DISCIPLINED EQUITY

ALLCAP

GREAT LAKES ADVISORS®
A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

First Quarter 2024

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MARKET REVIEW

U.S. equity investors are in a bit of a wait-and-see mode at this juncture; the huge rally of November and December was fueled by the expectation of 6 rate cuts from the Federal Reserve, commencing in April. Although the consensus is now for 'only' 3 rate cuts (or less) this year, this has not yet caused a retracement of Q4 gains (in other words, investor expectations were clearly wrong in hindsight, yet there's been no payback). And while the AI fervor continues, we did see the rally broaden a bit during Q1. This broadening may be telling us that the emerging consensus is a soft or indeed no landing this year.

Russell 3000 Index

The Russell 3000 Index rocketed 10.02% higher during the quarter; and in fact, all U.S. indices ended the quarter higher. The Russell Top 200 Growth Index's 11.71% surge was the best of a strong bunch and dragged the Russell 1000 Growth Index to the second pole. Small cap value stocks struggled to keep up their frenetic pace of Q4, but still advanced 2.90% to open 2024.

Size/Style

- Large caps far outpaced small caps to begin 2024. Performance declined as we move down the cap spectrum; the Russell Top 200 Index gained 10.84%, the Russell MidCap 800 Index added 8.60%, and the small cap Russell 2000 Index was up 5.18%.
- For Q1, Growth fared better than Value by a solid 2.6%, with an increasing advantage as we slid down market cap.

Russell 3000 Index Sectors

- All sectors within the Russell 3000 Index save Real Estate posted gains to begin the year. AI-powered gains fueled Technology's leading 13.29% advance. Energy went from being the worst-performing sector in Q4 2023 to the second position, followed closely by Financials.
- Real Estate went from worst to first in terms of relative sector performance, and notched the only decline among Russell 3000 Index sectors. Other rate-sensitive groups also struggled (Telecom, Utilities).

FIRST QUARTER ATTRIBUTION (for a representative account and gross of fees-please refer to page 3 for gross and net composite returns)

The AllCap strategy leapt 10.2% during the quarter, topping the benchmark Russell 3000 Index's 10% gain. The table on the next page breaks down the contributions from GICS sector positioning and stock selection.

In total, sector positioning added 11 bps to active return:

- Overweighting the Technology sector added 14 bps, as the sector topped the S&P 500 Index by nearly 2%.
- Overweighting the Consumer Discretionary sector detracted 10 bps, as the sector trailed the S&P 500 Index by over 4%.

FIRST QUARTER ATTRIBUTION (for a representative account and gross of fees-please refer to page 3 for gross and net composite returns)

SECTOR	GLA WEIGHTING	R3000 WEIGHTING	% ACTIVE	GLA GROSS RETURN	R3000 RETURN	% ADDED	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Comm. Services	8.80	8.27	0.53	11.63	14.65	-3.02	-0.04	-0.25	-0.29
Consumer Disc.	12.80	10.56	2.24	11.52	5.63	5.88	-0.10	0.77	0.67
Consumer Staples	2.36	5.65	-3.29	9.97	7.59	2.39	0.13	0.06	0.19
Energy	2.82	3.92	-1.10	11.26	13.13	-1.87	0.02	-0.01	0.01
Financials	12.46	13.68	-1.22	12.25	11.72	0.53	0.05	0.11	0.16
Health Care	11.75	12.68	-0.93	0.11	8.52	-8.41	0.00	-1.07	-1.07
Industrials	11.32	9.87	1.45	8.38	11.11	-2.73	-0.07	-0.44	-0.51
Technology	31.15	27.79	3.35	14.44	11.81	2.63	0.14	0.77	0.91
Materials	2.39	2.61	-0.22	15.60	7.94	7.66	0.02	0.17	0.18
Real Estate	3.00	2.81	0.18	-1.58	-1.17	-0.41	-0.03	-0.01	-0.04
Utilities	0.00	2.16	-2.16	0.00	4.83	-4.83	0.12	0.00	0.12
Total	**100**	**100**		**10.22**	**10.02**	**0.20**	**0.11**	**0.10**	**0.21**

Source: FactSet. The data in the attribution table represent the gross returns for each sector and the gross returns for a representative account for one quarter ending the current calendar quarter. Individual account returns may vary. Attribution by sector is presented for informational purposes only and should not be construed as an offer of advisory services focused on any such sector. The performance of the overall portfolio from which the attribution is derived is presented gross and net of fees.

Stock selection within the respective sectors had a slightly positive impact on active return.

