FUNDAMENTAL EQUITY

LARGE CAP VALUE

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Fourth Quarter 2018

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MARKET REVIEW

A broad sell-off in global equities pushed the Russell 1000 Value Index down 11.7% in the final quarter of 2018, wiping out its small gains made in the first nine months; the index finished the year down 8.3%. The broader market, represented by the S&P 500, dropped 13.5% in Q4, resulting in a loss of 4.4% for the full year. The S&P lost more than 9% in December, its biggest monthly loss since February 2009.

Global markets, which had been weak most of the year, continued their slide. Emerging market indices were down 9% in the quarter and closed 17% lower for the year. International equities (ex-U.S.) fell more than 12% in Q4 and almost 17% for all of 2018. Brazil was the best performing market in 2018, recovering strongly at year-end after the election of Social Liberal Party leader Jair Bolsonaro. At the other end of the spectrum, continued tumult in Turkey drove that market down more than 40%. Europe was particularly weak, declining almost 20%, with European banks down almost 30%. Recall that just one year ago most global equity indices were at, or near, all-time high levels.

Crude oil prices plummeted 37% in the fourth quarter, closing at $45.81, about 20% lower than the prior year. Despite many opinions to the contrary, OPEC and U.S. shale producers were more than capable of making up for dwindling supplies coming out of Venezuela and Iraq. Slower global growth, with a focus on the Chinese economy, also pushed prices lower. Energy stocks in the U.S. fell more than 18% in the year.

The yield on the 10-year U.S. Treasury Note, which touched 3.25% in early November, closed the year at 2.68%, up 35 basis points from the prior year's close. The Federal Reserve surprised no one with its deliberate increases in the Federal Funds Rate in 2018, but faces intense scrutiny in 2019 with many questioning whether it will continue to raise short term rates despite growing concerns of economic weakness.

The Great Lakes Advisors Large Cap Value model portfolio lost 14.8% in value in the fourth quarter, trailing the benchmark by about 300 basis points. For the full year the portfolio fell 11.9%, roughly 360 basis points more than the benchmark.

MARKET OUTLOOK

The ferocity with which global equity markets declined in the fourth quarter, and in particular in December, is only explained clearly with hindsight. It should come as no surprise that very few equity investors foresaw such a volatile and violent downturn. After all, at least on the surface, economic conditions, at least in the U.S., look rather benign.

Start with the basic building blocks. Interest rates remain historically low, and the U.S. economy is in rather healthy shape. GDP grew at more than 3% in the first nine months of the year, and is expected to have grown somewhere between 2.5% and 3% in the fourth quarter. Inflation appears to be well under control, though some manufacturers report modest inflationary pressures in input prices. Lastly, employment is also quite healthy, with joblessness below 4%, wages finally growing a bit better than the 2%-2.5% rate of the last several years, and many companies finding it difficult to fill certain skilled positions. In fact, on January 4th, the Labor Department reported a very strong nonfarm payroll number for December; perhaps more important, average hourly earnings rose 3.2% over last year.

However, there has been an undercurrent brewing for the last several months, and a deeper dive exposes storm clouds that have gathered on the horizon. Global economies showed signs of weakening throughout much of 2018, most notably in China. Despite the strong December payroll report, a widely-followed report earlier this week from the Institute for Supply Management (ISM) suggested manufacturing orders fell precipitously in December, with the index showing its largest one-month decline in the last ten years. Further analysis suggests recent strength in GDP may have been businesses building inventories in front of expected tariff increases, a one-time impact that does not portend future growth. The "sugar high" the U.S. economy enjoyed as a result of the Trump tax cut has about run its course, having had only a minor effect on capital investment. The looming threat of a "trade war" with China and potentially other U.S. trading partners has

hung over investors' heads for the last several months and caused their economies to slow. Increasingly, both fixed income and equity investors are concerned with the impact of the U.S. Treasury coming to market in 2019 to fund government deficits that will approach or exceed $1 trillion.

These issues have a common denominator: President Trump. I am not blaming the President for all of our woes -- the seeds of several of our chronic problems were planted long before he took office. However, some of his decisions have exacerbated existing problems, and his erratic fashion of governing has frayed the confidence of many consumers and investors worldwide. The tax cut provided a fiscal boost to an economy that did not need it, and was done at cross-purposes with the Federal Reserve's efforts to tighten monetary policy. More importantly, it results in projections of government deficits of $1 trillion or more for as far as the eye can see. We do not subscribe to "Modern Monetary Theory", which suggests that a government in a position to create unlimited amounts of its own currency (as the U.S. appears to be today) has an unlimited ability to pay for goods and services and to fulfill future obligations; in other words, deficits do not matter. Instead, we expect that at some point in the future the cost of borrowing for the U.S. will rise, as investors in U.S. obligations grow concerned with our ability to service our mounting debts. As such, during good economic times we should be restoring our borrowing power, not extending it.

The need to fund persistent government deficits may be further challenged by the Trump Administration's reckless approach to trade negotiations. It strikes us that the President does not understand that a trade deficit is not "lost money"; instead, those deficits represent savings in acquiring goods and services that would otherwise be more expensive to obtain. Furthermore, global trade has become quite sophisticated, and taking a hatchet to it is not likely the best way to improve those deficiencies that do exist. Companies far and wide have identified the negative impact that Trump's threatened tariffs are having on their business, and there is little doubt that most increased costs associated with tariffs will be transferred to consumers.

