GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

Great Lakes Advisors, LLC
Large Cap Value Equity
2Q11 Commentary

Over the spring, investors reassessed several issues which had emerged earlier, including fiscal, debt and financial industry problems in smaller European nations, monetary policy tightening in China in response to higher reported inflation, slower than expected GDP growth in the United States, and additional financial regulatory activity in developed nations. Like last year in the spring, investors became concerned with these matters, and so the equity market, after three straight quarters of above-average gains, slipped slightly. Value style indexes trailed the S&P 500 by 1-2 percentage points.

Just as investors changed viewpoints somewhat on the economic and equity market outlook, shifts in industry preferences occurred as well. Areas sensitive to the global economic recovery, which had been leading the strategy, limited results. These areas include global industrial commodities (chemicals, metals, timberlands) where demand, especially from developing nations, has been strong; energy (holdings include international integrated producers with important new non-conventional projects including GTL, LNG, oil shale and oil sands starting up) as oil prices stopped rising; and some global industrial manufacturers (Eaton, General Electric, Textron, Thomas & Betts) as certain markets (commercial construction, power generation, network power, business jets) near-term prospects may have dimmed. Areas which are less sensitive to the global economic pace, which limited strategy results during the winter, posted slightly positive results as a group in the spring. These areas (food, household paper and cleaning products, tobacco) raised prices to preserve profit margins pressured by raw material cost increases. Electric/gas utilities also rose slightly in the period.

Two areas continued returns movements from the winter. Lending-oriented financials, whose mortgage sale and securitization activities during the downturn remain as an expense and regulatory problem, held back results. Higher required capital levels are also likely to slow profit distribution to shareholders. Health insurers, whose 2011 premium price increases appear at least as large as medical claims utilization and inflation, and for which new regulation appears manageable, again led the strategy.

Positive trends in global economies which support higher corporate profits, combination of low inflation and accommodative monetary policy, and reasonable, by historic standards, valuation, are all favorable for equities. But as the economic recovery moves on the general rise in sales and profits slows, greater resource utilization tends to support larger cost increases, pressure on monetary policy moves towards less accommodation and valuation potential diminishes. These developments, two years after the recovery began, along with the usual level of unanticipated surprises, temper a favorable outlook for equities.