FUNDAMENTAL EQUITY

LARGE CAP VALUE

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

First Quarter 2021

Dan Oshinskie, CFA®
Chief Investment Officer, Fundamental Equity

Ray Wicklander, CFA®, CPA
Portfolio Manager
Senior Equity Analyst

Edward J. Calkins, CFA®
Portfolio Manager

Wells Frice, CFA®
Portfolio Manager
Senior Equity Analyst

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

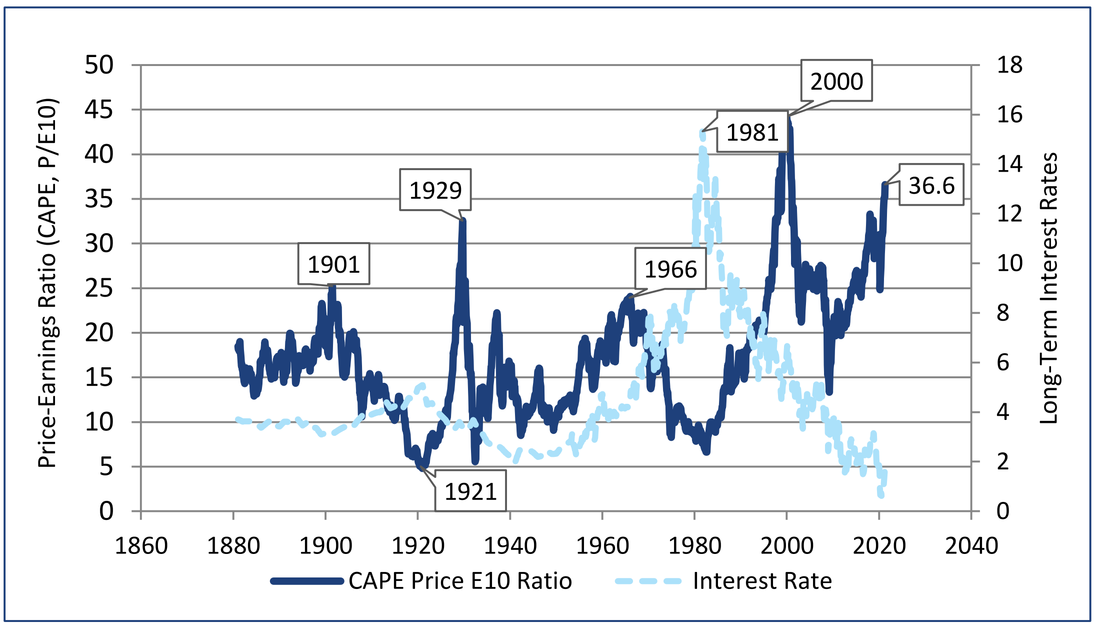
Scott Macke, CFA®
Senior Equity Analyst

Scott Schnieder, CFA®
Senior Equity Analyst

James Veers, CFA®
Senior Equity Analyst

MARKET REVIEW

The first quarter of the year saw a continuance of how 2020 ended, namely: the equity market's continued strong performance, and Value as a style performing strongly ahead of Growth and rebounding from historic underperformance, which troughed in August 2020. On the former point, we would urge caution. Valuations today make it nearly a certainty that medium-term equity returns will be quite low. Using Robert Shiller's Cyclically Adjusted PE ("CAPE"), U.S. Equities are cheaper only than a brief period in 1999-2000, and now slightly more expensive than 1929, each of which presaged negative real returns for an extended period. Clearly CAPE is an ineffective near-term timing tool, but our bottom-up analysis in looking for new ideas – in nearly every sector and industry – confirms that a very strong sales and margin recovery, coupled with very low discount rates, are implied in stocks' valuations at the moment. With such exceptional, repeated, and multi-faceted stimulus programs underway, risk appetite is very high, and valuations – for the moment – are not important to the market. Over the long run, valuations have always mattered greatly, and now should be no different. Please see below.



Source: Robert Shiller

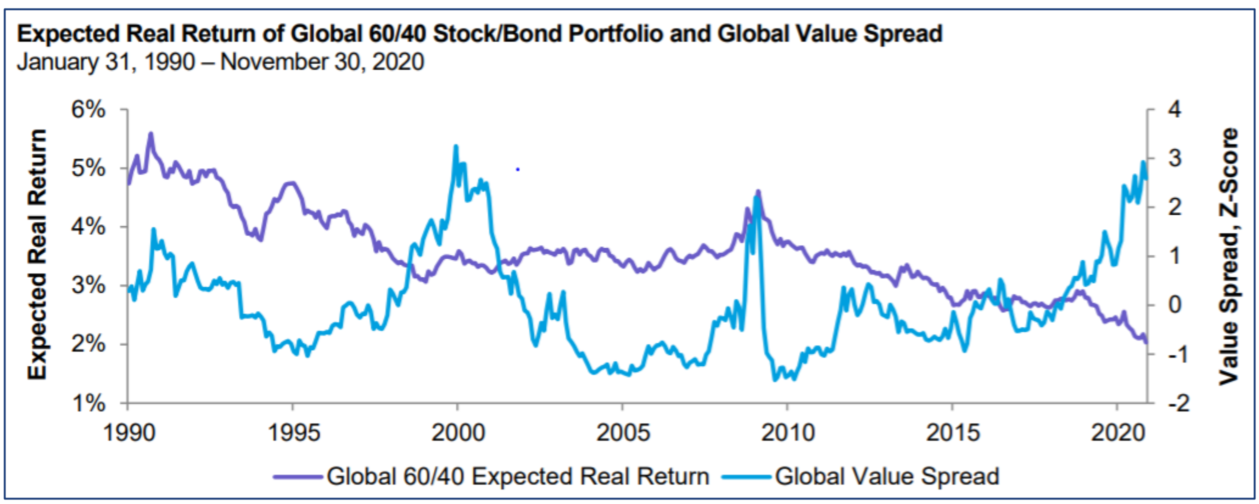
On the second theme in the quarter, Value's continued recovery, we feel strongly that this is sustainable and likely to persist in the medium-term. Value, as a style, remains historically very cheap (see chart below, from AQR), and again, price matters, and the return outlook for Value remains meaningfully better than Growth, in our opinion. Anecdotally, as well, especially in Q1 there remains ample evidence of too much speculative behavior in the market, be it the Reddit craze, SPAC boom, or Archegos blowup. And the targets for leveraged, speculative behavior generally are not relatively-staid Value stocks; the riskiest behavior is clearly concentrated in industries with higher representation in Growth indices, in our opinion.

