FUNDAMENTAL EQUITY

INTERNATIONAL AND GLOBAL VALUE

GREAT LAKES ADVISORS®

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Fourth Quarter 2023

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RETURNS

	4Q 2023	1 Year	2 Year	3 Year	Since Inception
International Value Gross of Fees[1]	7.00%	17.21%	11.01%	10.75%	16.41%
International Value Net of Fees	6.87%	16.52%	10.32%	10.06%	15.73%
MSCI EAFE NR USD Index	10.42%	18.24%	0.57%	4.02%	10.17%
Global Value Gross of Fees[1]	5.95%	15.07%	10.41%	11.72%	17.12%
Global Value Net of Fees	5.77%	14.34%	9.70%	11.01%	16.42%
MSCI ACWI NR USD Index	11.03%	22.20%	-0.12%	5.75%	12.25%

Data as of December 31, 2023. Returns greater than 1 year are annualized. Returns above reference our ORD strategies; ADR-only strategies for both Global Value and international Value are available. Attribution information is available on request.

The International Value strategy underperformed its primary benchmark – MSCI EAFE – marginally in 2023, all of which came in Q4, when markets were sharply up, and Value meaningfully underperformed. Q4 2023 was reminiscent of 2020-2021 in those respects, and with our lower beta and Value disposition, we tend to lag in those periods.

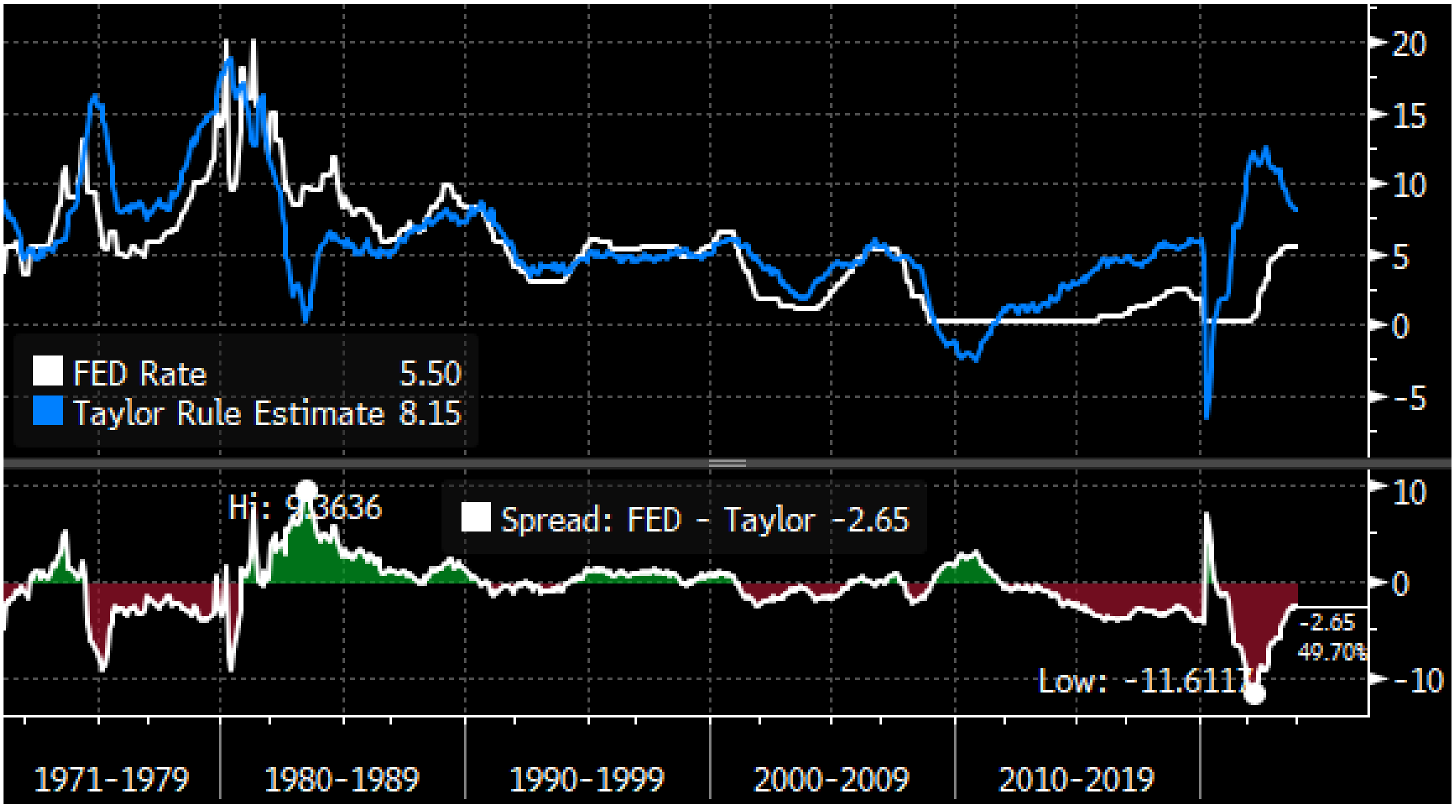
The same factors impacted the Global Value strategy, but the strategy's underweight to the U.S., particularly the "Magnificent Seven" in the U.S., exacerbated the relative underperformance. All things considered, the strategies' performances were decent in our opinion, given the factors at play in the market. The longer-term performance of both strategies, where factor vagaries of any given year are greatly smoothed out, remains good, and led by stock selection.

