DISCIPLINED EQUITY

ALLCAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Second Quarter 2019

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MARKET REVIEW

U.S. equities again moved solidly higher across the board during the second quarter, with a spectacular June accounting for all of the gains - and then some. Year-to-date, larger-cap stocks have modestly outperformed smaller-cap stocks. The big differentiator has once again been the dramatic outperformance of growth stocks. Within the Russell 3000 Index, growth stocks boast an advantage of over 4%, despite underperforming in June.

Size/Style

Russell 3000 Growth stocks solidly outperformed their Russell 3000 Value counterparts during Q1 and posted an advantage again during Q2.

- Within the R3000, large-caps outperformed both mid-caps and small-caps during Q2 (a reversal from Q1).
- From a style perspective, growth outpaced value across the capitalization spectrum (a continuation of Q1).

Russell 3000 Sectors

While Defensive sectors lagged the overall market, a mix of early, mid, and late-stage cyclicals performed best:

- Financial and Consumer Discretionary stocks paced the Russell 3000 during Q2, advancing 6.4% and 5.9%, respectively. Tech stocks have been consistently solid performers in 2019, advancing over 23% during the first six months of the year.
- Health Care stocks continue their poor relative performance, but clawed out a 1.1% advance. Energy stocks were the only sector to record a loss during Q2, posting a 4.5% loss.

SECOND QUARTER ATTRIBUTION

The AllCap strategy added just over 4% during the quarter, right in line with the benchmark Russell 3000 Index's return. The table on the following page breaks down the contributions from sector positioning and stock selection.

In total, sector positioning added 0.04% to active return:

- Underweighting the Energy sector added 11bps, as the sector underperformed the benchmark by about 8% during the quarter.
- Underweighting the Financial sector detracted 8bps from active performance, as the sector outperformed the Russell 3000 Index by just over 3%.

Stock selection within the respective sectors detracted 0.10% from active return.

MARKET OUTLOOK

Six months into 2019, the longest (and one of the slowest) expansions remains intact, and a strong first half of 2019 for U.S. equities leaves stocks trading at a premium to historic averages.

The economic picture is fairly good, especially considering how long in the tooth this expansion is. Price pressure is non-existent to this point, despite the very low headline unemployment rate. Payroll growth has slowed a bit, but employment costs remain in check, accelerating less than 3% per year. Consumer confidence remains quite high, just off of recent cycle highs. The recent pull back in interest rates appears to have extended the real estate cycle's expansion as well, albeit at a more moderate rate.

It's difficult to be very constructive on U.S. equities – as you might expect after the strongest first half in many years. Earnings growth has ground to a near halt, and with multiples at high levels, we don't currently see fuel

SECTOR	GLA WEIGHTING	R3000 WEIGHTING	% ACTIVE	GLA RETURN	R3000 RETURN	% ADDED	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIB
Comm Services	0.53	9.26	-8.72	13.60	4.35	9.26	-0.02	0.05	0.02
Consumer Disc.	12.15	10.46	1.69	6.97	4.56	2.41	-0.02	0.27	0.25
Cons. Staples	11.33	6.50	4.83	4.28	3.29	1.00	-0.02	0.11	0.09
Energy	2.88	4.80	-1.92	-6.39	-3.89	-2.50	0.11	-0.03	0.08
Financials	11.98	13.60	-1.62	5.75	7.63	-1.88	-0.08	-0.27	-0.35
Health Care	12.57	13.80	-1.23	4.12	1.45	2.67	-0.09	0.32	0.23
Industrials	16.26	10.13	6.14	0.34	4.60	-4.26	0.03	-0.73	-0.70
Technology	25.63	21.30	4.33	6.57	5.70	0.87	0.10	0.23	0.33
Materials	3.26	2.95	0.31	11.96	4.83	7.13	0.05	0.17	0.22
Real Estate	2.97	4.00	-1.04	-4.67	1.74	-6.40	-0.01	-0.22	-0.23
Utilities	0.45	3.20	-2.76	-0.96	3.58	-4.54	-0.01	-0.01	-0.02
TOTAL	**100**	**100**		**4.03**	**4.09**	**-0.07**	**0.04**	**-0.10**	**-0.07**

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

for much rational appreciation during the latter half of the year. Investors appear to have already discounted two cuts in the Fed Funds rate later this year. The optimist will see this, combined with a trade deal with China, as ample room to fuel further growth.

The pessimist has concerns that the China deal will not materialize – or will not be a meaningful win for the U.S. if the deal materializes. The pessimist keeps an eye on the U.S.'s dealings with Iran, the latter of which has now violated the cap on enriching uranium. The pessimist also worries about acrimony increasing further in our capital, with Democratic debates featuring soundbites excoriating corporate profits (oh by the way, pensioners and 401k beneficiaries benefit by owning shares of profitable U.S. companies), and calling for more testimony from Robert Mueller.

The realist knows the market is the ultimate discounting mechanism, and the U.S. economic system is wonderfully self-adapting. While it would be imprudent to expect large returns from U.S. equities in the latter half of the year, we also don't expect an exceptionally bad half of the year.

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 model strongly prefers mid-cap growth and value, while strongly tilting against small cap growth and value. Financials (REITs) are most in favor, and Computer Software stocks also look attractive. 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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