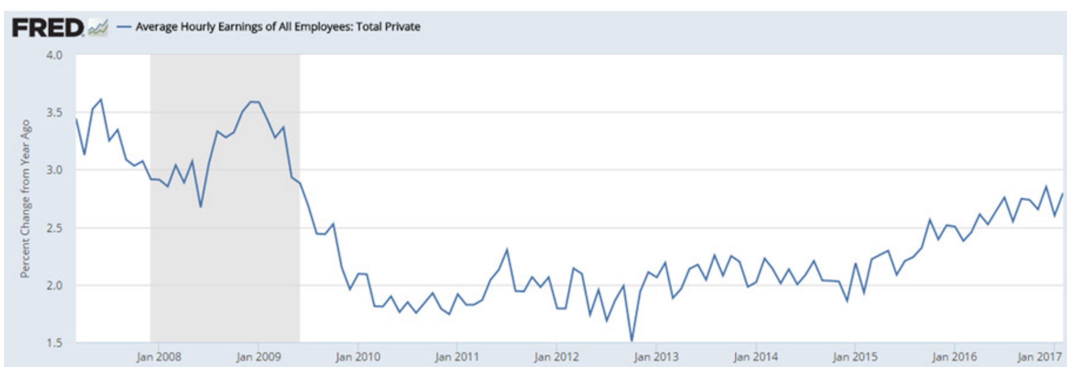
Weak relative results in the Health Care and Technology sectors weighed on our small cap returns in the quarter, overshadowing solid stock selection in the Industrial, and Consumer Discretionary sectors.

- Within the Health Care space our underweight position (6.4% versus an index weighting of 12.6%) is primarily a result of having no exposure to small cap biotechnology or pharmaceutical companies. These two industries represent more than one-half of the Health Care weighting in the Russell 2000 Index, and gained 18% and 15%, respectively. Our underweight in these areas cost our model portfolio about 90 basis points.

- Our Technology holdings underperformed in the quarter and cost us about 135 basis points of relative performance. One company provided lackluster guidance and declined by about 11%. Two additional companies also declined despite posting financial results in line with our expectations. On the positive side, one company provided a solid outlook for 2017 and the stock gained almost 15%.
- Financials weakened a bit in the quarter, declining by about 1% after a very strong fourth quarter of 2016. In particular, our insurance holdings were impacted by higher than expected casualty and catastrophe losses focused particularly in their automotive books of business. Two companies declined in the quarter as a result. With pricing firming in the auto insurance segment, we remain confident that both companies are attractive investments.
- There were bright spots in the portfolio as well. Our Industrial holdings continued to exceed expectations, gaining more than 5% in the quarter. One company in particular posted solid 2016 results and a solid outlook, pushing the stock almost 19% higher. Our relative lack of exposure in the Energy sector (less than 1%) avoided much of the sector's 12% decline. Additionally, one real estate company gained 10% as concerns about Brexit and its impact on the London commercial real estate market appeared to be overblown.
- Lastly, one of our holdings gained more than 20% as the effects of a strong U.S. dollar appear to be abating, and another holding rose more than 13%, continuing on its solid Q4 2016 performance. In all, our Consumer holdings added about 30 basis points of relative value, and we remain overweight in this sector.

