REPRINTED FROM JULY 31, 2017

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Building Diversified Portfolios with Quality Global Equities

GREGORY D. PADILLA, CFA, is Principal and Portfolio Manager – Global at Aristotle Capital Management, LLC. Gregory Padilla is a member of the Aristotle Capital research team and a veteran of the investment industry. Prior to joining Aristotle Capital, Mr. Padilla was Equity Analyst and Portfolio Manager at Vinik Asset Management, LP; and Managing Director at Tradewinds Global Investors, LLC. Mr. Padilla earned his Bachelor of Science degree in finance from Arizona State University, and his MBA with honors and concentration in investments and financial markets from the University of Southern California. He is a CFA charterholder.

ALBERTO JIMENEZ CRESPO, CFA, is Principal and Portfolio Manager – Global at Aristotle Capital Management, LLC. Alberto Jimenez Crespo is a member of the Aristotle Capital research team and a veteran of the investment industry. Prior to joining Aristotle Capital, Mr. Crespo was Equity Analyst and Portfolio Manager at Vinik Asset Management, LP; Managing Director at Tradewinds Global Investors, LLC; Equity Analyst at Merrill Lynch; and sellside Equity Analyst at Salomon Smith Barney. Mr. Crespo earned his Bachelor of Science and Master of Science degrees in mining engineering from Universidad Politecnica de Madrid, and his Master of Science degree in mineral economics from Colorado School of Mines. He is a CFA charterholder and fluent in Spanish.

SECTOR — GENERAL INVESTING

TWST: What are some of the broad global trends you are seeing, and how are they driving your investment decisions right now?

Mr. Padilla: I think a big problem is the short-termism in the markets today. Every company is being pushed to the limit to try and wring out every last cent of EPS. It's hard for good management teams to settle in and make long-term strategic decisions. So we are looking for the rare companies that are thinking less about maximizing this quarter's EPS and are more focused on the next three to five years and how they can optimize the business.

One of the other trends or challenges we are seeing is the unprecedented technology-driven disruption. This gets talked about a lot, but it's filtering into many different industries other than just brick and mortar, which was attacked by **Amazon** (NASDAQ:AMZN) first. The way we shop online, the way that we pay, the way that we consume media or listen to music, on-demand or streaming, the way we buy software through subscriptions now, it's all changing, and that's from a combination of the computing power increasing and improved mobile internet speeds. It's all changed the world, and it's creating challenges as well as opportunities for those that can thrive in the new world. Summing all that up, selectivity, understanding evolving industry dynamics and remaining diversified are as important as ever, and we are working really hard to avoid value traps.

TWST: On the other side, have these disruptions eliminated old-style areas that previously attracted attention, that are making those areas less attractive to you?

Mr. Padilla: We try hard not to draw a line in the sand and say, "We are not going to look at this or that," because sometimes there are great opportunities in things where there is a market bias. But I would say, in general, the borrow-and-spend global economic system is at a crossroad. We are really trying to be mindful of companies that have overly benefited from excessive borrowing and lower rates.

Also, in the health care space, I mean, health care costs are just spiraling out of control; something has got to give there. So we are trying to be mindful of those companies that have really benefited from simply raising prices or are taking a disproportionate slice of the pie, if you will, kind of like the PBMs in the health care system.

Mr. Crespo: I think it has gotten to a point where if consumers have to pay for medicines at the same rate that it costs you to buy a Ferrari, that's going to be a social issue, right? I mean, I don't think it requires you to have a Ph.D. in physiology to know that.

TWST: Where are you finding ideas right now?

Mr. Padilla: I'll highlight a couple of them. As far as countries where we are seeing opportunities or ideas, I'll highlight Japan. The success of Abenomics is debatable, but we are definitely seeing a shift in the way management teams approach capital allocation. Japan is a country that's full of amazing businesses with innovative products that are trapped within these companies that exist to benefit society and not shareholders, but we are starting to see a cultural shift there. It's becoming more in vogue to focus on shareholder returns, and it's even shameful to have a low return on equity. We are focused on what we believe to be unique companies that are focused on value creation and are willing to share free cash flow with shareholders.

Another area I'd highlight is something that we call "undercover compounders." In a world of low economic growth and increasing geopolitical risk, the demand for stable, predictable businesses has driven up valuations in the sectors typically regarded as holding these attributes, such as staples, tech, telecom and utilities. So what we are looking for are some really interesting opportunities in what we see as unique companies that have similar attributes but happen to be classified in sectors generally regarded as less stable or more unpredictable, such as the industrial sector, the materials sector and the energy sector.