We believe the path of future interest rates will matter immensely, both for the direction of the overall market, but also for Value as a style. Today's very low interest rates (still probably negative in real terms, based on the 10 year U.S. Treasury yield of 1.6%, less nearly any measure of inflation) explain a lot: high valuations for the market overall, high risk appetite and leveraged market participants, but also relatively higher valuations for "long duration" sectors like IT, which have much higher representation in Growth indices. If / when interest rates return to something more normal, Value as a style is likely to be less impacted than Growth, and some of the riskiest market behavior seen today should subside. The perception of "free money" and "risk free" carry trades have occurred many times in the past, and rarely with good results.

FIRST QUARTER ATTRIBUTION

SECTOR	GLA WEIGHTING	R1000V WEIGHTING	GLA RETURN	R1000V RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Comm. Services	6.94	9.13	5.47	6.26	0.09	-0.04	0.04
Consumer Disc.	7.00	7.93	17.17	14.11	-0.03	0.20	0.17
Consumer Staples	6.63	7.22	3.54	3.04	0.09	0.03	0.12
Energy	7.55	4.98	18.78	31.00	0.56	-0.78	-0.22
Financials	26.21	21.07	13.53	17.15	0.34	-0.87	-0.52
Health Care	15.33	12.98	6.33	4.20	-0.14	0.28	0.14
Industrials	10.88	13.21	12.74	13.48	-0.07	-0.03	-0.10
Technology	9.29	9.94	13.32	11.21	-0.01	0.19	0.18
Materials	4.18	4.78	13.29	10.86	0.01	0.12	0.13
Real Estate	--	3.63	--	9.63	0.06	--	0.06
Utilities	3.59	5.14	4.70	2.88	0.14	0.05	0.20
Cash	2.40	--	0.01	--	-0.24	--	-0.24
Total	**100**	**100**	**11.22**	**11.26**	**0.81**	**-0.85**	**-0.04**

Source: FactSet. Performance numbers are gross of fees.



Source: AQR

Russell 1000 Value Sectors

Like Q4 2020, all sectors had positive returns for the Q1 2021; Energy (+31%) again led the pack, followed by Financials (+17%) and Consumer Discretionary (+14%). Less-positive sectors were Healthcare (+4%), Utilities (+3%), and Consumer Staples (+3%). Also like Q4, the Russell 1000 Value (+11.26%) outperformed the S&P 500 (+6.17%).

In total, sector positioning added 81 bps to active return:

- Our overweight exposure to Financials and Energy were both positive relative contributors of 34bps and 56bps, respectively.
- The modest, residual cash position reduced relative performance by 24bps.

Stock selection detracted 85bps of active return.

FIRST QUARTER ATTRIBUTION

The Great Lakes Advisors Large Cap Value strategy generated an 11.22% return in 1Q21, roughly in-line with the Russell 1000 Value Index's return of 11.26%. The table above breaks down the contributions from sector positioning and stock selection.

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 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, the most surreal of Presidential races, a COVID vaccine, a change in control of the Senate decided in a run-off some 2 months after the general election, another $2T in fiscal stimulus, and finally the worst quarter for U.S. treasuries since 1980. Ho hum.

We weren’t surprised to see much of what came to pass during the opening quarter of 2021, but we were once again taken aback by the speed and violence of the rotation. Then again, I suppose one would be foolish to have “expected” the most violent rotation since Ronald Reagan’s first year in office!

The economic data looks quite good at this point, as does the vaccine rollout. There’s every reason to be optimistic in the short run, but also cautious in the long run. Corporate profits have recovered nicely and remain near record levels. Equity markets remain volatile under the surface to be sure, but headline equity volatility has receded. A recession is really off the table, and in fact, GDP growth in the high single digits is the most likely scenario over the next couple of quarters.

Although commodity prices are on the rise, inflation numbers remain in check at this point – but merit careful study. Manufacturing hours worked are down a bit, and while payroll expansion is robust, we still have slack in the labor market to counter commodity inflation.

Housing remains incredibly strong, with prices up 10% y/y. But there may be some signs of rising mortgage rates taking a bite out of demand, with both permits and new home sales down slightly. However, at least some of this decline is also due to very long wait times for building materials.

Consumers appear to be in good shape. Household balance sheets are robust, with low debt levels and plenty of excess savings. This makes for solid consumer confidence numbers, and impressive retail sales growth.

Stock prices are certainly elevated if one uses any kind of backward-looking valuation metrics. Stocks are trading higher based on optimism for a broad, robust economic recovery – and that is what we have underway, by most all indicators.

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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