FUNDAMENTAL EQUITY

LARGE CAP VALUE

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Fourth Quarter 2020

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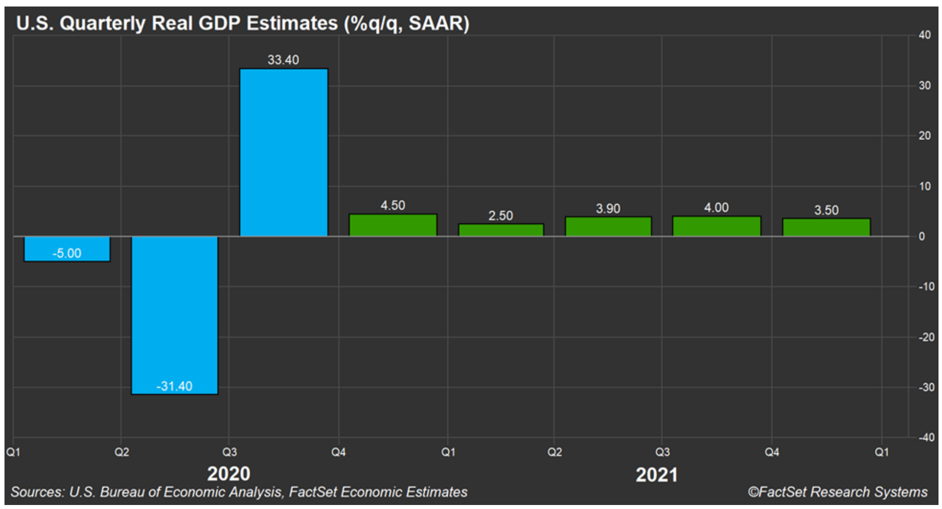
MARKET REVIEW

It was the best of times, the worst of times, and unprecedented – all of these are likely common descriptors of 2020. As we entered 2020, we knew there would be a presidential election, but if this year proves anything, it should be the futility of trying to make accurate market predictions. Coming into this year, nobody would have said that a killer virus would emerge that would plunge the global economy into the worst recession since the Great Depression, that this would lead to one of the biggest and swiftest stock market crashes in history, that the price of oil would tumble to be below zero dollars a barrel, and all of this would be followed by one of the fastest economic and equity market recoveries in history. The economic rebound was supported by unprecedented Federal Reserve monetary expansion and fiscal stimulus. Had a strategist predicted that the S&P 500 Index would be up more than 15% in 2020 they would have been proven right – but for the wrong reasons.



U.S. equities ended the year near record high levels after a dramatic decline early in the year. Returns in 4Q20 were very strong, with large company equity indices setting a number of record highs and ending very close to those levels. The Russell 1000 Value Index was up 16.24% for the final quarter of 2020, but up only a modest 1.91% for the year recovering from the dramatic 26.73% decline in 1Q20. Factor volatility was extreme. For the year, the Russell 1000 Value underperformed the Growth counterpart, the Russell 1000 Growth, by over 35%, by far the largest dispersion in history.

The broader market, represented by the S&P 500, increased 3.84% in 4Q20 and a robust 18.40% for the year.

Russell 1000 Value

All sectors had positive returns for the 4Q20, Energy +28.15% led the pack after a number of negative quarters, followed by Financials +25.48% and Industrials +19.39%. Less positive sectors were Healthcare +8.45%, Utilities +7.00%, and Consumer Staples +6.05%.

FOURTH QUARTER ATTRIBUTION

The Great Lakes Advisors Large Cap Value strategy generated a +17.59% return in 4Q20, about 135 bps better than the benchmark.

SECTOR	GLA WEIGHTING	R1000V WEIGHTING	GLA RETURN	R1000V RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Comm. Services	7.02	9.10	23.83	16.59	0.01	0.46	0.47
Consumer Disc.	7.62	7.93	14.63	15.80	-0.02	-0.02	-0.04
Consumer Staples	6.17	8.02	19.91	6.05	0.24	0.71	0.95
Energy	7.39	4.20	28.49	28.15	0.30	0.01	0.31
Financials	25.89	19.66	25.44	25.48	0.51	0.03	0.53
Health Care	15.54	13.74	9.71	8.45	-0.14	0.29	0.15
Industrials	12.15	13.18	17.49	19.39	0.00	-0.22	-0.22
Technology	6.79	9.81	4.55	16.62	0.05	-0.75	-0.70
Materials	4.34	4.77	25.19	16.78	0.00	0.33	0.33
Real Estate	--	3.72	--	11.72	0.15	--	0.15
Utilities	3.94	5.88	5.15	7.00	0.17	-0.10	0.08
Cash	3.15	--	0.02	--	-0.66	--	-0.66
Total	**100**	**100**	**17.59**	**16.24**	**0.62**	**0.74**	**1.35**

Source: FactSet. Performance numbers are gross of fees.

