



GREAT LAKES ADVISORS®

A WINTRUST WEALTH MANAGEMENT COMPANY

**THE EVOLUTION OF
LARGE-CAP VALUE
INVESTING:**

**A CONTEMPORARY
APPROACH**



Introduction

As an investment advisor, you understand the importance of adapting to changing market dynamics. Large-cap value investing is an excellent example of this. Historically, large-cap value investing focused on stable, mature companies that paid dividends and exhibited low but steady growth. These stocks were considered reliable investments with predictable returns, often found in sectors like utilities, financials, and consumer staples.

Today, however, the landscape of large-cap value investing has evolved significantly, driven by several powerful factors, including technological innovation, shifting economic conditions, and emerging secular trends.

This eBook will guide you through these changes, highlighting why it's crucial to understand that large-cap value investing requires a different approach today. We will also explore how Great Lakes Advisors (GLA) successfully navigates this new environment while adhering to their relative value investing philosophy.

Factors Driving the Evolution of Large-Cap Value Investing

Technological Innovation

Technological advancements have profoundly impacted sectors traditionally associated with value investing. For example, the healthcare, financial services, and industrial sectors have integrated new technologies that drive growth and efficiency. This integration has blurred the lines between traditional value and growth stocks, as many value stocks now exhibit growth-like characteristics due to innovation.

Economic and Market Dynamics

The high inflation and rising interest rates we have encountered in the last few years have shifted investor focus toward value stocks, which are perceived as more stable and undervalued. These economic conditions have made value stocks more attractive, leading to a reevaluation of what constitutes a value investment.

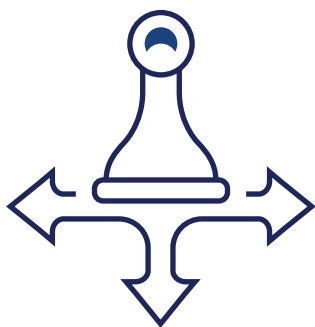
Secular Themes

Major trends such as global electrification, decarbonization, and artificial intelligence create new opportunities within the value investing space. These themes are driving growth in traditional value sectors and offering new avenues for investment that combine stability with the potential for significant returns.

A More Relevant Approach to Large-Cap Value Investing

Blurring Lines Between Value and Growth

The convergence of value and growth investing has made it essential to look beyond traditional classifications. Companies that once fell strictly into the value category are now leveraging technological advancements and benefiting from secular trends, exhibiting characteristics typically associated with growth stocks. This shift requires a more nuanced approach to portfolio construction, focusing on individual company potential rather than broad sector classifications.



Importance of Adaptability

In this rapidly changing environment, adaptability is key. Investment strategies must be flexible to incorporate new opportunities from technological advancements and shifting market conditions. Today, a more effective approach to large-cap value investing involves continuous evaluation and adjustment to stay aligned with these evolving dynamics.

