

# DISCIPLINED EQUITY TAXMANAGED LARGECAP



GREAT LAKES ADVISORS<sup>®</sup>

A WINTRUST WEALTH MANAGEMENT COMPANY

Second Quarter 2024

## OBJECTIVE

The TaxManaged LargeCap strategy seeks to outperform the S&P 500 Index on an after-tax basis by combining superior stock selection with rigorous, precise portfolio risk management and active tax management.

**Benchmark:** S&P 500 Index

**Inception Date:** June 1, 2006

## INDIVIDUALLY MANAGED AND CUSTOMIZED

An optimal tax-managed strategy not only incorporates active tax management, but also considers the client's actual cost basis, individual tax rate, and requested tax restrictions.

Our tax-managed strategy accommodates client-driven investment restrictions including:

- Stock specific restrictions.
- Industry restrictions.
- Environmental, Social, and Governance (ESG) preferences.

Transition management evaluates client's existing holdings:

- Holdings are not sold off simply because they are not in the model. They are evaluated for return potential, tax consequence, and risk.
- The solution incorporates some portion of the client's holdings with new securities, which enhance the expected risk/return profile of the client's portfolio.
- Realized gains are capped at 10% of the portfolio's value at transition, or can be adjusted to the client's needs.

## PORTFOLIO GUIDELINES

**Holdings:** Approximately 65-90 positions

**Sector Over/Underweights:** S&P 500 +/-5.00%<sup>1</sup>

**Position weights:** 0.50% to S&P 500 weight +2.50%<sup>1</sup>

**Cash position:** Typically 0.5% to 1.5%

**Average Annual turnover:** Typically 60% to 120%

**Investment Universe:** S&P 500 + top 500 Russell 1000 Index Members<sup>2</sup>

## PROCESS

Optimal management of taxable assets demands a three-dimensional focus on return, risk, and costs—especially tax costs.

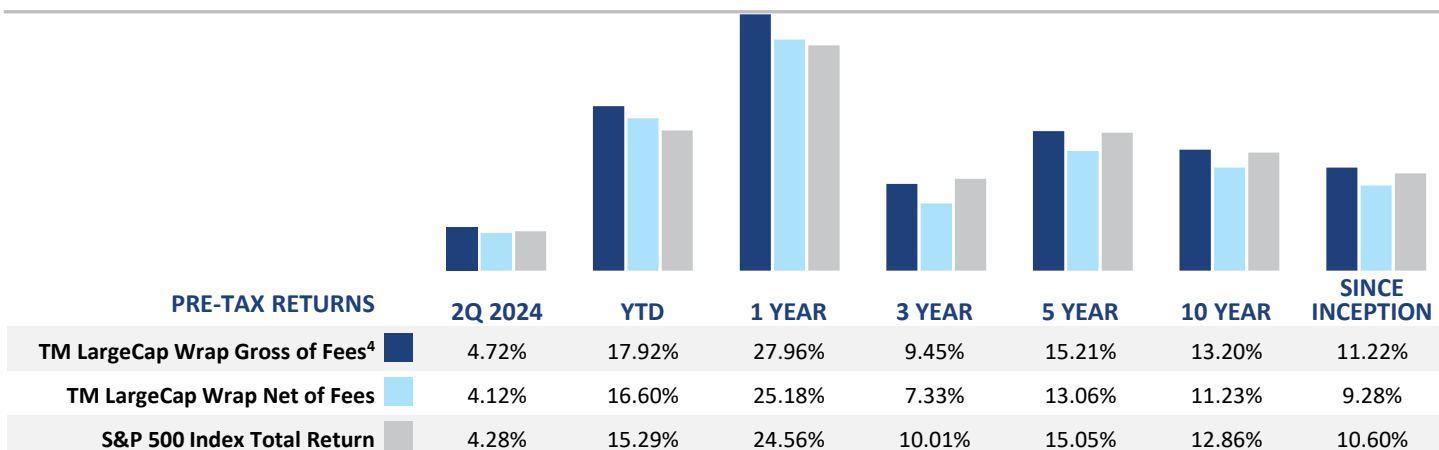
## RETURN

Using a "bottom up" systematic process, the investment team evaluates a broad universe of stocks using three independent analyses, each of which is designed to provide a unique valuation perspective. Evaluating each stock from these different perspectives is intended to improve the accuracy of the stock evaluation.

- **Broad Universe Analysis:** Evaluates each stock relative to all other stocks in the universe using financial and technical factors.
- **Style-Specific Analysis:** Segregates the universe into four style and market cap groups and evaluates each stock, relative to its peers using a customized model which includes financial and technical factors specific to each style and market cap combination.
- **Sector-Specific Analysis:** Divides the universe into 11 economic sectors and evaluates each stock relative to its sector peers using financial and technical factors.

These three analyses are combined to generate an excess return expectation for each stock. Stocks must rank in the top 20% of the S&P 500 to be considered for purchase.

