DISCIPLINED EQUITY

ALLCAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY SECOND QUARTER 2018

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Market Review

U.S. equities moved solidly higher across the board during the quarter. Small-cap stocks posted a sizable advantage over large-cap stocks, with investors likely rotating due to both decent relative valuation and the threat of increased trade barriers harming larger companies.

Size/Style

Year-to-date, the Russell 3000 Index has advanced a bit over 3%, which is not too bad considering how expensive stocks were as we moved into 2018. Q2 saw an advance of nearly 4%.

- Within the R3000, small-caps outperformed both mid and large-caps during Q2.
- From a style perspective, growth outpaced value in the large and mid-cap segments, but value stocks paced returns in the small-cap arena.

Russell 3000 Sectors

Late-stage cyclicals are performing nicely across the Russell 3000, and relative performance among sectors was consistent (with the exception of Energy):

- Energy stocks powered through to a huge rebound during Q2, while Consumer Discretionary and Tech stocks continued their solid performance.
- Consumer Staples, yet again, recorded the weakest relative performance.

Attribution

The AllCap strategy advanced about 4.2% during the quarter, topping the benchmark Russell 3000 Index's 3.9% return. The table below breaks down the contributions from sector positioning and stock selection:

In total, sector positioning added 0.06% to active return:

- Overweighting the Technology sector added 16bps, as the sector outperformed the benchmark by almost 3% during the quarter.
- Overweighting the Financial sector detracted 15bps, as the sector underperformed the Russell 3000 Index by about 6%.

Stock selection within the respective sectors added an additional 0.33% to active return:

- Stock selection within the Consumer Discretionary sector was excellent.
- Stock selection was poor within the Energy sector.

Sector	DE-GLA Weighting	Russell 3000 Weighting	%Active	DE-GLA Return	Russell 3000 Return	%Added	Sector Allocation	Stock Selection	Active Contribution
Consumer Discretionary	13.45	12.99	0.46	13.89	8.04	5.85	0.06	0.74	0.80
Consumer Staples	5.85	6.18	-0.33	6.99	-1.50	8.49	-0.12	0.45	0.33
Energy	7.17	5.89	1.29	4.39	14.44	-10.05	0.13	-0.68	-0.55
Financials	17.47	14.84	2.63	-3.53	-2.41	-1.11	-0.15	-0.13	-0.29
Health Care	10.82	13.58	-2.76	3.87	4.43	-0.56	-0.01	-0.06	-0.07
Industrials	10.71	10.64	0.08	-2.67	-2.06	-0.62	0.00	-0.06	-0.06
Information Technology	30.05	24.46	5.59	7.43	6.85	0.58	0.16	0.19	0.35
Materials	2.46	3.26	-0.80	0.90	2.52	-1.62	0.03	-0.04	-0.02
Real Estate	1.03	3.65	-2.62	-4.72	8.07	-12.79	-0.11	-0.14	-0.25
Telecom Services	0.00	1.70	-1.70	0.00	-0.63	0.63	0.07	0.00	0.07
Utilities	0.98	2.81	-1.83	6.70	4.56	2.15	-0.01	0.06	0.05
Total	**100**	**100**		**4.26**	**3.88**	**0.38**	**0.06**	**0.33**	**0.38**

Source: DE Team and Bloomberg. Performance numbers are gross of fees.

Market Outlook

U.S. equity markets continue their rolling sideways correction, with stocks up about 2% for the year, while earnings look to be 20-25% higher year-over-year. Building inflation pressure, the Federal Reserve's series of rate hikes, and growing trade tensions appear to be the primary threats at this time.

The AllCap model remains biased against stocks with high earnings yield, as well as various other valuation metrics, favoring instead companies with strong five-year sales and earnings growth and higher idiosyncratic risk. From a style perspective, the model prefers growth over value – up and down the capitalization spectrum. The pro long-term price momentum bias has been reduced, and the model has shifted toward a higher volatility bias. Technology (Software, Internet) and Health Care (Medical Services) stocks are most in favor, while Financials (Banks, Thrifts) are most out-of-favor.