MANAGER COMMENTARY

LARGE CAP VALUE

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

SECOND QUARTER 2017

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Market Review

The Russell 1000 Value Index gained 1.3% in the quarter ending June 30, adding to its first quarter gain, and now stands up 4.7% for the first half of 2017. The broader market, represented by the S&P 500, gained 3.1%, pushing its year-to-date gain to 9.3%. Most major equity indices gained ground in the quarter and remain near all-time high levels.

Overall, the Trump Administration has found it difficult to implement its legislative agenda, leading some to question the likelihood of an acceleration of U.S. economic growth over its current modest pace of expansion. Despite much anticipation, clear signs of boosted economic activity have yet to appear.

Oil prices declined by 9% in the quarter, leading to a 7% decline in the Energy sector. The yield on 10-year U.S. Treasury Notes was 2.27%, 80 basis points higher year-over-year but 12 basis points lower than March 31. The U.S. dollar weakened almost 7% against the Euro.

The Great Lakes Advisors Large Cap Value portfolio gained 2.8% in value in the second quarter, 140 basis points better than the Russell 1000 Value Index. For the first half of the year our portfolio has gained 7.7%, which is about 300 basis points better than the benchmark.

Second Quarter Attribution

Sector	GLA Weighting	GLA Return	R1000V Weighting	R1000V Return	Active Contribution
Healthcare	18.4%	11.0%	11.3%	6.2%	1.2%
Consumer Staples	10.0%	3.9%	8.6%	1.2%	0.3%
Telecom	0.0%	0.0%	3.5%	-6.9%	0.3%
Technology	13.8%	2.7%	9.5%	0.3%	0.2%
Financials	22.5%	4.2%	27.3%	3.7%	0.1%
Energy	11.9%	-7.1%	11.6%	-7.2%	0.0%
Real Estate	0.0%	0.0%	3.9%	2.2%	0.0%
Materials	0.0%	0.0%	3.0%	0.2%	0.0%
Industrials	12.4%	2.0%	10.1%	3.2%	-0.1%
Utilities	2.9%	0.5%	6.5%	2.2%	-0.1%
Consumer Discretionary	6.1%	-6.1%	4.7%	3.3%	-0.6%
Cash	2.0%	0.2%	0.0%	0.0%	0.0%
TOTAL	**100.0%**	**2.8%**	**100.0%**	**1.4%**	**1.4%**

Underweight position relative to benchmark   Overweight position relative to benchmark

Source: GLA, FactSet

Most of the portfolio's outperformance in the second quarter resulted from positive relative returns of the Healthcare and Technology sectors. The lack of exposure to Telecom, which was a relative underperformer in the quarter, also bolstered results.

- Healthcare continues to be the strategy's strongest performer with over 120 bps relative performance. Our overweight in the best performing sector along with strong stock selection served us well. The managed care stocks were up double digits in the second quarter. These companies are still benefiting from muted utilization, the prospect of better profitability as they extract themselves from money-losing public exchanges, and a surplus capital benefit from the failed mergers. One company also returned 10% over the quarter as it acquired another firm with a lower cost.

- Technology was another solid contributor to performance primarily with strong stock selection. One company generated a 13% return as it is realizing the increased revenue and margin expansion from its transition to the cloud.. Another beneficiary of the cloud a company which contributed 12 bps to the strategy's performance, as well. This company has also positioned itself with cloud migration for earnings acceleration and increasing cash flow purposes/benefits.
- Consumer Staples provided positive relative return reflecting the strategy's positive stock selection within the sector. The strategy's holdings returned about 4%, above the sector's 1% return. Many companies continue to generate positive earnings growth despite the industry headwind of weak volumes, which have been more of a drag to their competitors.
- The Consumer Discretionary sector hindered overall results. One company declined 10% as concerns about continued slow growth of new motorcycles sales and some higher than expected dealer inventory weighed on the stock. We think the very profitable firm is taking a measured approach to current markets, increasing efforts to attract new potential riders in the U.S. and expanding prudently in non U.S. markets where there is unmet demand. Another company was down 4% in the quarter reflecting the potential additional disruption given Amazon's bid to acquire Whole Foods and enter the physical, as well as e-commerce, grocery market. While this is no doubt an issue to monitor and will very likely increase the already intense competition in the grocery market space, we think the stock decline is an overreaction.

Market Outlook

In the economic and investment climate brought about by the Fed's monetary policies of the last 8+ years, investors have had to work increasingly harder scrounging for investment returns. As yields on "safer" investments (high quality bonds) have all but disappeared, investors have agreed to pay higher and higher prices in their quest for equity returns. It makes sense, of course, to pay a higher price for a solid business paying a stable dividend when interest rates are low, but certainly by now those opportunities have vanished. Many investors have paid very high prices (too high, in many cases) for shares of companies promising very high growth in the future. These companies might be able to show well-above average revenue growth, but are likely to have difficulty (or find it impossible) to translate that revenue growth into sustained profitability and free cash flow.

And so it is that growth is outperforming value by a wide margin again in 2017. Both the S&P 500 and Russell 2000 growth indices are outpacing their value counterparts by ten percentage points (13.3% and 10.0% vs 4.9% and 0.5%, respectively). As investors reach for returns, they are increasingly buying into "stories" of high revenue growth regardless of the likelihood that it will ever result in returns on investment that exceed the cost of capital, or ultimately provide a cash return to owners of the business.

The reality appears to be that growth will remain elusive. The Federal Reserve has done more than many thought plausible to prop up our economy and is trying to find ways to unwind its massive balance sheet without disruption. Europe is in a similar position.

Our style of investing continues to place value on high returns on invested capital, goal congruence with management, prudent capital structures, and abundant free cash flow. We believe this approach will continue to be attractive for our clients' portfolios in the future.