FUNDAMENTAL EQUITY

LARGE CAP VALUE

GREAT LAKES ADVISORS®

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Fourth Quarter 2023

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MARKET COMMENTARY

The U.S. equity market's mid-quarter reversal constituted a surprise gift from the Federal Reserve, supported by the bond market's optimism that the Fed's nearly two-year-old monetary tightening campaign had reached an important inflection point. Indeed, a reversal in investor sentiment during late October fueled a classic risk-on rally that stretched across asset classes, affirming the adage that it's a fool's game to time the market. Within equities, the market leaders were characterized by the smallest market capitalizations, the highest volatilities, and the most heavily-shorted stocks. Any doubt of the Fed's influence on markets should have been put to rest during the quarter. When the Fed speaks, either implicitly or explicitly, investors listen. For now, based on the interpretation of the forward rate curve, U.S. GDP projections of 1.0%-1.5% in 2024, muted credit spreads, and equity P/E valuation multiples that now approximate 20x, investors are firmly in the optimist's camp of a supportive Fed sticking the soft landing in 2024.

For the quarter, small cap stocks outperformed large cap stocks, with a divergence in style. The Russell 2000 Index was up 14.0%, while the S&P 500 Index was up 11.7%. Within the large cap universe, the Russell 1000 Growth Index was up 14.2%, compared to a gain of 9.5% for the Russell 1000 Value Index. Among small cap stocks, the Russell 2000 Value Index gained 15.3% and the Russell 2000 Growth Index increased 12.8%.

FOURTH QUARTER PERFORMANCE

For the quarter, the Great Lakes Large Cap Value Equity Strategy modestly underperformed the Russell 1000 Value Index gross-of-fees, which is to be expected during broad risk-on markets. The strategy's relative underperformance was less than that of the drag from the modest 2.0% cash position held during this period of robust market returns, implying that our portfolio holdings kept pace with the broader rally.

The Q4 rally can be summed up as inclusive, with all sectors except for Energy delivering positive absolute returns. In fact, half of all the sectors that we track in the benchmark delivered absolute returns of greater than 10.0%. On a relative basis to the benchmark, in addition to the aforementioned drag from our cash holdings, sector allocation was negative due to our overweight positioning in Healthcare, which is a perceived defensive sector. Also, performance was hurt by our overweight position in Energy, which trailed the market in a manner coincident with the decline in oil prices. Conversely, stock selection was positive in the quarter, helped by our Healthcare and Financial Services holdings and partially offset by our positions in Consumer Services and Manufacturing.

During the quarter, we made modest changes to the investment portfolio, reflecting our belief that we have relatively good balance in the portfolio against a low-conviction market backdrop. For starters, we exited our position in commodity-chemicals manufacturer, Huntsman (HUN), to fund our position in DuPont de Nemours (DD), a specialized and higher growth chemicals company. The other notable addition was Freeport-McMoRan (FCX), one of the largest global commodities producers with an emphasis on copper. We initiated a position following underperformance in the stock due to concerns about the health of the global economy, as well as near-term supply/demand imbalances that could weigh on the price of copper in 2024. The stock was attractively valued, in our view, and our thought was that copper prices would have to increase to incentivize marginal supply. Also, longer-term, copper should have the support of secular electrification trends on customer demand. To make room for FCX, we trimmed a number of our biggest winners during 2024, namely Martin Marietta Materials (MLM), Meta Platforms (META), Parker Hannifin (PH), and Motorola Solutions (MSI).

On a stock specific basis, our largest relative contributors during the quarter included:

- Broadcom Inc. (AVGO) – whose shares outperformed in Q4 after the company reported a strong quarter and closed its VMware acquisition (which is a highly accretive deal). AI-related semiconductor revenue is expected to be 25%+ of total semiconductor revenue, growing 80% y/y.
- American Tower Corporation (AMT) – whose shares outperformed in Q4 following a slightly better-than-expected Q3 earnings report in October. Despite macro concerns, U.S. growth held steady, while ex-U.S. growth surpassed expectations. More broadly, while the tower industry had been under pressure for much of the year, the combination of better quarterly results and a view that the Fed may be done raising rates led to better sentiment for the industry as a whole. In our view, the company is well-positioned to see the benefit from increased wireless spending and its geographic diversity is a differentiator versus peers.
- BlackRock, Inc. (BLK) – whose shares rallied on expectations of an upcoming pivot in Fed monetary policy, which has lifted asset prices across the board; this diversified asset manager is a perceived beneficiary of a reallocation to fixed income investments in a lower interest rate environment.