- The top contributing stocks included:
  - » Apple (AAPL, 0.60%) – an underweight – slid 10.8% during Q1 amidst growth and anti-trust concerns.
  - » NVIDIA (NVDA, 0.41%) continued its incredible surge on very robust current and future expected growth.
- Stocks which detracted most from active return included:
  - » UnitedHealth Group (UNH, -0.33%) slid close to 6% during Q1, due to a mix of poor peer group outlook, anti-trust concerns, and a less-than-expected Medicare rate.
  - » Accenture (ACN, -0.33%) lost only about 1%, as the firm topped estimates but reduced guidance.

MARKET OUTLOOK

As Taylor Swift wondered on 1989, “Are We Out of the Woods”? That is, will the U.S. economy avoid recession despite the significant tightening?

Signs that we may avoid a hard landing are indeed present. Most importantly, inflation has come down nicely (although recent prints didn’t show a linear trend to the Fed’s 2% target). Money supply is no longer contracting m/m, quality spreads remain narrow, corporate profits are up nicely on solid margins, consumer confidence is stable, and the housing market is proving quite resilient.

But whether we’re “in the clear yet” remains to be seen. To that end, we do see that the NY Fed’s recession probability indicator has remained elevated. The ISM just snapped a very long run below 50, and manufacturing and the Leading Economic Indicators are each indicating contraction. Employment is clearly softening here; payroll growth has slowed and unemployment rates are ticking higher. So, perhaps the outright rate hikes and the 225 bps of tightening equivalent via balance sheet runoff are beginning to bite after all.

The Russell 3000 is now enjoying high single-digit earnings expansion, but remains quite price-relative to historic norms, and the Equity Risk Premium is the worst in well over a decade. Caution is warranted.

Positioning:

The model’s **style preferences** have continued to evolve toward more of a value preference, especially in mid cap. The mid-year 2023 tilt toward mega cap growth has given way to a mid cap tilt, with a heavier emphasis on Value.

Risk factor positioning also evolved modestly. Momentum, Earnings Yield, and Size all grew in importance. Earnings Variability and Volatility remain out of favor.

Positioning (continued):

From a **sector/industry** perspective, Financials (banks, property & casualty) regained a measure of attractiveness, and select industries including computer software and industrial services also became more favorable. Healthcare (biotech, medical products & supplies) was the largest decliner; Oil Services is now less attractive.

From a **stock selection factor** perspective, the big improvers were Technical factors. Weighted Relative Strength (WRSI, WRSI v2), Relative Volatility, and Williams AD indicators all climbed sharply. High share price, large Market Cap, and Diffusion joined these technical indicators. Risk (Beta, Estimate Dispersion, and idiosyncratic risk) and Quality (Profit Margin Forecast, Equity/Debt, Assets to CapEx) measures declined in relative importance during Q1.

COMPOSITE PERFORMANCE

	QTD	1 Year	3 Year	5 Year	10 Year
AllCap Pure Gross of Fees[1]	10.13%	27.95%	7.66%	11.90%	11.06%
AllCap Net of Fees	10.03%	27.48%	7.26%	11.44%	10.44%
Russell 3000 Index Total Return	10.02%	29.29%	9.78%	14.34%	12.33%

DISCLOSURES

[1] Returns are annualized. Pure Gross of Fee Returns do not reflect the deduction of investment management fees or bundled fees for certain accounts where transaction costs cannot be separately identified from other service fees charged by the client's broker/dealer or custodian. Information presented on a pure gross of fee basis has not been independently verified. Net performance reflects the deduction of investment management fees and bundled fees as applicable. Net returns are actual returns after the deduction of investment management fees and are based on live composite member client accounts. Additional time period composite returns are available via the firm's strategy factsheets on the firm's website at: www.greatlakesadvisors.com or upon request.

The Disciplined Equity AllCap Composite includes all fee-paying accounts managed under the AllCap strategy and is benchmarked to the Russell 3000 Index. Accounts within this composite do not employ leverage. The composite inception date was January 1, 1997 and the composite creation date was October1, 2013. 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. Performance prior to October1, 2013 occurred at Advanced Investment Partners prior to being acquired by Great Lakes Advisors. Additionally, market commentary is available on the firm's website at: www.greatlakesadvisors.com or upon request. The benchmark selected for comparison of returns for the AllCap Composite is the Russell 3000 (which contains 3,000 of the largest capitalization stocks of U.S. domiciled companies, which represents about 98% of the total U.S. equity market capitalization).

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