Lastly, the President's style has shaken the confidence of consumers and investors alike. Some maintain that our federal government needs to be shaken up, and Trump's approach is a breath of fresh air. I would maintain that confidence and psychology are fragile as a result of his approach to governing, and that a more even-keeled approach to leading the world's most powerful nation is in everybody's best interest. Behaviors such as shutting down parts of the Federal government over border security, engaging in twitter battles with everyone from news organizations to leaders of sovereign nations and respected members of our military, openly criticizing and threatening our allies, and blatantly lying about simple issues like military pay raises or the creation of jobs in the U.S. coal industry lead to a rapid deterioration in the stature

FOURTH QUARTER ATTRIBUTION

SECTOR	GLA WEIGHTING	GLA RETURN	R1000V WEIGHTING	R1000V RETURN	ACTIVE CONTRIBUTION
Financials	28.4%	-14.4%	23.7%	-13.3%	-0.4%
Health Care	18.1%	-6.0%	15.5%	-7.0%	0.3%
Energy	12.8%	-27.2%	10.0%	-24.5%	-0.8%
Technology	6.2%	-17.8%	9.3%	-12.0%	-0.4%
Industrials	7.1%	-22.9%	7.6%	-19.7%	-0.2%
Consumer Staples	7.7%	-10.9%	7.7%	-4.1%	-0.5%
Comm. Services	2.8%	-13.2%	6.6%	-5.0%	-0.4%
Consumer Disc.	10.3%	-21.3%	5.5%	-13.1%	-0.9%
Utilities	4.0%	1.3%	6.1%	1.0%	-0.2%
Materials	0.0%	0.0%	4.0%	-14.3%	0.1%
Real Estate	0.0%	0.0%	3.9%	-6.1%	-0.2%
Cash	2.6%	1.1%	0.0%	0.0%	0.5%
TOTAL	100.0%	-14.8%	100.0%	-11.7%	-3.0%

Significant underweight position relative to benchmark

Significant overweight position relative to benchmark

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

of the Office of the Presidency. It is difficult to believe that a consumer-driven economy can drive economic growth around the world if its citizenry is losing confidence in its leader's ability to lead.

As a result we find ourselves in an interesting position. We have a lot of confidence in the U.S. economy, and its ability to quickly adapt to changing circumstances. As we have said in the past, we are not "market timers" nor macroeconomic forecasters, and we do not have a specific economic forecast for 2019. The recent market sell-off has provided opportunities to buy very good businesses at more attractive prices, including many that we already own. While our short term results have been unsatisfying, we believe the longer-term value inherent in our holdings is better than it has been in some time. Hopefully our political leaders will work to restore stability in the U.S. and around the world, which would be a positive development for global economic growth.

FOURTH QUARTER ATTRIBUTION

The Large Cap Value strategy underperformed its benchmark by 300 basis points in the fourth quarter. Stock selection was the primary culprit, though our overweight position in Energy and underweight position in Utilities also hurt results. Below we highlight those positions which most negatively impacted fourth quarter results. One characteristic applies to all – we continue to hold positions in each company, believing that their current share price offers a substantial discount to the company's intrinsic value. In some cases this discount may be more than 60%.

FULL YEAR ATTRIBUTION

The portfolio lost 11.9% in value in 2018, trailing the Russell 1000 Value Index by about 360 basis points. Again, stock selection hurt results overall. Our overweight exposure to the Health Care sector added about 55 basis points of relative performance; however overweight positions in both Energy and Consumer Discretionary cost us about 50 basis points.

For more information, please contact us at:
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FULL YEAR ATTRIBUTION

SECTOR	GLA WEIGHTING	GLA RETURN	R1000V WEIGHTING	R1000V RETURN	ACTIVE CONTRIBUTION
Financials	27.0%	-16.0%	26.1%	-13.8%	-0.7%
Health Care	19.1%	6.7%	14.6%	7.8%	0.4%
Energy	13.2%	-23.1%	10.7%	-17.5%	-1.0%
Technology	6.7%	0.8%	9.0%	-1.3%	0.0%
Industrials	8.6%	-27.5%	7.9%	-18.5%	-0.7%
Consumer Staples	7.3%	-21.5%	7.4%	-11.3%	-0.6%
Comm. Services	2.4%	-1.0%	5.4%	-0.7%	-0.2%
Consumer Disc.	9.2%	-24.5%	5.6%	-14.4%	-1.2%
Utilities	3.8%	-3.2%	5.8%	4.6%	-0.5%
Materials	0.0%	0.0%	3.6%	-17.8%	0.3%
Real Estate	0.0%	0.0%	3.7%	-3.7%	-0.2%
Cash	2.8%	2.4%	0.0%	0.0%	0.7%
TOTAL	100.0%	-11.9%	100.0%	-8.3%	-3.6%

Significant underweight position relative to benchmark   Significant overweight position relative to benchmark

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

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, as well as, for the calnedar year 2018. Individual account returns may vary.

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