



**MANAGER
COMMENTARY**
Third Quarter 2018

Jon Quigley, CFA
*Chief Investment Officer
Disciplined Equities*

John D. Bright, CFA
*Senior Portfolio Manager
Disciplined Equities*

Dmitri Prokhorov
Research Analyst

Lyn Taylor
Research Analyst

Deepesh Bhatia
Research Analyst

MARKET REVIEW

U.S. equities again moved solidly higher across the board during the quarter. Unlike the second quarter, small-cap stocks underperformed large-cap stocks, with investors likely rotating due to reduced fear about the impact of new tariffs.

Year to date, growth stocks have outperformed value stocks by a significant margin - in some segments by an even wider margin than what we experienced in 2017. Overall, the Russell 3000 Index has advanced over 10% for the year.

Size/Style

- Within the R3000, small-caps trailed both mid-caps and large-caps during Q3 (a reversal from H1).
- From a style perspective, growth outpaced value across the capitalization spectrum (a continuation of H1).

Russell 3000 Sectors

Within the Russell 3000, relative performance among sectors remains inconsistent:

- Producer Durables rebounded nicely, and trailed only Health Care stocks during Q3.
- Technology and Health Care are the top two performers year to date.
- Energy stocks struggled to a last-place showing during Q3, a sharp turn from market-pacing gains in Q2.

THIRD QUARTER ATTRIBUTION

The AllCap strategy advanced a heady 8.25% during the quarter, topping the benchmark Russell 3000 Index's 7.12% return. The table on the following page breaks down the contributions from sector positioning and stock selection:

In total, sector positioning added 0.83% to active return:

- Overweighting the Technology sector added 38bps, as the sector outperformed the total benchmark return by almost 5% during the quarter.
- Underweighting the Energy sector detracted 3bps, even while the sector underperformed the Russell 3000 Index by about 6%.

Stock selection within the respective sectors added an additional 0.29% to active return:

- Stock selection within the Industrials sector was excellent.
- Stock selection was poor within the Financial sector.

MARKET OUTLOOK

The U.S. economy is surging, interest rates are slowly normalizing, and U.S. equity markets are continuing to surge higher.

Corporate profits hit yet another record level, and profit margins continue to sit close to 10%. Quality spreads remain subdued on the economic strength, but the absolute level of both 10-year Treasuries and the Fed Funds rate have pushed slowly higher over the past couple of years. Add to this a yield curve which is precariously close to inverting, and we can see the interest rate environment is morphing into a state which should eventually dampen economic growth at the margin. One might argue we are already seeing signs of this via a more slowly growing housing market.

The U.S. economy is surging, interest rates are slowly normalizing, and U.S. equity markets are continuing to surge higher.

SECTOR	GLA WEIGHTING	R3000 WEIGHTING	% ACTIVE	GLA RETURN	R3000 RETURN	% ADDED	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIB
Comm Services	7.30	9.12	-1.82	-0.04	1.67	-1.72	0.04	-0.11	-0.08
Consumer Disc.	12.00	10.43	1.57	8.95	7.23	1.72	0.00	0.22	0.23
Cons. Staples	4.03	6.12	-2.09	0.86	5.15	-4.28	0.02	-0.12	-0.10
Energy	4.41	5.71	-1.30	7.65	0.64	7.01	-0.03	0.32	0.28
Financials	13.22	14.28	-1.06	0.09	3.73	-3.64	0.09	-0.58	-0.49
Health Care	14.19	14.18	0.02	12.39	13.67	-1.28	0.03	-0.12	-0.09
Industrials	11.36	10.38	0.98	12.71	9.11	3.60	0.03	0.40	0.43
Technology	28.16	20.27	7.89	13.49	12.11	1.38	0.38	0.36	0.73
Materials	2.12	2.98	-0.86	2.46	0.06	2.39	0.08	0.05	0.12
Real Estate	2.70	3.70	-1.00	-2.20	0.55	-2.76	0.14	-0.04	0.10
Utilities	0.50	2.84	-2.33	-3.79	2.54	-6.33	0.07	-0.08	-0.02
TOTAL	100	100	0.00	8.25	7.12	1.12	0.83	0.29	1.12

Source: GLA and Bloomberg. Performance numbers are gross of fees.

Price pressures remain well-contained, however. Although capacity utilization is over 78% and WTI crude oil has pushed north of \$70/bbl, headline CPI is 2.7% - and only 2.2% ex food & energy. Corporate earnings calls have alluded to building input price pressure in some segments of the economy - but apparently not enough to curtail extremely strong business confidence. Industrial production has surged to over 3% growth on the back of a white-hot September 2018 Manufacturing ISM Report On Business survey reading (14-year high).

Against this solid economic growth, employment conditions are excellent. Beyond the bullish headline U-3 and U-6 unemployment rates and non-farm payroll numbers, weekly manufacturing hours worked is hovering at all-time highs, and unemployment duration near a cyclical low. Labor productivity is growing at an acceptable rate, and the Employment Cost Index is rising at a moderate rate as well.

The robust employment market has bolstered consumer confidence to an 18 year high, and this has led to retail sales increasing at a rate of over 6% per year - very strong indeed. This is pretty Goldilocks, even if the world outside of the economy and stock market doesn't quite feel that way at times.

The AllCap model remains biased against stocks with high earnings yield, high estimate dispersion, and high dividend yield, favoring instead companies with strong intermediate-term price momentum. From a style perspective, the model still prefers growth over value - up and down the capitalization spectrum. Health Care (Drugs, Medical Services) and Technology (Hardware and Software) stocks are most in favor, while Financials (Banks, Equity REITs) and Energy (Energy Reserves) are most out-of-favor.

For more information, please contact us at:
marketing@greatlakesadvisors.com or 312-553-3700

The data in the attribution table represent the returns for each sector and for the gross returns 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. 18-6-0063