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LARGECAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY
First Quarter 2019

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MARKET REVIEW

U.S. equities went on an absolute tear during the first quarter, posting their strongest quarterly gains since 2009. However, the mathematics of recouping a drawdown being what they are, we did not quite recoup the losses of Q4. In addition to the reversal in market direction, we also saw a dramatic rotation in the characteristics associated with market leadership.

Size/Style

During the first quarter:

- Large-caps outperformed mega-caps.
- Growth stocks outperformed their value counterparts during Q1, with the bulk of the performance spread occurring in February and March.
    - » Growth dominated value in both the mega-cap and large-cap segments.

S&P 500 Sectors

We again saw a lack of quarter-to-quarter correlation of relative sector performance:

- Technology, Energy, and Industrials all rebounded nicely, after being the three hardest-hit sectors during Q4.
- The Utilities and Health Care sectors performed poorly after outpacing the market during Q4.
- Equity REITs had the steadiest performance across the two quarters.

FIRST QUARTER ATTRIBUTION

The LargeCap strategy added over 14.9% during the quarter, well ahead of the benchmark S&P 500 Index's gain of 13.65%. The table on the following page breaks down the contributions from sector positioning and stock selection.

In total, sector positioning added 0.66% from active return:

- Overweighting the Technology sector added 39bps to active return, as the sector outperformed the S&P 500 Index by over 6% during Q1.
- Overweighting the Health Care sector detracted 21bps, as the sector underperformed the Index by about 7%.

Stock selection within the respective sectors added 0.63% to active return.

MARKET OUTLOOK

Economic conditions remained solid heading into 2019, and valuations continued to be favorable for U.S. equities. We pointed to Washington, D.C. as the source of most of the market's concern during Q4 and a couple of concerns were resolved quite favorably. First, the Mueller report resulted in no further indictments and did not find collusion between the Trump campaign and Russia. So, the worst-case political scenario was taken off the table – for now. A cloud of uncertainty which will linger over the market is the campaigning for the Democratic presidential nominations. Many early candidates have tax hikes, wealth redistribution, central planning, and the break-up of tech giants as key platform elements.

A second concern which was resolved for the time being is the dual threat of Fed rate hikes and balance sheet reduction. We hit a bit of a soft demand patch late last year, and this combined with the absence of inflationary pressure means "smart" money now leans toward no hike, or even a reduction (or two) in the Fed funds

SECTOR	GLA WEIGHTING	S&P 500 WEIGHTING	% ACTIVE	GLA RETURN	S&P 500 RETURN	% ADDED	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIB
Comm Services	4.44	10.23	-5.79	9.69	13.97	-4.29	-0.05	-0.21	-0.26
Consumer Disc.	11.79	10.02	1.77	15.94	15.73	0.21	0.00	0.05	0.04
Cons. Staples	10.42	7.21	3.21	16.17	12.01	4.16	-0.02	0.41	0.39
Energy	1.81	5.46	-3.65	20.57	16.41	4.15	-0.10	0.07	-0.03
Financials	8.64	13.32	-4.68	4.56	8.56	-4.00	0.26	-0.47	-0.21
Health Care	16.93	14.97	1.96	10.29	6.59	3.69	-0.21	0.50	0.28
Industrials	16.29	9.50	6.79	17.44	17.21	0.23	0.27	0.04	0.31
Technology	25.76	20.37	5.39	20.97	19.86	1.11	0.39	0.20	0.58
Materials	0.57	2.68	-2.11	5.54	10.31	-4.77	0.06	0.10	0.16
Real Estate	2.82	3.00	-0.18	14.96	17.54	-2.58	-0.04	-0.06	-0.11
Utilities	0.54	3.24	-2.71	4.26	10.84	-6.58	0.11	0.01	0.13
TOTAL	100.01	100		14.94	13.65	1.29	0.66	0.63	1.29

Source: GLA and Bloomberg. Performance numbers are gross of fees.

rate in the back half of 2019. The Fed also appreciates the negative impact of accelerating the drawdown in Reserve Funds, and appears to have allayed related concerns.

The employment picture remains very strong. Job creating had re-accelerated heading into the year, but the government shutdown did have a negative impact. The shutdown also combined with the Q4 stock market correction softened consumer confidence. It will be interesting to see whether the aforementioned easier credit conditions can serve to ignite the housing market, which has certainly slowed over the past 18 months. Looking out, we're a bit less constructive on U.S. equities – as you might expect after the strongest quarter in many years. The first quarter rally served to bring valuations back above long-term norms. We also note that while prices have been on a tear, the rate of EPS growth has slowed to the mid- to high- single digits, but the rate of return on assets/equity remains above norm. From here, we may need some positive surprises (rate cuts, trade deal anyone?) to drive prices appreciably higher.

The LargeCap model remains biased against value stocks – especially the smaller value stocks in the LargeCap universe. The models are also biased against high earnings yield (as prices have climbed while earnings are slowing). Technology (Software) and Health Care (Medical Services) stocks are most in favor, while Financials (Banks, Asset Managers) are most out-of-favor. We'd note, Equity REITs remain in favor in the Financial sector, as higher dividend payers have continued to perform relatively well.

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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.

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