



The Great Lakes Advisor

4Q 10

A New Year – A little bit of this and a little bit of that...

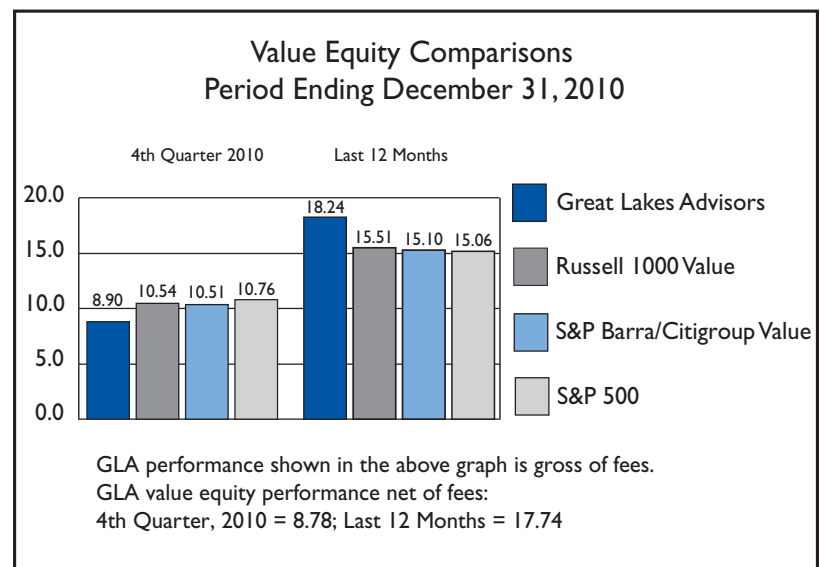
We closed out 2010 with a reviving economy fed off government spending programs that have effectively put to rest deflation fears while energizing the discussion on inflation or possibly stagflation. The equity market rolled forward with strong gains, positive trends and a bullish outlook moving into this year. The bond market, on the other hand, retreated during the quarter in dramatic fashion as the government announced a massive Treasury bond buy-back and investors moved to more risky assets. At Great Lakes, we once again maintained our consistent application of our conservative strategies and delivered competitive returns to our clients. We wish you all a Happy New Year and look forward to meeting with you to discuss our results and our plans for growth in 2011.

Equities continue to roll...

A second straight quarter of gains over 10% brought the S&P 500 to a 15% return in 2010. Value style indexes' results were similar to that of this benchmark in the three and twelve month periods, ending a two-year spell of returns below those of the equity market. Economic statistics portrayed a pickup in the ongoing global economic recovery through the fall after a slower spring-summer, and supported the upward equity market move. Concerns about some developed nations fiscal and financial structures faded.

Sensitivity to the global economic recovery, especially in faster-growing emerging markets, became an even stronger positive theme for equities in the fall. Later in the quarter, financials joined cyclical consumer and industrial areas and reversed a summer decline as credit quality continued to improve, aiding balance sheets as well as income statements in this area, and future capital requirements appeared achievable. Limiting strategy results were the more stable, less economically sensitive areas of consumer staples as sales volumes and prices are very sluggish; electric utilities; and health care products and services. A few industrial holdings perceived as less sensitive to mid and late cycle economic trends also limited strategy gains, as did defense contractors (concerns over future spending trends) and the already strongly-capitalized financials.

Leading the strategy were energy positions (global integrated oil and gas producers) which all outpaced the S&P 500; a broad range of global industrial manufacturers; metals and chemicals positions which leaped over 24%; and the few consumer discretionary holdings in the strategy. Several financials rose over 15% as well.