TWST: How do you view emerging markets? They have gotten beaten up pretty badly, but there is a lot of hype that this could be the year emerging markets are returning. What are your thoughts?

Mr. Padilla: Yes, what we think has been beaten up in EM is the state-controlled entities in the energy, materials, financials and utilities sectors. More often than not, they have little transparency in their financials, there's poor corporate governance or highly regulated companies, and sometimes they are even used for political reasons. So our focus is on what we view as those great companies that happened to be headquartered in EM.

So the largest holding in the strategy today is **Samsung Electronics** (KRX:005930). We talked about this in our fourth-quarter 2014 commentary. We highlighted the investment case and compared it to a combination of **Apple** (NASDAQ:AAPL), **Micron** (NASDAQ:MU) and **Whirlpool** (NYSE:WHR), but at one-fifth the price. It has been one of the strongest contributors to the strategy over the last 18 months, and it still trades at less than 7 times earnings, 5 times if you pull the cash out. And it's really just a global leader that happens to be headquartered in South Korea.

Another example would be in Mexico, one of the leading paper products companies in the country of Mexico. We admired for a long time **Kimberly-Clark de Mexico** (BMV:KIMBERA) — in our view, an innovative company with an improving business mix. They are a dominant supplier of diapers, toilet papers, napkins and other paper products in the country. And while the market was fretting about political rhetoric and the currency dynamics, our fundamental research gave us the confidence to be decisive and initiate a position in the company.

Highlights

Gregory D. Padilla and Alberto Jimenez Crespo discuss Aristotle Capital Management, LLC. Mr. Padilla and Mr. Crespo are research- and fundamental-oriented investors. They aim to identify unique companies that are in situations where something important is changing, such as management or industry consolidation. When choosing investments, value is a prerequisite for Mr. Padilla and Mr. Crespo. They view poor balance sheets as a red flag as well as lack of transparency. Overall, Mr. Padilla and Mr. Crespo think they increase their chance for success by giving themselves the latitude to look for the best opportunities anywhere in the world.
Companies discussed: Amazon.com (NASDAQ:AMZN); Samsung Electronics Co. Ltd. (KRX:005930); Apple (NASDAQ:AAPL); Micron Technology (NASDAQ:MU); Whirlpool Corporation (NYSE:WHR); Kimberly-Clark de Mexico SAB de CV (BMV:KIMBERA); Goldman Sachs Group (NYSE:GS); Vodafone Group Plc (NASDAQ:VOD); PPG Industries (NYSE:PPG); Sherwin-Williams Co. (NYSE:SHW); Vivendi SA (EPA:VIV) and Peyto Exploration & Development Corp. (TSE:PEY).

TWST: What about India? You mentioned Abe in Japan, but Modi in India has also gotten some attention.

Mr. Padilla: So we don't have any direct investments in India. I think the Indian economy obviously has massive potential, not that dissimilar to China over 15 years ago, if you look at the industrialization that went on there. We continue to monitor it. There's great potential there, but there are no direct investments that we have today.

Mr. Crespo: I think with those themes, just like when **Goldman Sachs** (NYSE:GS) invented the terminology of BRIC, you have to be careful in that there might be appearances of great opportunity, but if you don't really dig into the business model, you can really lose a lot of money. Particularly, since you are asking about India, look at what happened in the telecom industry. The penetration rate is very low. As you know, data is growing really fast, demographics are good, and so on and so forth. But yet, if you didn't understand what was really happening with one of the Ambani brothers — India's richest man — that is disrupting the whole industry, companies like **Vodafone** (NASDAQ:VOD) and other European players that thought they were going to make a lot of money in India, they had to write-off almost all of their investments.

So I think that's why we don't think of emerging markets in some sort of homogenous asset class. It's very different. All the countries are very different. As you know, EMs account for over 80% of the global population. So for us, it's really being more specific about particular businesses that we view as unique and we can understand.

Mr. Padilla: The motto of our approach is that we think we increase our chance of success by having the latitude to look for the best opportunities basically anywhere in the world. But it's really about global quality, looking for what we believe to be great companies, and then where they're headquartered becomes a secondary concern. I think in today's world of globalization, where a company gets their mail or where they are headquartered is less relevant.

TWST: What specifically would you say you are looking for, and how do you look at a stock when you are evaluating it?

Mr. Padilla: We manage concentrated portfolios, three to four dozen holdings, and we are a research-oriented, fundamental-oriented firm. We are trying to identify what we see as unique companies in situations where something important is changing. So that could be a new management team; it could be a consolidating industry, improving business mix.