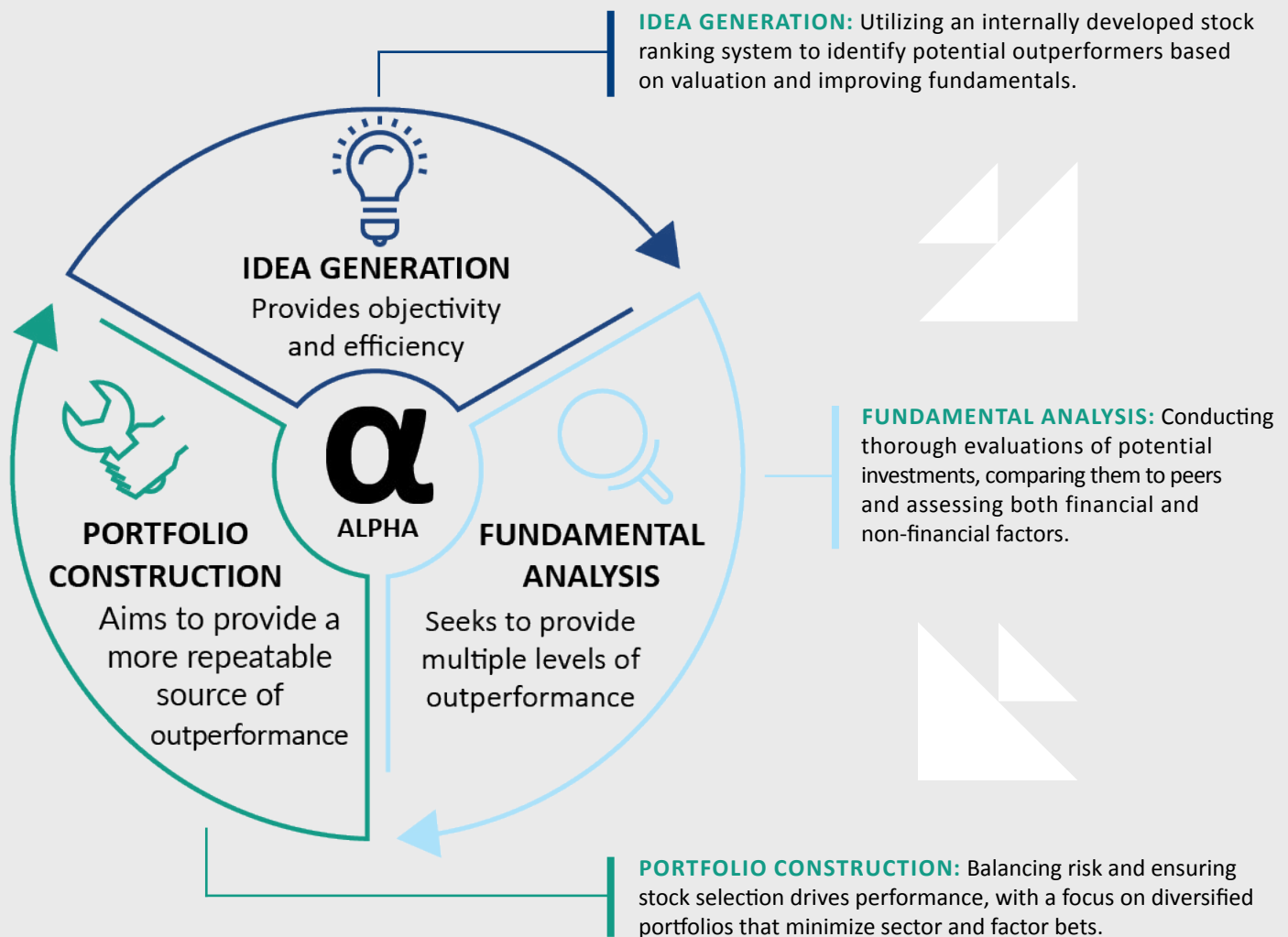
Great Lakes Advisors' Methodology

Relative Value Approach

Great Lakes Advisors (GLA) employs a relative value approach, combining valuation with improving business fundamentals. This method allows the firm to identify stocks that are not only undervalued but also poised for growth due to solid business trends and catalysts. This approach helps avoid value traps and enhances the potential for outperformance.

Investment Process

GLA's investment process involves efficient decision-making and a small, fully integrated team. The method includes three key components:

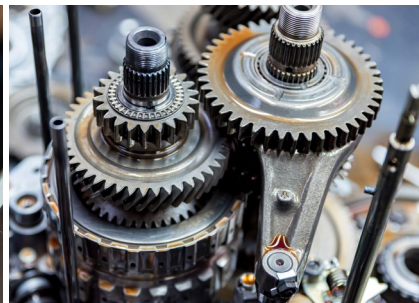
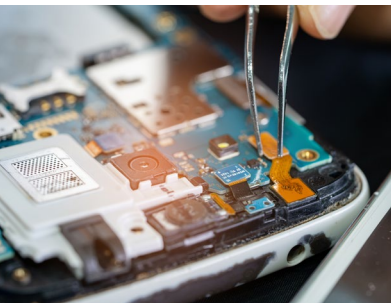


Sell Discipline

GLA's sell discipline is driven by the desire to maximize portfolio exposure to attractively valued stocks with improving fundamentals. Stocks are sold if there are better opportunities, if the valuation case weakens, or if the investment thesis is no longer intact. Continuous monitoring ensures timely identification of sell candidates.

