

FUNDAMENTAL EQUITY LARGE CAP VALUE



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

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MARKET REVIEW

U.S. equities charged sharply higher across the board to put an exclamation point on a very strong 2019. Fed rate cuts, an expansion of the balance sheet, optimism around a "Phase One" trade deal with China, and fading poll numbers for Elizabeth Warren each boosted the market.

For all of 2019, stock returns declined as we move down the capitalization spectrum. In addition, growth dominated value within each capitalization tier, with the largest outperformance in the higher capitalization tiers. Thus, for the calendar year, the Russell Top 200 Growth Index was the top performer with a gain of 36.48%. Contrast this with the Russell 2000 Value's 22.39% gain.

FOURTH QUARTER ATTRIBUTION

Unlike 4Q18, U.S. equities ended the year near record high levels. Returns in 4Q19 were very strong, with large company equity indexes setting a number of record highs and ending very close to those levels. The Russell 1000 Value Index was up 7.4% for the final quarter of 2019 and a robust 26.5% for the year. The broader market, represented by the S&P 500, increased 9.1% in 4Q19 and 31.5% for the year.

Russell 1000 Value Sectors

Nearly all sectors had positive returns for the 4Q19. Technology +12.2%, Healthcare +12.0%, and Financials +9.7%. Trailing the index were Real Estate -0.3%, Utilities +0.5% and Consumer Staples +3.5%. The Great Lakes Advisors Large Cap Value strategy generated a 10.3% return, about 300 bps better than the benchmark. The table on the next page breaks down the contributions from sector positioning and stock selection.

In total, sector positioning added 84 bps to active return:

- Lack of exposure to Real Estate and an underweight to Utilities were both positive relative contributors of 34 bps each, while our overweight to Healthcare added 28 bps to relative performance.
- Our higher than typical cash position reduced relative performance by 22 bps, and our overweight exposure to Consumer Discretionary detracted 11 bps from results.

Stock selection within the respective sectors added 209 bps of active return.

FULL YEAR 2019 ATTRIBUTION

The Great Lakes Advisors Large Cap Value strategy generated a 28.7% return for the year, about 220 bps better than the benchmark. The table on the next page breaks down the contributions from sector positioning and stock selection.

In total, sector positioning detracted 0.52% from active return:

- Our higher than typical cash position reduced relative performance by 67 bps and the overweight in Energy hurt performance by 37 bps.
- Our overweights in the stronger performing sectors Financials, Industrials, and Healthcare added 46 bps in aggregate.

MARKET OUTLOOK

2019 was an incredible year. Unemployment is at a 50 year low. Home prices are at an all-time high. The current bull market is approaching 4,000 days, and stocks are at an all-time high. Why doesn't it feel quite so great?

Part of this is certainly the trade tensions, the political acrimony, and the growing geopolitical uncertainty. Surely the ebb and flow on these fronts is in part responsible for the rather violent rotations in the market of late – rotations largely disguised from the casual observer by the outsized headline index gains. In addition to the widely discussed Momentum meltdown/value melt up back in September, we saw a massive reversal in



health care stocks as Elizabeth Warren’s (and her “medicare for all” platform) polling numbers faded. Low vol/low beta outperformance gave way to high vol, and momentum stalled. The value rally of September turned into a tug o’ war between growth and value. And December’s news of a “Phase One” trade deal with China lead to an even bigger high vol rally. What a ride!

As this bull charges into 2020, we seem poised to continue the current expansion. Financial conditions are much more stimulative than one year ago, following not only 3 cuts of the Fed Funds rate, but also a significant expansion of the Treasury’s balance sheet (estimated to be the equivalent of an additional 50bps of easing). Not only have domestic financial conditions eased, but as noted last quarter, larger emerging market economies and the bulk of Developed countries are also easing. Easing so far into an expansion is unprecedented – but so are such tame inflation numbers. Stocks are expensive, and so increased volatility should not be discounted – but conditions are so unique that this bull may just persist.

FOURTH QUARTER ATTRIBUTION

SECTOR	GLA WEIGHTING	GLA RETURN	R1000V WEIGHTING	R1000V RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Financials	27.51	9.55	24.93	9.65	0.05	-0.03	0.02
Health Care	18.96	18.69	12.62	12.01	0.28	1.16	1.44
Industrials	12.46	13.16	9.37	9.10	0.05	0.49	0.54
Energy	10.76	9.56	8.11	5.79	-0.04	0.39	0.35
Consumer Disc.	8.50	4.44	6.30	4.44	-0.11	0.31	0.21
Technology	7.25	9.31	6.38	12.19	0.04	-0.16	-0.12
Consumer Staples	5.04	1.10	9.01	3.52	0.16	-0.13	0.03
Comm. Services	4.42	9.30	7.65	6.26	-0.00	0.13	0.13
Utilities	1.95	-4.11	6.73	0.51	0.34	-0.08	0.26
Real Estate	--	--	4.43	-0.28	0.34	--	0.34
Materials	--	--	4.29	8.10	-0.03	--	-0.03
Cash	3.15	0.38	--	--	-0.22	--	-0.22
Total	100	10.34	100	7.41	0.84	2.09	2.93

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

FULL YEAR 2019 ATTRIBUTION

SECTOR	GLA WEIGHTING	GLA RETURN	R1000V WEIGHTING	R1000V RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Financials	28.07	35.77	24.08	30.87	0.16	1.29	1.45
Health Care	16.66	14.18	13.78	20.36	0.19	-0.55	-0.37
Energy	12.01	9.43	8.87	10.86	-0.37	-0.29	-0.67
Consumer Disc.	11.99	22.28	6.14	24.66	-0.03	0.41	0.37
Industrials	11.10	48.36	8.49	36.09	0.11	1.07	1.18
Technology	6.54	49.61	7.99	40.11	-0.07	0.46	0.39
Consumer Staples	5.66	30.55	8.45	26.08	0.06	0.52	0.58
Comm. Services	3.53	28.65	6.96	29.20	-0.13	-0.02	-0.16
Utilities	1.98	12.23	6.57	25.32	0.04	-0.19	-0.15
Materials	--	--	4.17	20.30	0.24	--	0.24
Real Estate	--	--	4.32	25.80	-0.00	--	-0.00
Cash	2.46	1.93	--	--	-0.67	--	-0.67
Total	100	28.72	100	26.54	-0.52	2.70	2.18

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



For more information, please contact us at:
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Chart Source: Bloomberg

The data in the attribution table represent the returns for each sector and 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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