FUNDAMENTAL EQUITY

SMALL CAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Fourth Quarter 2019

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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.

The Great Lakes Advisors Small Cap portfolio returned 5.6% in the fourth quarter of 2019, trailing the Russell 2000 benchmark's return of 9.9%. The Russell 2000 Growth Index outperformed the Russell 2000 Value Index by 290 basis points, returning 11.4% and 8.5%, respectively.

FOURTH QUARTER ATTRIBUTION

SECTOR	GLA WEIGHTING	GLA RETURN	R2000 WEIGHTING	R2000 RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Industrials	26.32	6.47	15.84	8.13	-0.16	-0.51	-0.67
Financials	22.41	6.80	21.86	7.30	-0.00	-0.11	-0.11
Consumer Disc.	14.59	4.94	11.99	8.43	-0.04	-0.44	-0.48
Technology	10.95	8.29	13.82	11.65	-0.10	-0.41	-0.51
Health Care	5.84	11.69	16.75	22.60	-1.28	-0.59	-1.87
Comm. Services	4.10	-11.77	1.13	4.81	-0.15	-0.63	-0.78
Real Estate	3.02	25.52	4.95	1.72	0.16	0.67	0.83
Materials	2.87	-6.12	4.09	11.59	-0.01	-0.55	-0.56
Consumer Staples	2.62	8.53	2.90	7.29	0.02	0.03	0.05
Energy	1.77	-6.52	2.58	4.67	0.01	-0.20	-0.19
Cash	5.51	0.39	--	--	-0.54	--	-0.54
Total	**100**	**5.63**	**100**	**9.92**	**-1.55**	**-2.74**	**-4.29**

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

Detractors to performance included stock selection in the Industrials and Information Technology sectors as well as our underweight in the best performing sector, Healthcare.

Stock selection within the respective sectors detracted 274 basis points of alpha:

- Industrials detracted 51 basis points of relative contribution.
- Information Technology cost us 41 basis points of alpha.

Sector positioning cost the portfolio 155 basis points of alpha:

- Healthcare was the best performing sector in the quarter, advancing 22.6%. The portfolio is underweight the benchmark by 10%. Higher growth, unprofitable healthcare stocks performed extremely well, particularly the Biotechnology and Pharmaceutical sectors which were up 28% and 39%, respectively. These two sectors account for 9% of the Russell 2000 Index and contributed over 26% of the index returns. We have zero exposure to these sectors. Historically, our portfolio has not invested in these two industries as the vast majority of these business do not meet our investment criteria of cash flow generating enterprises.

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.

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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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