Case studies

Highlighting several GLA buys are the best way to illustrate GLA's differentiated approach to large-cap value stock selection.¹ Here are a few:



Micron Technology (MU) and Broadcom (AVGO)

Micron Technology and Broadcom are prime examples of how value stocks can possess growth components. Micron produces memory chips, which, while somewhat commoditized, see robust demand due to their critical role in data centers used for AI. Broadcom, on the other hand, is well-positioned in the semiconductor industry, with significant exposure to AI-related products. Both companies exemplify how traditional value stocks can benefit from technological advancements and increased demand in the AI sector.

Martin Marietta Materials (MLM)

Martin Marietta is a key player in the reshoring trend, providing materials like crushed stone and concrete for building foundations, roads, and bridges. Their exposure to the South and Southeast USA, areas experiencing significant infrastructure development and new manufacturing facilities, positions them well to benefit from both government spending and private sector growth.

Quanta Services (PWR)

Quanta Services operates in a less glamorous but highly essential sector, providing transmission work to and from data centers, along roads, and connecting green energy into the grid. They are crucial players in the infrastructure needed for AI and green energy projects, offering strong growth potential due to the increasing demand for robust infrastructure.

Caterpillar (CAT) and Parker Hannifin (PH)

Caterpillar, known for its heavy machinery used in construction, and Parker Hannifin, a supplier of essential products for industrial buildings, are both second-derivative plays on reshoring and AI. Caterpillar's machinery is vital for construction projects, while Parker Hannifin's diverse product range supports new warehouses and industrial facilities, making them integral to the infrastructure supporting AI and other growth sectors.

¹ See last page for Case Studies Disclaimer

The Future of Large-Cap Value Investing

Importance of Style Purity

Staying true to the value investing philosophy is crucial in this evolving landscape. Investors and advisors expect consistency and integrity in investment strategies, even as the definitions of value and growth may continue to converge.

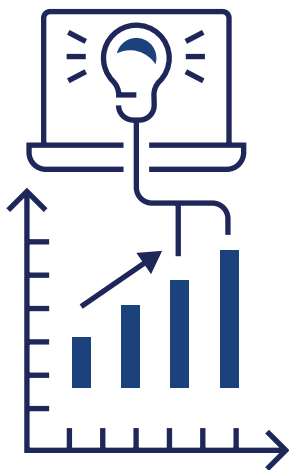
Role of Advisors and Investment Managers

As an advisor, understanding and adapting to these changes is essential for constructing optimal client portfolios. Investment managers like GLA, who blend traditional value principles with newer evolving strategies, are well-positioned to deliver consistent, reliable returns.



Constructing a Modern Portfolio

Building a large-cap value portfolio today involves balancing traditional value investing principles with the ability to adapt to contemporary market dynamics. This balance is achieved by minimizing factor and sector bets, ensuring stock selection remains the primary driver of returns. It also requires closely monitoring portfolio characteristics relative to the benchmark, such as the Russell 1000 Value Index, especially during the annual benchmark reconstitution.