COMMENTARY

It is consensus now that monetary policy is too restrictive, and policy rates will be significantly lowered through 2024. This expectation of easing greatly lifted stocks and fixed income assets in Q4 2023. We're concerned it is premature. First, we would disagree with the premise that the Fed Funds rate is, in fact, restrictive. The Taylor Rule "neutral rate" estimate (shown on the next page) is currently over 8%, over 250 bps higher than the Fed Funds rate. With the understanding that certain large components of CPI, like shelter, are badly lagging, the "real time" Taylor Rule estimate is probably closer to 6%; in other words, 5.5% is probably near-neutral.

Other aspects of inflation are also lagged and very likely understated. Inflation is serially correlated, i.e., correlated to itself, in that high inflation begets high inflation, and so forth. Higher costs of living prompt employees to ask for higher wages, which prompts companies to defend margins by raising prices, etc. Consider the high-profile UAW strike settlement with the Big Three automakers: UAW members will receive a roughly 30% increase in wages over a 4.5-year period, or about 7% compounded. On its own, it is clearly inflationary (and lagged, spread over multiple years), but the indirect effects are what make inflation so pernicious and sticky. Almost instantly after the UAW settlement, Honda, Toyota, and Hyundai raised U.S. wages to maintain labor competitiveness, and prices of new cars will almost certainly respond (again, with a lag), to name only two indirect outcomes.

IS MONETARY POLICY REALLY THAT "TIGHT?": TAYLOR RULE VS. FED FUNDS RATE, 1970-2023



Source: Bloomberg

The situation is not unlike the 1970s (see Taylor Rule chart above), which had two distinct spikes in inflation. The Fed reaction under Chairman Burns to the first spike (mid-1970s) was slow: the Fed Funds rate was consistently behind the Taylor estimate. It was not until the second one that Chairman Volcker raised rates to meaningfully tight levels; he proceeded to leave them restrictive for the remainder of his Fed tenure.

Probably, too, Volcker had appreciation for the "cumulativeness" of easy money before his tenure, and so a tighter-for-longer policy made sense. (In other words, the red and green areas in the bottom chart became roughly equal). We do not know if Chairman Powell has the same sense of equivalence, but if so, we're due for real rates significantly greater than inflation for a lot longer. This makes logical sense to us: the imbalances from a decade of very easy money simply cannot be fixed with a brief period of tightness (if it is even that, currently).

Finally, we wrote about fiscal indiscipline at length in our Q3 2023 letter. We can debate whether monetary policy is actually tight or not, but the fiscal side of the equation is unambiguously loose, and counter to the Fed's (good) efforts to rein in inflation. All of this is a long-winded way of saying that we do not share the market's declaration of victory in Q4 2023 over inflation. We have higher-level conviction that Value and International have good medium-term relative outlooks, but remain cautious on the market overall, where both valuations and profit margins are high relative to history, and where inflation and real rates may not be as supportive as Q4's performance suggests.

PORTFOLIO REVIEW

As mentioned, the International Value strategy underperformed in 2023, with greater than 100% of the underperformance occurring in Q4. Stock selection in Materials and Real Estate was weak, with both sectors impacted by China. Our Real Estate holdings are concentrated in Hong Kong and Singapore and, particularly in Hong Kong, multiples compressed to levels not seen since post-Lehman, given the high-profile economic weakness and bear market in China. Each of our Real Estate holdings has a diversified set of assets, split between office, residential development, and hotel, with good geographical diversity. Mainland China exposure is limited for each (none is mainland China-domiciled). Each has a healthy balance sheet – in fact, for one holding, net cash now represents over 60% of market cap. We have been selectively adding to the sector.

China impacted commodity prices significantly in 2023, which affected our Materials holdings, which have gone from mid-cycle valuations to closer to trough, we believe. For our largest holding in the sector, and one of the larger holdings overall, an Australian diversified miner, spot prices for its commodity assets compressed significantly over the course of the year and are now significantly below our reasonable estimates of “incentive price.” Like our Real Estate holdings, our Materials have good balance sheets and very modest multiples on mid-cycle earnings and cash flows.

The Global Value strategy had the additional headwind of minimal exposure to U.S. Mega Cap Tech, which was the driver for U.S. outperformance. Our Tech underweight was the majority of underperformance for the strategy; given historically high valuations, we are comfortable being underweight this group, and are finding much better value elsewhere.