Conversely, our largest relative detractors during the quarter included:

- Schlumberger N.V. (SLB) – whose shares underperformed in Q4, driven by broader weakness in the Energy sector, as oil prices fell ~20% (~$19/bbl) during the quarter.
- ON Semiconductor Corporation (ON) – whose shares underperformed after the company missed expectations on its Q4 sales/EPS guidance (-8%/12% below). The stock underperformed more than the magnitude of the guidance miss, as investors contemplate the potential for the start of a prolonged inventory correction, impacting the company's core automotive market and, more specifically, its electric vehicle-related revenue pipeline.
- Exxon Mobil Corporation (XOM) – whose shares underperformed in Q4, driven by broader weakness in the Energy sector, as oil prices fell ~20% (~$19/bbl) during the quarter.

2023 PERFORMANCE

For the calendar year (2023), the Great Lakes Large Cap Value strategy outperformed the Russell 1000 Value Index gross-of-fees. 2023 was another year of macro headlines dominating the equity narrative, which supported wide dispersion among factor performance. In a complete reversal from 2022, growth was the leading factor in 2023, at the expense of low volatility, high-quality, and momentum. As a reminder, reflecting our goal to deliver consistent relative performance for our clients, we aim to minimize factor exposures within the aggregate portfolio in order to maximize the effects of stock selection, which is where we believe market inefficiencies exist.

The economy in 2023 seemed impervious to headline risks, which included multi-decade highs in interest rates, geopolitical turmoil in EMEA, a banking crisis, and rumblings of deteriorating relations between major economic powers. Despite the inverted yield curve telling us a recession was imminent, as did the many strategists and market analysts, GDP growth proved resilient. It's a reminder of the difficulty of predicting economic growth, particularly recessions, which are often ignited by some outside event or influence. In each of the past three domestic recessions since the turn of the century, the U.S. economy was shocked into a demand slowdown. The three systematic events included the 9/11 attacks, the Lehman (and other financial institutions) failure, and the global pandemic.

The equity markets have momentum going into 2024, but there are numerous macro events that bear watching and widen the range of outcomes. The most influential macro datapoints begin with the Fed's monetary policies relative to expectations. And here we would say expectations are high. The Fed's officials see 75 bps of rate cuts in 2024, which is an outlook that is far less generous than that of the market (at roughly 150 bps of cuts). In addition, while inflation is clearly trending down from multi-decade highs, the forward trajectory may not perfectly align with investor expectations. We also have a contentious election cycle

to deal with in the Fall, which could swing the policy pendulum wide, depending on the outcomes of the Presidential and Congressional races. While equities have generally performed well during Presidential election years, given the number of variables that have an influence on markets and investor sentiment, we believe such an outcome should not be taken for granted this year.

We still have our eyes on the U.S. consumer in 2024. U.S. consumers, the foundation of the domestic economy, have remained resilient to support a healthy, albeit slowing economy. In fact, the demise of the consumer was greatly exaggerated in 2023, despite the concerns of higher inflation curbing discretionary spending, the resumption of student loan programs, and a depletion of excess COVID-19-relief savings. Through all of this, consumer net worth has risen to all-time highs, though reserved mainly for those who own inflation-combating assets (stocks, real estate, etc.). U.S. GDP growth is projected to approach 1.0%-1.5% in 2024, which marks a slowdown from the nearly 5.0% annualized pace registered in Q3, but still represents a healthy backdrop. For growth to approach the consensus, the consumer will have to show up again in 2024. Roughly two-thirds of the domestic economy is dependent upon it. We would note a slowdown in employment trends and some notable signs of credit stress in low FICO score areas of the market. In particular, the phrase “silent recession” is gaining more attention, as it appears the lower-end of the income curve is increasingly using revolving consumer credit and Buy Now Pay Later (BNPL) options to support spending trends. Employment statistics will determine how sustainable this trendline will be.