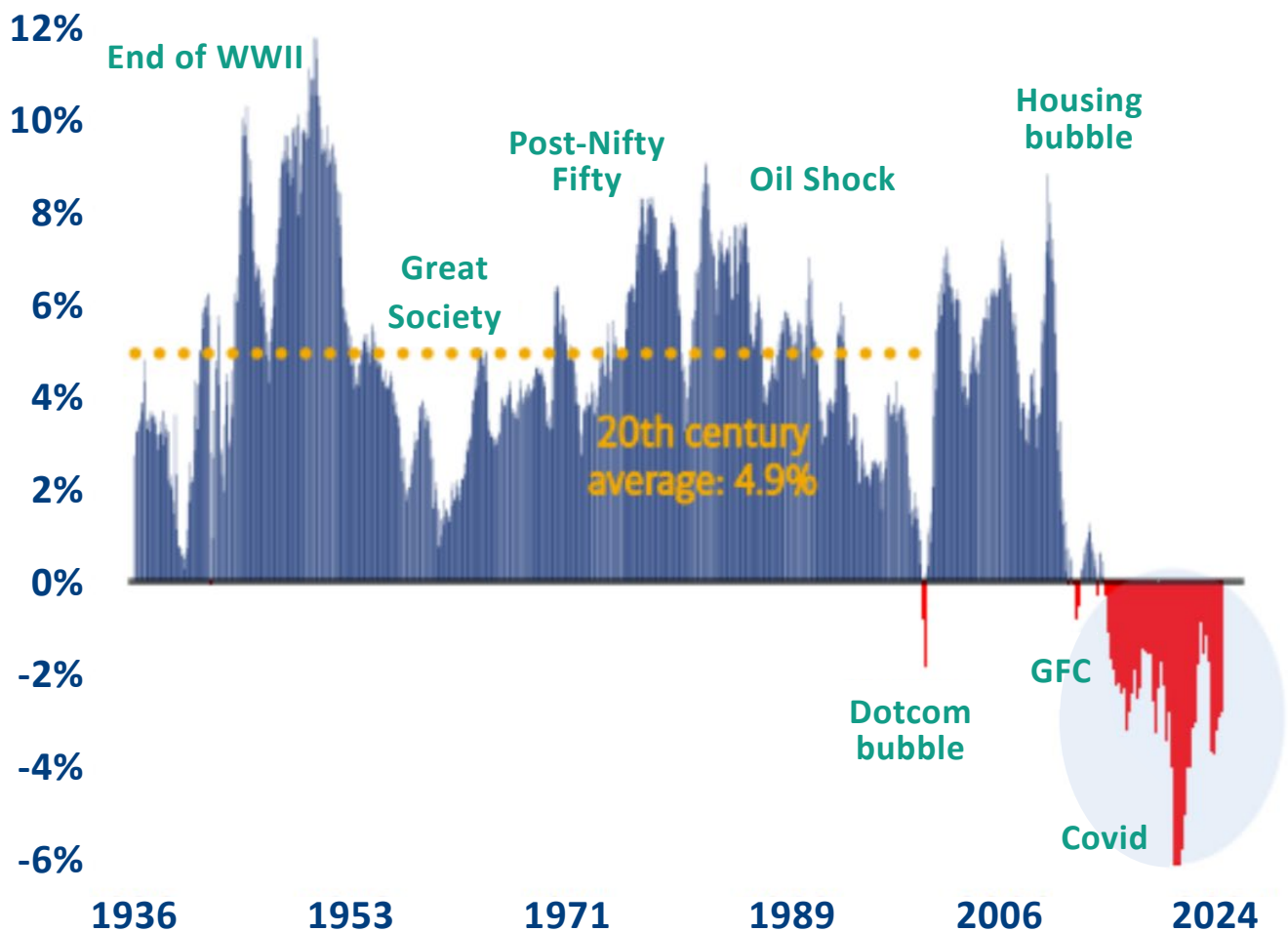


In terms of stock selection, investors can create portfolios that perform well across different market environments by focusing on companies with robust business models, the ability to generate cash flow beyond internal needs, and clear growth catalysts while maintaining valuation discipline.

We believe a relative-value investment approach allows us to perform well across most parts of the market cycle. Within this framework, we think it's important to have a portfolio anchored by profitable, attractively-valued, growth-oriented companies and balanced by more cyclical, discounted stocks.

And finally, the valuation gap between growth and value stocks has widened in 2023-2024, with the Russell 1000 Value sitting near a 30-year low versus the Russell 1000 Growth index, providing an attractive entry point for value-oriented stocks, in our view.

US value vs growth, rolling 10-year annualized return



Source: BofA Research Investment Committee, Fama French value & growth indices
BofA GLOBAL RESEARCH

Conclusion

The evolution of large-cap value investing requires a new approach that blends a traditional relative valuation approach with a recognition of catalysts that can exhibit growth-oriented characteristics. Great Lakes Advisors exemplifies this new methodology, providing a framework for success in today's dynamic market. By understanding and embracing these changes, you can better serve your clients and achieve superior investment outcomes.

“The clear distinction between Growth and Value is likely to fade and give way to a greater focus on alpha opportunities and increased sector and geographical diversification. Technology is becoming a larger component of all industries.”

- Goldman Sachs; April 2023



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Definition of the Firm: 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. 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. On October 1, 2013, majority owned subsidiary Advanced Investment Partners, LLC ("AIP") became fully-owned and integrated into Great Lakes. On April 3, 2023, Rothschild & Co Asset Management US Inc. and Rothschild & Co Risk Based Investments LLC became fully-owned and integrated into Great Lakes.

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Fees: Great Lakes Advisors, LLC's fees are available upon request and may be found in our Form ADV Part 2A.