For us, value is a prerequisite, so we don't necessarily run screens. Many of the companies we invest in don't screen well, but they can have significant room for improvement and self-help. So when you are screening, you are really looking backward over the last three, five and 10 years, and we are looking for the companies where the last three, five and 10 years aren't necessarily representative of their full potential. In general, poor balance sheets are a big red flag for us because one of the key aspects of a quality business, particularly when you have a concentrated portfolio, is the ability to ride out the storm and thrive through adversity, and poor balance sheets can become a big issue.

And then, on the analysis side, if there is any lack of transparency, again, we are a research-oriented firm. If we can't get comfortable with the transparency of financials, we won't invest; we'll take a pass. And lastly, just ensuring that we have a well-founded differentiated view on the company. It's an increasingly competitive market, and I think understanding how your view differs is really important.

TWST: Give us an example of a name you like, and walk us through the reasons you like them.

Mr. Padilla: Yes, so I'll start with one here in the U.S.: **PPG** (NYSE:PPG). **PPG** is transitioning to a pure-play coatings company following the sale of its more cyclical chemical and glass-oriented businesses. In addition, they have significant aftermarket and maintenance work in the coatings business that generates a steady stream of income. This is in everything from auto paints to architectural paints, and the

1-Year Daily Chart of PPG Industries

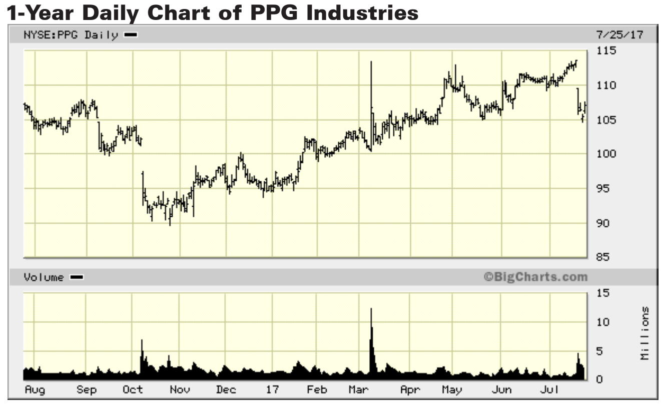

Chart provided by www.BigCharts.com

1-Year Daily Chart of Vivendi SA

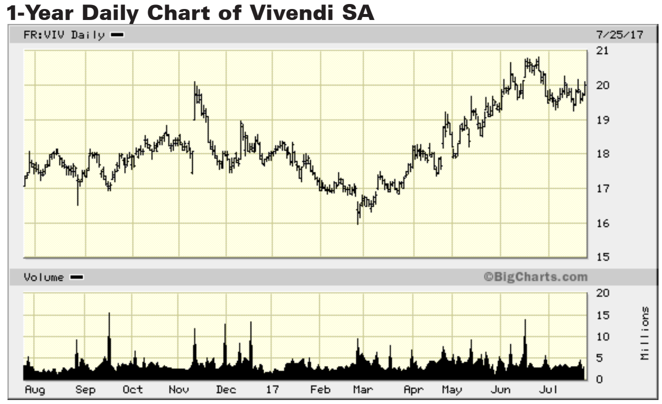

Chart provided by www.BigCharts.com

industry continues to consolidate. **Sherwin-Williams** (NYSE:SHW) recently bought **Valspar**, and there are many overseas acquisitions taking place. We think the coatings industry is becoming less cyclical and more predictable than it was in the past.

Another one based in Europe would be **Vivendi** (EPA:VIV). So **Vivendi** has restructured its portfolio significantly over the last three to five years. They sold off most of their telecom assets, and they've really transformed from an overleveraged conglomerate to a net cash

"The motto of our approach is that we think we increase our chance of success by having the latitude to look for the best opportunities basically anywhere in the world. But it's really about global quality, looking for what we believe to be great companies, and then where they're headquartered becomes a secondary concern."

European media powerhouse. Their key asset is **Universal Music Group**, **UMG**, which is the largest record label in the world.

And I touched earlier on one of the things we look for is when something important is changing. And what we see changing in the music industry is the technologically driven shift to streaming and a subscription-based model. And we believe that can have huge implications on the music industry. You had 20 years of falling revenues, and in 2016, for the first time in a while, the industry started to grow. We think **UMG's** library and portfolio of music will finally get the credit it deserves.

Mr. Crespo: I'd have to say the potential of music is huge. About five countries today represent 90% of music-industry sales. So if you think about it, only 20% of people globally have ever paid for music because of piracy and many other things that you are aware of. When you think now of music as a service, where people are willing to pay, and there's guys like **Spotify** and so many other distributors, people find it convenient to subscribe to the services through their phones and to discover music. And so when you think of that as a service, the potential could be immense.