Outlook

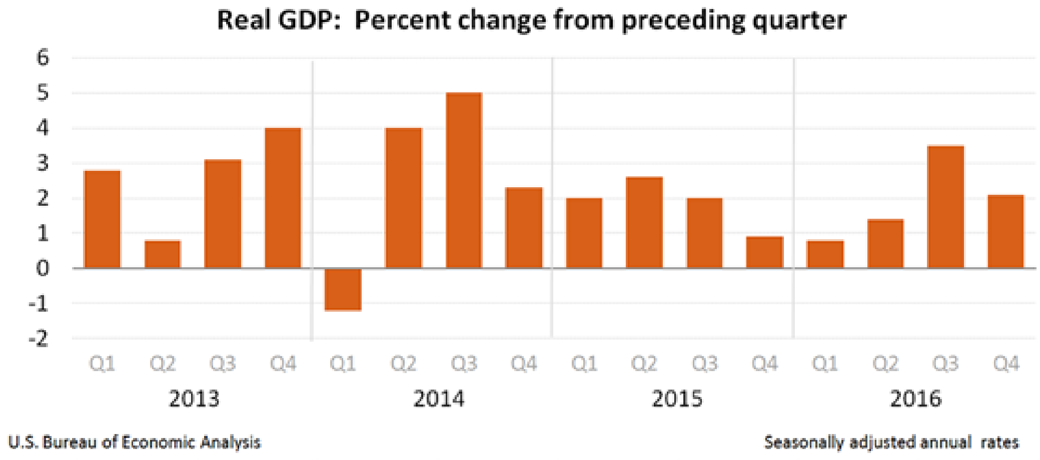
Economic conditions have not changed substantially in the first three months of 2017. Employment growth continues apace, with almost 200,000 new jobs created, on average, in each of the first three months of the year, and the unemployment rate dropped to 4.5%. Growth in average hourly earnings, however, remains sluggish, though pushing toward the 3% level. We continue to believe that any acceleration in U.S. economic growth will be driven by the expansion in both job creation and wage growth in excess of 3%.



Source: Federal Reserve Bank of St. Louis.

There may be some concern with the March jobs report, which suggests that only 89,000 new jobs were created in the month, far fewer than expected. However, we note that poor weather may have affected hiring in the month; for example, construction hiring was particularly anemic in March, reflecting the impact of bad weather. On the other hand, the continuing retrenchment in the retail sector continued, as store-based retailers eliminated almost 30,000 positions for the second month in a row. Many businesses across the economy also continue to use temporary workers at an increasing rate in lieu of permanent hiring, an indication of the tenuousness with which employers still approach hiring decisions.

Overall, the U.S. economy remains the most resilient in the world, and continues to plod along a somewhat meager but sustainable growth path in the neighborhood of 2% annually.



At this rate, inflation appears to be held in check, and the ten-year rate of interest may remain stuck close to 2% for some time. All of this data would suggest that equities are close to fairly valued, and that any increase in long-term interest rates would suggest that equity prices might face downward pressure unless the rate of economic growth appears to be accelerating at the same time.

In the meantime, both political and exogenous risks must be considered, though they cannot be easily predicted. President Trump will celebrate his 100th day in office on April 28. That is the same day that the current bill funding the U.S. government is set to expire and Congress is set for a two-week recess just ahead of that deadline. The specter of a government shutdown looms large for Republicans, who are understandably leery of having the impacts of a shutdown pinned upon them again. Nonetheless, there is little prospect that Congress will be able to agree on a budget by that time, and the only realistic expectation is a series of continuing resolutions that do nothing to bolster investor or consumer confidence.

Much of the economic promise held out after the election of President Trump last November has been incorporated into U.S. equity prices, in our opinion. As a result, we are concerned that any substantial disruption in the implementation of his plans may have an adverse impact. The failure to "repeal" ACA and replace it with an alternative plan created some uncertainty relating to the Administration's ability to execute on its strategies. With tax relief, stimulus spending, and trade reforms all coming down the pike, any substantial deviation from expectations may upset equity markets, and more importantly have a negative impact on corporate earnings expectations, none of which would be positive for investors. Other potential hotspots include the upcoming French presidential elections, the implementation of Brexit, and concerns in Syria and North Korea, all of which could lead to greater uncertainty and market volatility.

We continue to absorb economic developments, changes in interest rates, and world events, and gauge the impact they may have on the long-term growth prospects of the companies that we follow. We are quite comfortable with the manner in which our portfolios are currently constructed and are carefully assessing new opportunities as they arise.