FULL YEAR 2020 ATTRIBUTION

The Great Lakes Advisors Large Cap Value strategy generated a +1.91% return year-to-date 2020, about 87 bps behind the benchmark.

SECTOR	GLA WEIGHTING	R1000V WEIGHTING	GLA RETURN	R1000V RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Comm. Services	6.87	8.61	39.00	8.75	-0.14	2.02	1.89
Consumer Disc.	7.88	6.89	1.38	11.92	0.15	-0.39	-0.24
Consumer Staples	6.24	8.98	6.13	9.12	-0.37	0.06	-0.30
Energy	7.85	5.51	-42.86	-33.57	-1.59	-1.40	-2.99
Financials	24.70	21.17	-7.51	-4.65	0.15	-0.60	-0.45
Health Care	17.30	14.21	7.65	13.02	1.07	-1.33	-0.25
Industrials	12.91	11.00	14.48	11.44	0.03	0.43	0.45
Technology	6.29	8.51	10.75	12.33	0.26	-0.25	0.00
Materials	2.45	4.51	123.71	18.41	-0.53	0.64	0.12
Real Estate	--	4.03	--	-9.89	0.70	--	0.70
Utilities	3.34	6.59	1.13	-0.16	0.01	0.18	0.19
Cash	0.06	--	0.34	--	0.02	--	0.02
Total	**100**	**100**	**1.91**	**2.79**	**-0.24**	**-0.63**	**-0.87**

Source: FactSet. Performance numbers are gross of fees.

MARKET OUTLOOK

Not-so-bold Prediction: 2019 – 2021 will go down in history as one of the more unique periods for U.S. equities. From an incredibly swift bear-to-bull transition to start 2019, to the Fed easing and injecting liquidity at the end of a long economic expansion in late summer 2019, to COVID/shelter-in-place/#WFH, to unprecedented monetary response, to the most surreal of Presidential races, to a COVID vaccine, and finally a change in control of the Senate decided in a run-off some 2 months after the general election. This latter combination means a shift in balance from monetary to fiscal stimulus to carry us through to the light at the end of the COVID tunnel. Let's just hope that light isn't from an oncoming inflation train.

On balance, economic news looks quite good, although time will tell whether this is simply Red Bull economics.* Leading Economic Indicators are recovering to break-even, and corporate profits have rebounded swiftly to pre-COVID levels, with strong profit margins. Credit markets are rich, but well-behaved. Easy credit conditions, plus the aforementioned expected forthcoming spike in fiscal stimulus, plus the developing herd immunity is resulting in a shift toward more economically-sensitive cyclical and small cap stocks. We are concurrently at a risk for rising yields, which would likely have the impact of an improving outlook for Banks as the curve steepens, a rotation toward beleaguered value stocks, and an eventual compression of P/E ratios.

Prices are well-contained at the turn of 2021, but year-over-year comps will lead to a spike in inflation numbers. This one-time impact may be further boosted as consumers release pent-up demand, given their robust collective balance sheet. Outside of this, the economy has plenty of excess capacity which should keep underlying price pressure from building to exorbitant levels. Unemployment levels, while improving nicely, should stay above prior cyclical lows, as we sort through the permanent damage on small services businesses caused by sheltering in place.

A particular highlight for 2020 is the robust housing market. All indicators are at record highs: permits, starts, sales (new and existing), and prices. Affordability, however, is consequently suffering. Any meaningful rise in rates can take the air out of this segment quickly – this will be key to watch as we hit the summer and fall of 2021 – with summer and fall being seasonally weak regardless. Something else to watch for is the dramatically weakened U.S. Dollar. This means foreign goods become more expensive to U.S. consumers – but can also be a boon to the U.S. manufacturing industry.

Typically, we'd look to prevailing valuation levels and the economic outlook to inform market outlook. However, any metrics using trailing sales, earnings, cash flow, etc. are invalid in the current situation. Instead, the strength of the rebound will determine whether or not the market is fairly priced at present. At a minimum, we expect the aforementioned rotations. And if yields rise as expected, this may undercut both multiples and the relative attractiveness of stocks versus bonds. As always:

"I know a lot of people have very strong and definite plans that they've worked out on all kinds of things, but we're subject to a tremendous number of outside influences and the vast majority of them cannot be predicted. So my idea is to stay flexible."

\- Henry Singleton, longtime CEO of Teledyne

*Coined by Bob Rodriguez, the longtime stalwart manager of FPA Crescent Fund, Red Bull economics is an economy juiced by outsized monetary and/or fiscal stimulus.

The data in the attribution table represent the returns for each sector and for the gross returns for a representative composite account for one quarter and one calendar year ending the current calendar quarter. Individual account returns may vary.

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