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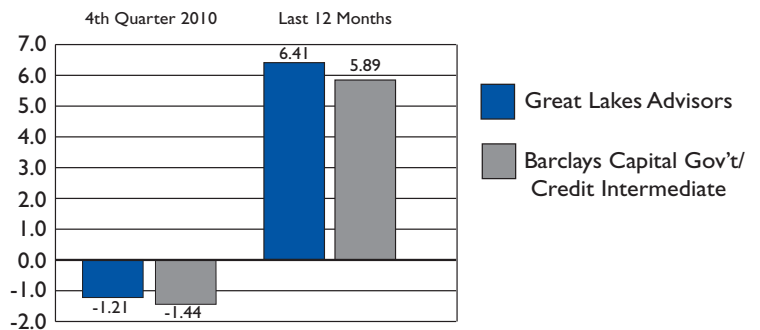
Positive trends of global economies and corporate profits, continuing low money market interest rates (reflecting subdued inflation and monetary policy) and reasonable, by historic standards, valuations are positive factors for equities now.

While the bond market retreats...

Government programs have revived the economy from the depths of the recession, but the cost may put the Treasury's AAA rating in jeopardy without meaningful deficit reduction over the next few years. The Fed is pushing ahead with QE2, absorbing practically all of the Treasury's net issuance through mid-year, 2011. The economy has responded with a growth rate close to 3% in 2010, but unemployment, housing and debt continue to weigh heavily on further recovery prospects. Job growth is lagging population growth, and the percentage of long-term unemployment has never been higher in 60+ years of tracking. And, higher interest rates in the fourth quarter have caused a sharp drop off in mortgage refinancings and a quick hike in housing affordability. Home prices keep moving lower.

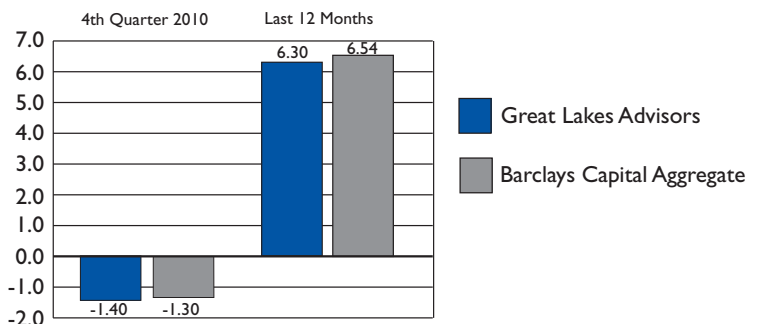
Disinflation remains the order of the day, with the Fed so far being successful at avoiding deflation. Currently, core consumer prices are running at a rate of just below 1%, slightly under the Fed's desired range of 1-2%. Interest rates reversed course and jumped higher in the fourth quarter due to the renewal of existing tax rates and the extension of unemployment benefits. An improving economic outlook and the heavy selling of Treasury securities by mortgage-backed investors also contributed to the rate move. The largest increases were in maturities of five years and longer, with the ten-year Treasury note up by over 75 basis points to close the quarter at 3.29%. Shorter-term interest rates were essentially unchanged, such that the sum total of these movements resulted in a much steeper yield curve.

Intermediate Market Fixed-Income Comparisons
Period Ending December 31, 2010



GLA performance shown in the above graph is gross of fees.
GLA intermediate market fixed-income performance net of fees:
4th Quarter 2010 = -1.29; Last 12 Months = 6.11

Core Market Fixed-Income Comparisons
Period Ending December 31, 2010



GLA performance shown in the above graph is gross of fees.
GLA core market fixed-income performance net of fees:
4th Quarter 2010 = -1.48; Last 12 Months = 6.00



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Corporate bonds posted negative absolute returns in the fourth quarter, somewhat uncharacteristic of the sector that has led the bond market in performance since 2008. Structured products, such as mortgage-backed and asset-backed securities, were the only sectors that generated positive returns in the quarter. For the year, all bond market sectors were in the black, with corporate bonds leading the way with a total return of 9%. The other market sectors generated returns in the 4-5% range for 2010. Great Lakes' emphasis in fixed income portfolios will continue to be in the credit sector, as the risk/return tradeoff remains superior to other investment-grade sectors. Bank and finance paper looks particularly attractive.

