FUNDAMENTAL EQUITY

SMALL CAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY
SECOND QUARTER 2018

Gary Lenhoff, CFA
Chief Investment Officer-Fundamental Equities

Benjamin Kim, CFA, CPA
Portfolio Manager

Market Review

The Russell 2000 Index gained just over 7.7% in the quarter ending June 30, eclipsing its small first quarter loss, and is now up 7.7% year to date in 2018. The broader market, represented by the S&P 500, gained 3.4%, putting it up almost 2.7% in the first half of the year. While most U.S. equity markets gained in the quarter, many foreign markets declined, with many emerging markets losing 15% or more.

Markets hate uncertainty, and the recently imposed tariffs provided investors with much to hate in the quarter. The U.S. Dollar gained more than 5% in the quarter, at the expense of just about every other major currency – the Euro, Japanese Yen, Chinese Yuan, and British Pound all lost more than 4%. Most commodities (with the notable exception of oil) also declined, as the threat of tariffs on agricultural products and industrial metals drove prices lower.

Crude oil prices rose by more than 14% in the quarter on the back of strong demand and political uncertainty. The United States' withdrawal from the Iran nuclear deal and threat to end Iranian oil imports has heightened tension in the region, putting upward pressure on prices.

Interest rates rose early in the quarter, with the yield on the 10-year Treasury note breaching the psychologically important 3% level in April and May before backing off in June, closing the quarter at 2.85%. The Federal Reserve continued on its path of raising the Federal Funds Rate, moving it up one-quarter of a point to 2% in June, and signaled two more such hikes before year end. The yield curve, however, flattened, perhaps suggesting a more challenging economic environment ahead.

The Great Lakes Advisors Small Cap portfolio gained 4.2% in value in the second quarter, a good result, but about 350 basis points behind the torrid pace set by the Russell 2000. For the first half of the year our portfolio has gained about 4.1%, trailing the benchmark by about 350 basis points.

Second Quarter Attribution

Sector	GLA Weighting	GLA Return	R2000 Weighting	R2000 Return	Active Contribution
Financials	16.9%	-1.6%	21.1%	5.2%	-1.0%
Technology	15.9%	4.0%	16.8%	6.9%	-0.4%
Health Care	7.2%	4.8%	16.5%	10.2%	-0.5%
Industrials	28.0%	2.1%	14.9%	4.6%	-1.1%
Cons Discretionary	19.4%	11.1%	12.8%	8.8%	0.5%
Materials	1.9%	15.1%	4.4%	3.5%	0.3%
Energy	1.0%	14.7%	3.6%	20.4%	-0.3%
Real Estate	1.5%	-4.7%	3.6%	13.6%	-0.4%
Utilities	0.0%	0.0%	3.3%	8.9%	0.0%
Consumer Staples	1.8%	-1.4%	2.2%	13.3%	-0.3%
Telecom	0.0%	0.0%	0.7%	7.2%	0.0%
Cash	6.3%	0.5%	0.0%	0.0%	-0.4%
TOTAL	**100.0%**	**4.2%**	**100.0%**	**7.7%**	**-3.5%**

Significant underweight position relative to benchmark   Significant overweight position relative to benchmark

Source: GLA, FactSet. Percentages may not add to 100% due to rounding. Performance numbers are gross of fees.

Results in the Consumer Discretionary and Materials sectors added to relative performance in the quarter, while weaker relative results in Industrials, Financials, Health Care, and Information Technology hurt relative performance.

Market Outlook

Last year we described the investment climate created by global monetary policy of the last 10 years, and how it has forced investors to "pay up" for shares of companies that promise high growth in the future. One year ago in our comments we wrote "*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.*"

Earnings growth still remains elusive for many companies and industries if we factor out the one-time impact of tax cuts, and equity investors continue to chase "growth" companies, almost regardless of valuation or their ability to ever generate income. We discuss this in more detail in our June piece "Reports of Value Investing's Death are Greatly Exaggerated." "Growth" indices continue to vastly outperform their "Value" counterparts; the Russell 2000 Value Index, for example, is 2000 basis points (20 percentage points) behind Growth in the last 18 months. As we wrote, "*[t]his has understandably left Value investors frustrated and angry, and indeed many do wonder if 'this time it is different'*" (spoiler alert: we do not think that it is).