## COMPOSITE PERFORMANCE<sup>3</sup>



Individual tax rates and circumstances may differ. The above returns are shown on a pre-tax basis only. All accounts are customized, therefore performance results may vary. Past performance is not indicative of future results.

For more information: 312.553.3700

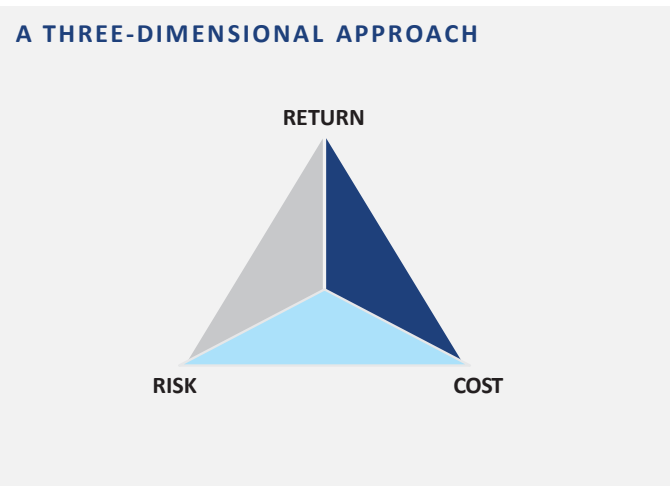
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**COST**

Research shows that over the decades, the tax impact on taxable investors in actively-managed funds has averaged two percent per annum—or 20% of the stock market’s long-term gains.<sup>5</sup>

**Taxable Gains**

- Losses are harvested during optimization in order to offset realized capital gains.
- We monitor “almost” long-term gains and losses:
  - Stocks approaching long-term gain status from a short-term gain are given an additional trading penalty
  - Stocks approaching a long-term loss status from a short-term loss are given an additional trading incentive
- Each client’s portfolio is customized to the appropriate tax bracket
- Wash-sale monitoring is fully automated
- Cash for withdrawals is made available by selling high-cost securities



**Transaction Costs**

Transaction costs can amount to 10% of a stock’s total return or 40% of a manager’s active return.<sup>6</sup> Our optimization process incorporates active monitoring of transactions costs:

- We employ ITG’s Agency Cost Estimator® (ACE) to estimate trading costs
- Real-time transaction cost estimates are based on actual order flow
- Includes commission, bid/ask spread, and market impact

**RISK**

Risk management is an essential part of the firm’s process. Updated expectations are incorporated into the portfolio using a risk/return optimization process. This process features individual stock selection as the central source of added value while style, market capitalization, and sector departures from the benchmark are constrained:

- **4.5% active risk vs. S&P 500**
- **Beta of 0.97 - 1.03**
- **Rigorous sector and industry constraints**
- **Rigorous market cap and style constraints**

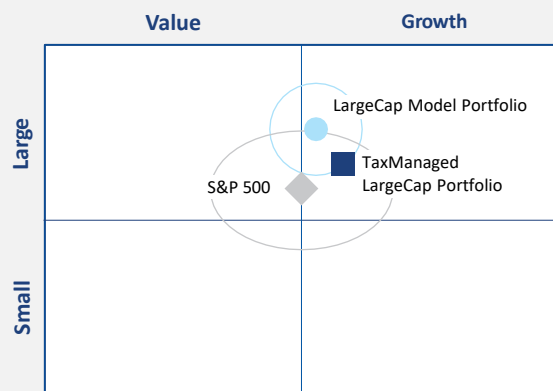
**SELL DISCIPLINE**

Successful positions are sold as return expectations are realized and/or valuation perspectives deteriorate into overvalued conditions.

Additional consideration is given to the potential tax impact of each position, and during the rebalancing process, gains and losses may be paired to reduce the tax liability of the transaction while increasing the return expectations for the portfolio.

**DUAL BENCHMARK IMPLEMENTATION**

This strategy employs a unique dual benchmark approach. The primary benchmark is the S&P 500 Index, and our LargeCap strategy portfolio serves as a secondary benchmark.



The primary benchmark is used to ensure the TaxManaged LargeCap portfolios maintain a true core all cap profile, with a targeted active risk of 4.5% relative to the S&P 500. We believe this construct is essential in maintaining the client’s overall asset allocation.

The TaxManaged LargeCap tracking error target of 1.5% relative to our LargeCap strategy portfolio ensures each client’s portfolio maintains a similar profile, while providing the flexibility needed to manage the unique tax characteristics of each individual account.

Market cap, style, and sector biases are permitted to vary among individual portfolios and will be permitted to depart from the LargeCap Model Portfolio in an optimized trade-off between the tax liabilities and portfolio risks of individual accounts.

Individual portfolios may also hold more positions than the LargeCap strategy portfolio to facilitate desired return and risk enhancements at a greater level of tax efficiency.

