FUNDAMENTAL EQUITY

SMALL CAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Fourth Quarter 2020

Ben Kim CFA®, CPA
Portfolio Manager,
Director of Research
Fundamental Equity

Senior Equity Analysts
Ray Wicklander, CFA®, CPA
Huong Le, CFA®
Scott Schnieder, CFA®
Scott Macke, CFA®
James Veers, CFA®

MARKET REVIEW

2020 ended the year with a bang for small cap stocks as the Russell 2000 Index gained 31.4% in the 4th quarter. The encouraging news was the development of highly effective COVID-19 vaccines coupled with the conclusion of the U.S. Presidential election, which removed some uncertainty concerning the future fiscal policy. These events helped fuel the best quarterly performance in the history of the Russell 2000 Index.

The rally was broad-based with cyclicals outperforming defensive stocks and lower-quality companies (those with higher leverage, little to no earnings, and low return on investment capital) outpacing higher-quality issues. Small cap's significant outperformance of large cap stocks was notable given that the equity markets have been dominated by large cap stocks for so long.

Another key highlight in the quarter was value beating growth. Although the margin of outperformance was narrow, it was nice to see a leadership change after several consecutive quarters of growth thumping value. While growth's outperformance over value has been the trend over the past several years, this year's outperformance was one of the widest margins ever, a whopping 30% (34.6% vs. 4.6%). This has been a stiff headwind for our value-centric investment approach.

However, as we all know nothing lasts forever, and eventually the pendulum will swing back to value's camp. In fact, we believe a rotation back to value (and small caps) is within line of sight as we head closer to a reopening of the global economy. As the economic activity continues to improve, this should fuel faster profit growth for the value/cyclical sectors which have languished during the pandemic versus the growth stocks that have benefited from the environment. Historically, coming out of recessions value stocks perform relatively better than growth stocks, and we see no reason why this won't be the case today. Additionally, with the Russell 2000 Growth Index trading at 80x NTM earnings and the Value Index trading at 19x NTM earnings, the starting point for value looks significantly more reasonable.

GLA PRELIMINARY RETURNS AS OF DECEMBER 31, 2020[1]	QTD	1 YR	3 YR	5 YR
GLA Small Cap	27.41%	1.45%	5.19%	10.33%
Russell 2000 Index	31.37%	19.96%	10.25%	13.26%
Russell 2000 Value Index	33.36%	4.63%	3.72%	9.65%
Russell 2000 Growth Index	29.61%	34.63%	16.20%	16.36%

FOURTH QUARTER ATTRIBUTION

The GLA Small Cap portfolio posted a solid 27.4% gain for the quarter, but lagged the Russell 2000 Index by 392 basis points. Many of our holdings levered to an improving and reopening of the economy performed well, helping us to outperform in the Consumer Discretionary, Industrial, Communication Services, and Real Estate sectors. However, the portfolio struggled to keep pace in the Technology, Healthcare, Energy, and Material sectors due to a combination of stocks we didn't own (expensive non-earners and lower quality) that performed well, and some of our names lagging the market. In Financials, our overweight position in insurance stocks largely contributed to our underperformance. Lastly, the portfolio's cash position detracted 145 basis points of relative underperformance.

FOURTH QUARTER ATTRIBUTION

SECTOR	GLA WEIGHTING	R2000 WEIGHTING	GLA RETURN	R2000 RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Comm. Services	2.85	1.19	46.91	28.22	-0.10	0.51	0.41
Consumer Disc.	15.80	14.04	36.48	26.70	-0.09	1.32	1.23
Consumer Staples	0.95	3.25	17.06	22.86	0.15	-0.11	0.04
Energy	3.13	1.70	30.53	48.78	0.23	-0.49	-0.26
Financials	20.55	18.74	25.10	33.82	0.01	-1.64	-1.63
Health Care	6.88	20.38	15.19	30.46	0.13	-1.03	-0.91
Industrials	21.18	14.47	33.29	28.01	-0.22	1.00	0.77
Technology	15.16	14.51	24.11	41.07	-0.05	-2.03	-2.08
Materials	6.14	4.41	16.25	39.82	0.12	-1.34	-1.21
Real Estate	3.14	4.04	55.10	20.36	0.06	0.95	1.00
Utilities	--	3.11	--	21.59	0.23	--	0.23
Cash	4.21	--	0.02	--	-1.45	--	-1.45
Total	**100**	**100**	**27.44**	**31.36**	**-1.06**	**-2.86**	**-3.92**

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

***Financial Advisors please contact us at** sma@greatlakesadvisors.com*

***Institutional Investors please contact us at** cr@greatlakesadvisors.com*

*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.

1. PERFORMANCE STATISTICS ARE GROSS OF FEES AND PRELIMINARY AS OF DECEMBER 31, 2020, BASED ON A REPRESENTATIVE COMPOSITE ACCOUNT.

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 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®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. A list of composite descriptions is 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.

The Small Cap composite includes all discretionary portfolios managed with the Firm's small cap approach. The Firm's small cap approach employs small capitalization, principally U.S.-based or Canadian-based equities with an ability to generate an attractive cash flow return on investment. The composite is benchmarked to the Russell 2000 Index. Portfolios subject to substantial client imposed restrictions are excluded from this composite. Prior to June 30, 2012, the minimum portfolio size for inclusion in the Small Cap composite was $250,000. After June 30, 2012, the minimum portfolio size for inclusion in the Small Cap composite is $1,000,000. Accounts meeting the above criteria will be added to the Small Cap composite the first calendar month following their full investment in the strategy. Accounts are removed from the composite, while retaining their prior historical performance in the composite, at termination of the Firm as investment manager, when the value of the account drops below $750,000 for a period of nine consecutive months, or when investment policy guidelines are instituted substantially restricting implementation of the small cap approach. Terminated portfolios will be removed from the Small Cap composite after the last full month of active management. Accounts within this composite do not employ leverage. The composite inception date was June 30, 2008; and the composite was created on June 30, 2012. All cash reserves and equivalents are included in returns. Returns are time weighted and include reinvestment of dividends, income and gains. The value of assets and returns is expressed in U.S. dollars. All holdings available upon request. Market commentary is available at www.greatlakesadvisors.com or upon request.

The benchmark selected for comparison of returns for the Small Cap Composite is the Russell 2000 Index, a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index, and includes approximately2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Growth index consists of 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index that exhibit a growth probability. The Russell 2000 Value index consists of 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index that also exhibit a value probability.

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. 21-6-0004