Relative to other economies across the globe, the U.S. appears to be a beacon of strength, which is important since it remains the largest economy by a wide margin. China, the second largest economy, is challenged by a property-market driven slowdown, while the third largest economy, Germany, is on the brink of recession. To this point, corporate profits have remained resilient despite slowdowns in foreign markets and the material cost-inflation headwinds experienced in 2021-2022. In effect, pricing power has been on display, while at the same time, the largest U.S. companies continue to bend the innovation curve and grow revenue at rates well above global GDP. For the broader S&P 500 Index, following roughly flat profits estimated in 2023, consensus EPS projections imply 10% year-over-year growth in 2024. To us, the market is discounting a goldilocks scenario where the Fed will take its foot off the monetary tightening gas pedal at the same time investors are anticipating above-average corporate profit growth.

We continue to focus on maintaining balance in the portfolio, though we currently lean towards larger-market cap and higher quality companies than the benchmark. Our reasoning remains that the largest cap companies have competitive advantages to their smaller cap peers, which get reflected in key operating metrics like superior market-share growth, profit margins, and returns on invested capital. Simply put, the cost to compete goes up each year, especially in a higher interest-rate environment. From a bottom-up stock selection standpoint, the portfolio remains over-indexed to Healthcare, Technology, and Industrial stocks, while being underweight Consumer Staples, Financial Services, and Commercial Services stocks.

LOOKING FORWARD

The sharp rally in equities during Q4 was a welcome sight, particularly since it broadened beyond the largest Technology stocks to include market laggards. However, while it’s important to see the breadth of the market expand, which is a healthy signal, we would also note this rally leveled the playing field from a risk/reward standpoint. This is because the rally was largely driven by a change in sentiment, as reflected by an expansion in the valuation multiples investors are willing to pay for individual stocks, rather than being supported by a change in underlying profit fundamentals. As the U.S. equity markets experienced firsthand in Q4, the macro headlines can (and often will) materially influence short-term trading trends, but it’s corporate profits that will ultimately determine the sustainability of these trends. As such, it’s this type of market environment that we believe increases the importance of bottom-up stock selection, reflecting the fact that all stocks are not created equal. Consistent with our investment process, we remain diligent in identifying companies that have competitive advantages, the financial resources to reinvest in their businesses, and ones that seem likely to exceed market expectations.

COMPOSITE PERFORMANCE AS OF DECEMBER 31, 2023

	QTD	1 Year	3 Year	5 Year	10 Year
Large Cap Value Wrap Gross of Fees[1]	9.47%	12.83%	11.99%	12.86%	9.51%
Large Cap Value Wrap Net of Fees	8.68%	9.52%	8.70%	9.55%	6.29%
Russell 1000 Value Index Total Return	9.50%	11.46%	8.86%	10.90%	8.40%

DISCLOSURES

Performance is based on the strategy composite return.

[1]Returns are annualized for periods greater than 1 year. 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 Composite includes all discretionary, fee-paying, separately managed, fully invested portfolios using the Large Cap Value strategy through a wrap fee/separately managed account platform with a benchmark of the Russell 1000 Value Index. The Composite was created in June 2009, and the inception date is June 1, 2009. Effective 7/1/2023, coinciding with a change in portfolio accounting systems, the Firm calculates composite returns in an asset-weighted manner using the aggregate method. This method aggregates the market values and cash flows for all accounts, and treats the composite as if it were one account. Account returns are calculated using a monthly internal rate of return ("IRR") methodology. Prior to this date account returns were time-weighted, based on a daily cash flow application. Composites were asset-weighted, using beginning-of-month market values. There have been no material personnel or other changes which would affect the Composite. The investable universe for the Large Cap Value strategy includes all stocks in the Russell 1000 Value Index and others that are among the largest 1,000 U.S. stocks by market capitalization, that are included in the S&P 500 Index, or that are already held in portfolios.

Valuations and returns are computed and stated in U.S. Dollars. The SMA fee includes all charges for trading costs, portfolio management, custody, and other administrative fees. At the end of each annual period, 100% of composite assets have bundled fees. Net returns are calculated by subtracting the highest applicable SMA fee (3.00% on an annual basis) on a monthly basis from the "pure" gross monthly return. The wrap fee includes transaction costs, investment management fees, custody fees, and other administrative fees. Pure gross returns do not reflect the deduction of any expenses, including transaction costs, and are supplemental information.

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