Recent political and economic developments may be leading even more liquidity created by central banks into U.S. assets. The United State's recent imposition of certain tariffs on imports has led to a strengthening of the U.S. dollar against virtually every major currency. Foreign equities, especially those of emerging economies, sold off hard in the second quarter as a result, making investors in emerging markets nervous and leading some to focus more on investing in U.S. equities. Of course U.S. stocks were not immune to the impact tariffs may have, as many larger capitalization industrial companies sold off on fears that tariffs might negatively impact their businesses.

It appears U.S. fixed income investors are finding longer term bonds more attractive as the Federal Reserve continues to push short term rates higher. Recent reports suggest domestic investors have replaced foreign buyers as the source of demand for recent Treasury auctions. Hopefully this will continue, as Trump's fiscal programs suggest the U.S. will run budget deficits exceeding $1 trillion as soon as next year. It is hard to fathom that this can continue for long, and poses a substantial risk to U.S. economic growth if one takes a longer term view.

In this environment one might feel especially uneasy looking for investment opportunities in the short run. We cannot forecast short term market moves, but we do believe that the global investment environment has become more volatile, not less, as a result of recent policies. There will be clear winners and losers, and part of our job is to forecast the impact that these policies may have on the ***long-term*** value of the businesses in which we invest. As always, 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, and appreciate your support and confidence.

The data in the attribution table represent the returns for each sector and for gross return for a representative composite account for one quarter ending the current calendar quarter. Individual account returns may vary.

Great Lakes Advisors, LLC ("Great Lakes" or "GLA") is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Established in 1981, Great Lakes is a subsidiary of Wintrust Financial Corporation and a part of the Wintrust Wealth Management family of companies. On October 1, 2013, majority owned subsidiary Advanced Investment Partners, LLC ("AIP") became fully-owned and integrated into Great Lakes. Great Lakes is a distinct business unit with distinct investment processes and procedures relating to the management and/or trading of investment portfolios for its clients.

Great Lakes Advisors, LLC claims compliance with the Global Investment Performance Standards (GIPS®). A complete list of firm composites and performance results, and the policies for valuing portfolios, calculating performance, and preparing GIPS compliant presentations are available upon request. Great Lakes Advisors, LLC's fees are available upon request and may be found in our Form ADV Part 2A. Performance data quoted herein represents past performance. Past performance does not guarantee or indicate future results. Returns and net asset value will fluctuate.

Manager commentary represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice. To determine if this strategy is appropriate for you, carefully consider the investment objectives, risk factors, and expenses before investing. The holdings, industry sectors, and asset allocation are presented to illustrate examples of the securities bought and the diversity of areas in which we may invest, and may not be representative of current or future investments. Portfolio holdings subject to change and should not be considered investment advice. The specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients and it should not be assumed that investments in the securities identified and discussed were or will be profitable. To obtain a list of all securities recommended during the past year, contact Great Lakes Advisors (GLA) at 312.553.3700. Actual clients' portfolios may or may not hold the same securities depending on the guidelines, restrictions and other factors of the specific portfolios.

Frank Russell Company ("FRC") is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination, or redistribution is strictly prohibited. This is a GLA presentation of the Russell Index data. Frank Russell Company is not responsible for the formatting or configuration of this material or for any inaccuracy in GLA's presentation thereof.

Standard and Poor's, a division of the McGraw-Hill Companies, Inc., is the owner of the trademarks and copyrights relating to the S&P Index. The product is not sponsored, endorsed, sold or promoted by Standard and Poor's. Standard and Poor's makes no representation regarding the advisability of investing in the Product.

The index performance figures are calculated in U.S. dollars and reported on a gross basis. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Fees, including but not limited to the advisory fee, transaction and custody charges, would reduce the return. Investors cannot invest directly in an index. These indexes are not managed or sold by Great Lakes Advisors.

Past performance is not indicative of future results. 18-6-0048