A Warm Welcome to Our Newest Clients

2010 closed with the addition of 2 new clients at Great Lakes Advisors.

Great Lakes is proud to announce our new relationship with **Plumbers Local 68** located in Houston, TX. This Taft-Hartley fund has opened two equity accounts for their Welfare and their Pension funds. **Joseph Gemmato of Micbeth Consulting** assisted the fund with their search.

A Chicago based religious institution retained Great Lakes to manage two socially responsible large cap value portfolios. **James Kolbusz of Greystone Consulting** conducted the search.

GREAT LAKES ADVISORS, INC. COMPOSITE DISCLOSURE INFORMATION

1. Great Lakes composites are equal-weighted through December 31, 1992. Beginning January 1, 1993, returns are dollar weighted. Returns are time weighted and include reinvestment of dividends, income and gains. All cash reserves and equivalents are included in returns.
2. Rates of return presented are historical results. Future results may differ or vary from the past performance results presented. A complete list of firm composites and performance results is available upon request.
3. Description of Composites:
 - a. **Value Equity Composite**

Comprised of all tax-exempt institutional equity portfolios employing the Great Lakes Advisors' value equity strategy without substantial restrictions. The strategy emphasizes earning power, attractive valuation and adequate diversification. Benchmarks for comparison of return and risk characteristics are the S&P 500 index over the long term, and various value indexes over both short and long term periods.

Portfolios are added to the Value Equity composite following their transition to the Great Lakes equity strategy. Portfolios are removed from the Value Equity composite prospectively - while retaining their prior historical performance in the composite - at termination of Great Lakes as investment manager or when investment policy guidelines are instituted substantially restricting implementation of the value equity strategy. For example, tax-exempt institutional portfolios with substantial social investing or statutory restrictions are not included in the composite.

- b. **Core Market Fixed Income Composite**

Comprised of all discretionary, tax-exempt total return portfolios of taxable bonds with portfolio durations within 10% of the composite's benchmark (Barclays Capital Aggregate Index), except such portfolios subject to substantial restrictions.

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Accounts are added to the composite when they have been fully invested and their duration is within 10% of the Barclays Capital Aggregate Index. Accounts are removed from the composite prospectively - while retaining their prior historical performance in the composite - at termination of Great Lakes as investment manager, when there is a change in the duration target to a duration that is not within 10% of the Barclays Capital Aggregate Index or when investment policy guidelines are instituted substantially restricting implementation of the Core Market Fixed Income Composite strategy.

c. Intermediate Market Fixed Income Composite

Comprised of all discretionary, tax-exempt total return portfolios of taxable bonds with portfolio durations within 10% of the composite's benchmark (Barclays Capital Intermediate Government/Credit Index), except such portfolios subject to substantial restrictions.

Accounts are added to the composite when they have been fully invested and their duration is within 10% of the Barclays Capital Intermediate Government/Credit Index. Accounts are removed from the composite prospectively, - while retaining their prior historical performance in the composite - at termination of Great Lakes as investment manager, when there is a change in the duration target to a duration that is not within 10% of the Barclays Capital Intermediate Government/Credit Index or when investment policy guidelines are instituted substantially restricting implementation of the Intermediate Market Fixed Income Composite Strategy.

Great Lakes Advisors is making every effort to reduce its impact on the environment. Please let us know if you would like to receive an electronic version of this newsletter by emailing eeasley@greatlakesadvisors.com.

Great Lakes Advisors is an independent employee-owned investment manager providing customized large cap value and high quality fixed income strategies to a diverse group of clients. Our aim is to provide superior performance while maintaining a conservative risk profile.

The Great Lakes Advisor is published quarterly by Great Lakes Advisors, Inc., 123 N. Wacker Drive, Suite 2350, Chicago, IL 60606-1735. Please direct inquiries or comments to Tom Kiley, 312-553-3702 or tkiley@greatlakesadvisors.com



Address

123 North Wacker Drive, Suite 2350
Chicago, IL 60606-1735
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