DISCIPLINED EQUITY

ALLCAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

First Quarter 2019

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MARKET REVIEW

U.S. equities went on an absolute tear during the first quarter, posting their strongest quarterly gains since 2009. However, the mathematics of recouping a drawdown being what they are, we did not quite recoup the losses of Q4. In addition to the reversal in market direction, we also saw a dramatic rotation in the characteristics associated with market leadership.

Size/Style

- Within the R3000, small-caps outperformed both mid-caps and large-caps during Q1.
- From a style perspective, growth outpaced value across the capitalization spectrum.

Russell 3000 Sectors

We again saw a lack of quarter-to-quarter correlation of relative sector performance:

- Technology and Energy stocks rebounded from poor Q4 performance (the Energy sector was 26% lower during Q4).
    - » Technology stocks recorded the sharpest advance, notching a 19% gain.
- The Utilities, Consumer Staples, and Health Care sectors fell from being the top performers during Q4 to the worst performers during Q1.

FIRST QUARTER ATTRIBUTION

The AllCap strategy added 14.95% during the quarter, besting the benchmark Russell 3000 Index's 14.04% return. The table on the following page breaks down the contributions from sector positioning and stock selection.

In total, sector positioning added 0.44% to active return:

- Overweighting the Industrials sector added 24bps, as the sector outperformed the benchmark by about 3% during the quarter.
- Overweighting the HealthCare sector detracted 19bps to active performance, as the sector underperformed the Russell 3000 Index by about 6%.

Stock selection within the respective sectors added 0.47% to active return.

MARKET OUTLOOK

Economic conditions remained solid heading into 2019, and valuations continued to be favorable for U.S. equities. We pointed to Washington, D.C. as the source of most of the market's concern during Q4 and a couple of concerns were resolved quite favorably. First, the Mueller report resulted in no further indictments and did not find collusion between the Trump campaign and Russia. So, the worst-case political scenario was taken off the table – for now. A cloud of uncertainty which will linger over the market is the campaigning for the Democratic presidential nominations. Many early candidates have tax hikes, wealth redistribution, central planning, and the break-up of tech giants as key platform elements.

A second concern which was resolved for the time being is the dual threat of Fed rate hikes and balance sheet reduction. We hit a bit of a soft demand patch late last year, and this combined with the absence of inflationary pressure means "smart" money now leans toward no hike, or even a reduction (or two) in the Fed funds rate in the back half of 2019. The Fed also appreciates the negative impact of accelerating the drawdown in Reserve Funds, and appears to have allayed related concerns.

The employment picture remains very strong. Job creating had re-accelerated heading into the year, but the government shutdown did have a negative impact. The shutdown also combined with the Q4 stock market

SECTOR	GLA WEIGHTING	R3000 WEIGHTING	% ACTIVE	GLA RETURN	R3000 RETURN	% ADDED	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIB
Comm Services	0.52	9.20	-8.67	-5.50	13.89	-19.39	0.02	-0.14	-0.12
Consumer Disc.	12.50	10.32	2.19	14.54	14.69	-0.15	-0.01	-0.04	-0.05
Cons. Staples	11.17	6.45	4.73	17.57	11.67	5.90	-0.01	0.64	0.63
Energy	2.62	5.09	-2.48	22.13	16.61	5.51	-0.06	0.12	0.06
Financials	11.62	13.80	-2.18	3.28	8.85	-5.56	0.10	-0.75	-0.65
Health Care	17.43	14.58	2.85	12.11	8.21	3.90	-0.19	0.66	0.47
Industrials	16.69	10.20	6.50	17.63	16.70	0.93	0.24	0.17	0.41
Technology	23.16	20.23	2.93	20.05	20.80	-0.74	0.22	-0.20	0.02
Materials	0.62	2.99	-2.37	4.96	11.64	-6.68	0.04	0.11	0.15
Real Estate	3.25	3.96	-0.71	16.42	17.29	-0.88	-0.04	-0.10	-0.14
Utilities	0.40	3.19	-2.79	4.47	11.40	-6.92	0.12	0.01	0.13
TOTAL	**100**	**100**		**14.95**	**14.04**	**0.91**	**0.44**	**0.47**	**0.91**

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

correction softened consumer confidence. It will be interesting to see whether the aforementioned easier credit conditions can serve to ignite the housing market, which has certainly slowed over the past 18 months. Looking out, we're a bit less constructive on U.S. equities – as you might expect after the strongest quarter in many years. The first quarter rally served to bring valuations back above long-term norms. We also note that while prices have been on a tear, the rate of EPS growth has slowed to the mid- to high- single digits, but the rate of return on assets/equity remains above norm. From here, we may need some positive surprises (rate cuts, trade deal anyone?) to drive prices appreciably higher.

The AllCap model is biased against value stocks, stocks with higher volatility, and higher earnings variability. The model prefers stronger relative price appreciation, as well as, higher market cap stocks. From a style perspective, the models strongly prefer mid-cap growth and value, while strongly tilting against small cap growth and value.

Technology (Computer Software), Financials (REITs), and Utilities are most in favor. Energy (Energy Reserves) and Healthcare (Biotech, Drugs) are most out-of-favor.

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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.

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