2023 was an active year for new idea generation. New holdings were established in Industrials, Consumer Staples, and Financials. In Industrials, global agriculture equipment maker CNH Industrial NV and German rail braking systems manufacturer Knorr-Bremse AG were added. Each is a high-quality business with attractive end markets, but each is facing what we believe are temporary normal cyclical slowdowns, which has created an attractive valuation opportunity.

In Consumer Staples, we purchased both French dairy and infant nutrition company Danone SA and Brazilian brewer Ambev SA. The thesis for Danone, simply, is the company is not earning enough. The company has an excellent collection of brands, but nearly all its businesses are significantly under-earning other best-in-class peers like Abbott or Nestle. The (highly regarded) new-ish management team is bringing a focus on margins and per-share value, versus simply volumes, which is beginning to yield results and is not reflected in Danone’s valuation, in our opinion.

Ambev is the Brazilian majority-owned subsidiary of global brewer AB InBev SA/NV, and, we believe, InBev’s best business. Historically, Ambev traded at a significant premium to InBev – with the significant selloff in emerging markets, this has reversed, and Ambev trades at a significant and unjustified (in our opinion) discount. Given significant underperformance and attractive valuations, emerging markets are increasingly a research priority for us.

Lastly, in Financials, a holding in Hiscox Ltd was established. Hiscox is a London market specialty insurer and reinsurer, with what we believe is an exceptional track record of value creation through many cycles. Insurance is a deeply cyclical and highly competitive industry, and the specialty insurance business – particularly reinsurance – is experiencing favorable supply-demand characteristics after about six years of elevated losses and subpar returns. Hiscox’s modest multiple does not reflect either attractive market conditions or its track record of effective and profitable cycle management, in our opinion.

The new holdings were funded largely through trimming of existing names, though there were a few outright sales in the year. Japanese shoe manufacturer Asics Corp and Spanish retailer Inditex SA were sold on valuation grounds, while our holding in Hongkong and Shanghai Hotels Ltd, the parent company of the Peninsula hotels, was sold after what we perceived was the lack of value-creating behavior by management, despite its highly attractive valuation.

As always, we are very appreciative of your support, and look forward to being in touch.

Ray Wicklander

DISCLOSURES

[1] Returns are annualized. Bundled fee accounts are included in this composite and are defined as client accounts where Great Lakes Advisors maintains a direct contract with the client as opposed to a wrap fee platform sponsor, and the client has entered into a bundled fee arrangement with a custodian or broker-dealer which does not separately identify trading costs from other services covered by the bundled fee, typically including custody, consulting, administration and reporting. Gross composite performance is reduced by trading costs for non-bundled fee accounts but not for bundled fee accounts, and is shown as supplemental information to net composite performance. 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 Fundamental Global Equity Composite includes all discretionary, fee paying portfolios managed with the Firm's Fundamental Global Equity approach that primarily use ordinary shares to construct the portfolio. The benchmark selected for comparison of returns for the Fundamental Global Equity Composite is the MSCI ACWI Net Return Index. Portfolios subject to substantial client imposed restrictions are excluded from the composite. Accounts meeting the above criteria will be added to the Fundamental Global Equity Composite the first full month of discretionary management. Accounts are removed from the composite prospectively, while retaining their prior historical performance in the composite, at termination of the Firm as investment manager or when investment policy guidelines are instituted substantially restricting implementation of the composite approach. Terminated portfolios will be removed from the composite after the last full month of active management. Accounts within this composite do not employ leverage. The composite inception date was May 31, 2020; and the composite was created on June 30, 2020. 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.

The Fundamental International Equity Composite includes all discretionary, fee paying portfolios managed with the Firm's Fundamental International Equity approach that primarily use foreign ordinary shares to construct the portfolio. The composite is benchmarked to the MSCI EAFE Net Return Index. Portfolios subject to substantial client imposed restrictions are excluded from the composite. Accounts meeting the above criteria will be added to the Fundamental International Equity Composite the first full month of discretionary management. Accounts are removed from the composite prospectively, while retaining their prior historical performance in the composite, at termination of the Firm as investment manager or when investment policy guidelines are instituted substantially restricting implementation of the composite approach. Terminated portfolios will be removed from the composite after the last full month of active management. Accounts within this composite do not employ leverage. The composite inception date was May 31, 2020; and the composite was created on June 30, 2020. 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.

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The benchmark selected for comparison of returns for the Global Value ORD Composite is the MSCI ACWI Net Return Index, the All Country World Index (ACWI) is a market-cap-weighted global equity index that tracks emerging and developed markets. It is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets. As of June 2021, it covers more than 2,900 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market. The benchmark selected for comparison of returns for the International Value ORD Composite is the MSCI EAFE Net Return Index, an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. With 923 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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. 24-6-0007