**PORTFOLIO COMPOSITION**

Top 10 Holdings <sup>7</sup>	TM LargeCap
NVIDIA Corp	9.1%
Amazon.com Inc	6.4%
Microsoft Corp	4.7%
Apple Inc	4.1%
Meta Platforms Inc Cl A	4.0%
Costco Wholesale Corp	3.4%
Ecolab Inc	2.6%
Lilly Eli & Co	2.4%
International Flavors & Fragrances	2.3%
Accenture PLC Ireland Class A	2.2%

Sector Weightings <sup>8</sup>	LargeCap	S&P 500
Consumer Discretionary	4.2%	4.7%
Consumer Staples	5.4%	4.4%
Energy	4.0%	3.4%
Financials	17.8%	13.0%
Health Care	7.7%	10.6%
Industrials	4.0%	6.4%
Materials	3.9%	2.1%
Retail	2.4%	3.7%
Services	10.9%	7.2%
Technology	37.0%	41.9%
Utilities	1.4%	2.7%

**STRATEGY CHARACTERISTICS<sup>9</sup>**

	LargeCap	S&P 500
Weighted Average Market Cap	\$909.5B	\$1011.1B
EPS 5 Year Average Growth	31.2%	27.6%
Return on Equity (ROE)	32.6%	39.7%
Price to Earnings Ratio (P/E)	24.7x	25.3x
Price to Book Ratio (P/B)	3.8x	4.9x
Dividend Yield	1.5%	1.6%
Beta	1.03	1.00
Active Share	59.5%	-
Number of Holdings	76	503

**ABOUT GREAT LAKES ADVISORS**

Founded in 1981, Great Lakes Advisors is headquartered in Chicago, IL. The firm has \$17.5 billion in assets under management and advisement and offers a wide range of fixed income, equity, and multi-asset strategies across market capitalizations. Our portfolio management teams strive to form collaborative partnerships and investment strategy solutions to our Institutional, Intermediary, Sub-advisory, and Private Wealth client base.

1. At the time of purchase

2. Top 500 companies as measured by Market Cap.

3. Returns greater than one year are annualized.

4. Pure Gross of Fee Returns do not reflect the deduction of investment management fees or bundled fees for certain accounts where transaction costs cannot be separately identified from other service fees charged by the client's broker/dealer or custodian. Information presented on a pure gross of fee basis has not been independently verified. Net performance reflects the deduction of investment management fees and bundled fees as applicable.

5. "Pay Less Tax on Your Funds", Kiplinger's Personal Finance, November 2008 (<http://www.kiplinger.com/article/investing/T041-C000-S002-pay-less-tax-on-your-funds.html>)

6. "Why Worry About Transaction Costs?" Advanced Investment Partners

7. Holdings are representative of a Disciplined Equity TaxManaged LargeCap Wrap account, are subject to change at any time and are not recommendations to buy or sell any securities.

8. Source: MSCI Barra. Data is representative of a Disciplined Equity TaxManaged LargeCap Wrap account and are subject to change at any time.

9. Source: Bloomberg. Characteristic data is representative of a Disciplined Equity TaxManaged LargeCap Wrap account and are subject to change at any time. Beta source is MSCI Barra.

This information has been prepared for informational and illustrative purposes only and is not intended to serve as legal tax advice.

Definition of the Firm: 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. 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. On October 1, 2013, majority owned subsidiary Advanced Investment Partners, LLC ("AIP") became fully-owned and integrated into Great Lakes. On April 3, 2023, Rothschild & Co Asset Management US Inc. and Rothschild & Co Risk Based Investments LLC became fully-owned and integrated into Great Lakes.

The Disciplined Equity TaxManaged LargeCap Wrap Composite includes all unrestricted, discretionary accounts managed under the TaxManaged LargeCap Wrap strategy and is benchmarked to the S&P 500 Index. The composite inception date was June 1, 2006. Accounts within this composite do not employ leverage. All cash reserves and equivalents are included in returns. Returns are time weighted and include reinvestment of dividends, income and gains. The value of assets and returns is expressed in U.S. dollars. All holdings available upon request. Performance prior to October 1, 2013 occurred at Advanced Investment Partners prior to being acquired by Great Lakes Advisors. Additionally, market commentary is available upon request.

The benchmark selected for comparison of returns for the TaxManaged LargeCap Wrap Composite is the S&P 500 Index (an unmanaged index that tracks the performance of 500 widely held, large-capitalization U.S. stocks. They are usually the 500 largest companies in terms of market capitalization and are chosen to represent the entire market's value.); Index returns are provided to represent the investment environment existing during the time periods shown. All indexes are fully invested, which includes the reinvestment of income. The returns for the index do not include any transaction costs, management fees or other costs. The index is not available for direct investment. Industry sectors are presented to illustrate the diversity of areas in which we may invest, and may not be representative of current or future investments.

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