



**MANAGER  
COMMENTARY**  
*Fourth Quarter 2019*

**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 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.

*Size/Style*

Across the large-cap universe, returns decreased along with market capitalization. The S&P 100 trumped the Russell Top 200, which in turn beat the S&P 500 Index.

Value/Growth behaved a bit differently within the S&P 500, as S&P 500 Value stocks again outperformed their Growth counterparts during Q4. Contrast this with the Russell Style indices, where Growth outperformed Value across the board.

*S&P 500 Sectors*

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

- Technology demonstrated consistent leadership throughout 2019, and again led the market during Q4. The sector paced the S&P 500 Index with a gain of 50.3% during the calendar year. The Health Care sector was the number two performer, posting a massive reversal of Q3’s poor performance.
- Real Estate, Utilities, and Consumer Staples went from the top three performing sectors of Q3 to the bottom three performing sectors during Q4.

**FOURTH QUARTER ATTRIBUTION**

The LargeCap strategy added just over 6.5% during the quarter, but trailed the benchmark S&P 500 Index’s 9.07% gain. The table on the following page breaks down the contributions from sector positioning and stock selection:

In total, sector positioning detracted 0.62% from active return:

- Overweighting the Consumer Staples sector detracted 34bps from active return, as the sector underperformed the S&P 500 Index by almost 6% during Q3.
- Overweighting the Tech sector added 14bps, as the sector outperformed the Index by over 5%.

Stock selection was also a net detractor from active return.

**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/



SECTOR	GLA WEIGHTING	S&P 500 WEIGHTING	% ACTIVE	GLA RETURN	S&P 500 RETURN	% ADDED	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIB
Comm Services	2.89	10.45	-7.55	9.68	9.00	0.69	0.00	0.02	0.02
Consumer Disc.	10.56	9.92	0.64	1.39	4.47	-3.08	-0.01	-0.35	-0.36
Cons. Staples	12.83	7.36	5.47	-1.27	3.51	-4.79	-0.34	-0.71	-1.05
Energy	2.25	4.36	-2.11	4.86	5.49	-0.62	-0.03	0.16	0.12
Financials	8.33	13.04	-4.71	8.17	10.47	-2.29	-0.12	-0.07	-0.19
Health Care	12.71	13.95	-1.25	7.47	14.37	-6.91	-0.08	-0.84	-0.92
Industrials	13.96	9.26	4.69	5.90	5.53	0.36	-0.10	0.00	-0.10
Technology	25.32	22.53	2.78	14.00	14.40	-0.40	0.14	-0.10	0.04
Materials	5.01	2.67	2.34	6.98	6.38	0.61	-0.06	0.01	-0.06
Real Estate	3.65	3.06	0.59	-1.13	-0.54	-0.59	-0.11	-0.03	-0.15
Utilities	2.49	3.40	-0.90	2.03	0.75	1.27	0.08	0.03	0.11
<b>TOTAL</b>	<b>100</b>	<b>100</b>		<b>6.56</b>	<b>9.07</b>	<b>-2.51</b>	<b>-0.62</b>	<b>-1.89</b>	<b>-2.51</b>

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

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.

#### Positioning:

The LargeCap model is biased against smaller stocks within the S&P 500 Index, while MaxCap Growth stocks are most in favor. Size is now the most positive bias in the model; High Volatility, Value, and Trading Activity remain out of favor. Most risk factor biases are rather small at this time.

Tech stocks remain out of favor, as do Consumer Discretionary stocks – with Restaurants the only exception. By contrast, Utilities (especially Electric) and Retailers (Specialty Retailers) are attractive.

From a return-driver perspective, no group is wildly in or out of favor. The Size bias is evident within the Risk category, and short-term momentum is favored while longer-term momentum is unfavorable.

**For more information, please contact us at:**  
[marketing@greatlakesadvisors.com](mailto: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. 20-6-0008