



MANAGER COMMENTARY SECOND QUARTER 2018



Jon Quigley, CFA
Chief Investment Officer,
Disciplined Equities



John D. Bright, CFA
Senior Portfolio Manager,
Disciplined Equities



Deepesh Bhatia, MBA, MS
Research Analyst



Dmitri Prokhorov
Research Analyst



Lyn Taylor
Research Analyst

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

As has been the case for an extended period, growth stocks outperformed value stocks within the S&P 500 Index, and have about a 9.5% advantage year-to-date.

- Mega-caps slightly outperformed large-caps.
- Growth dominated value in both the mega-cap and large-cap segments (the advantage was more substantial among mega-caps).

S&P 500 Sectors

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

- Energy stocks posted a very compelling rebound, advancing over 13% during Q2.
- By contrast, Financials and Industrials each recorded a decline of greater than 3%.

Attribution

The LargeCap strategy advanced about 3.4% during the quarter, right in line with the benchmark S&P 500 Index's return. The table below breaks down the contributions from sector positioning and stock selection.

In total, sector positioning added 0.25% to active return:

- Overweighting the Technology sector added 32bps to active return, as the sector outperformed the S&P 500 Index by about 3.6% during Q2.
- Underweighting the Financial sector added 22bps, as the sector underperformed the Index by about 6.5%.

Stock selection within the respective sectors detracted 0.07% from active return:

- Stock selection within the Consumer Discretionary sector was poor.
- Stock selection was best within the Consumer Staples sector.

| Sector | DE-GLA Weighting | S&P 500 Weighting | %Active | DE-GLA Return | S&P 500 Return | %Added | Sector Allocation | Stock Selection | Active Contribution |
|------------------------|------------------|-------------------|---------|---------------|----------------|-------------|-------------------|-----------------|---------------------|
| Consumer Discretionary | 14.06 | 12.84 | 1.22 | 4.35 | 8.12 | -3.77 | 0.04 | -0.51 | -0.47 |
| Consumer Staples | 5.97 | 6.89 | -0.92 | 5.51 | -2.22 | 7.73 | 0.03 | 0.46 | 0.49 |
| Energy | 6.53 | 6.15 | 0.38 | 12.75 | 13.50 | -0.75 | -0.15 | -0.14 | -0.30 |
| Financials | 11.91 | 14.46 | -2.55 | -4.98 | -3.16 | -1.82 | 0.22 | -0.23 | 0.00 |
| Health Care | 11.45 | 13.98 | -2.53 | 5.74 | 3.34 | 2.40 | 0.00 | 0.26 | 0.26 |
| Industrials | 13.07 | 9.93 | 3.13 | -4.51 | -3.20 | -1.32 | -0.21 | -0.17 | -0.38 |
| Information Technology | 33.21 | 25.55 | 7.66 | 7.29 | 7.09 | 0.19 | 0.32 | 0.04 | 0.36 |
| Materials | 1.70 | 2.81 | -1.12 | 4.73 | 2.58 | 2.16 | 0.01 | 0.04 | 0.06 |
| Real Estate | 0.00 | 2.73 | -2.73 | 0.00 | 6.13 | -6.13 | -0.08 | 0.00 | -0.08 |
| Telecom Services | 0.00 | 1.85 | -1.85 | 0.00 | -0.94 | 0.94 | 0.08 | 0.00 | 0.08 |
| Utilities | 2.10 | 2.80 | -0.70 | 12.99 | 3.74 | 9.24 | -0.01 | 0.18 | 0.17 |
| Total | 100.00 | 100 | | 3.61 | 3.43 | 0.18 | 0.25 | -0.07 | 0.18 |

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 LargeCap model remains biased against higher-yielding stocks and valuation metrics, favoring instead companies with strong sales and earnings growth over the past five years. From a style perspective, the model prefers growth over value. The pro-momentum bias has been reduced, and the model has shifted toward a higher volatility bias. Technology (Software, Internet) and Services (Info Services) stocks are most in favor, while Industrials (Industrial Parts, Defense & Aerospace) and Financials (Banks) are most out-of-favor.

The data in the attribution table represent the returns for each sector and for gross return 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. 18-6-0041