TWST: What are some of the portfolio guidelines you follow?

Mr. Padilla: We have portfolio guidelines that limit our absolute levels in countries and industries. Our position size is typically ranged between 2% and 4%. Rarely has a holding ever gotten over 5%. And we are really just trying to build a diversified portfolio while seeking to ensure that we don't have too much exposure to any one country or region.

TWST: And then, what would make you decide to sell something out of a portfolio?

Mr. Padilla: Yes, so there's various reasons to sell. And this is probably one of the more interesting subjects to talk about. But I think as a portfolio manager, it's really about balancing risk/reward. So more often than not, many of our sales are when we find what we view as a better alternative or more optimal risk/reward. But some of our best sales have been companies that we've owned for three to four years that have kind of gone sideways. As we pride ourselves on having a deep understanding of companies and industry dynamics, from time to time, we are able to identify deteriorating fundamentals before the market. Those are what I would consider some of our best sales.

"We are an equity-oriented firm, but I think it goes without saying that the returns on most bonds today are measly, to put it kindly; cash yields nothing; and you are exposed over the long term to inflation, so we see equities as the best game in town for the long-term investor. Equities are where we see the best opportunities today."

Mr. Padilla: And I'll give you one more example quickly, in an out-of-favor sector, the energy sector. We talked a lot about industries that might be out of favor or generally considered as less predictable, and we focused on what we believe to be unique companies. Canadian-based **Peyto Exploration** (TSE:PEY) is a good example of that. In our view, it's a very unique energy company. They are focused on full-cycle profitability, one of the lowest-cost producers of natural gas in North America. They invest countercyclically, they have a strong balance sheet in our view, and they are growing production 10% a year. They fund capex organically and pay a nice 5% dividend yield.

So while the fundamentals of oil and natural gas are under pressure, we think this is a really good business and that fundamentals for natural gas have a lot of optionality with LNG, power demand, industrial demand. There is also energy reform ongoing in Mexico right now, which should increase the ability of U.S. companies to export down there.

TWST: Given the global environment, are equities the best place to invest?

Mr. Padilla: I think so. We are an equity-oriented firm, but I think it goes without saying that the returns on most bonds today are measly, to put it kindly; cash yields nothing; and you are exposed over the long term to inflation, so we see equities as the best game in town for the long-term investor. Equities are where we see the best opportunities today.

TWST: How often do you re-evaluate your holdings?

Mr. Padilla: We are continuously monitoring the portfolio. Our holdings turnover historically has been about 20% to 30%, but we are continuously monitoring the portfolio.

TWST: Can you tell us about each of your backgrounds?

Mr. Padilla: Alberto and I have been working together for over 10 years now. We both started off together in early 2006 at a subsidiary of Nuveen called Tradewinds, which was one of the early-on companies that focused on global equities. We spent much of the last decade there, and we spent one year at Jeff Vinik's hedge fund. I like to call that our Ph.D. in risk management. He had a successful 20-year career managing his hedge fund and previously ran Fidelity Magellan.

When he converted to a family office, like many hedge funds did, that brought Alberto and I to the West Coast, where we eventually joined the team here at Aristotle Capital. While the firm itself is relatively new starting in 2010, the history of the founders working together dates back over 20 years where they started at MetWest Capital. We recently celebrated our three-year anniversary with the firm and are very excited to be managing the global strategies here.

TWST: What is your outlook for the markets, and what are you watching over the next year?

Mr. Padilla: So we take a little bit of a different approach. While broad market valuations are historically high, we've come to the conclusion that valuation isn't a great market-timing tool. I think a lot of hedge fund managers will agree with that, as they have taken a lot of pain trying to short the market over the last few years. But valuation can be a good predictor of future returns. So in our view, I think people just need to moderate their return expectations going forward.

We recognize that we're not very good at trying to time the markets, so I'm going to steal a line from Charlie Munger, which I loved — Charlie is Warren Buffett's longtime right-hand man. He said, "We think of ourselves as long-distance swimmers, always swimming; sometimes the current helps, sometimes it hurts, but we just keep swimming." And that's really the approach that we take. One of the mottos we have here is: Avoid focusing on the waves; focus on the horizon. Don't get caught up in the noise, focus on the fundamentals, stay diversified and just keep swimming.

TWST: Thank you. (LMR)

Please see www.twst.com for disclosures.

GREGORY D. PADILLA, CFA
Principal & Portfolio Manager – Global
ALBERTO JIMENEZ CRESPO, CFA
Principal and Portfolio Manager – Global
Aristotle Capital Management, LLC
11100 Santa Monica Blvd.
Suite 1700
Los Angeles, CA 90025
(310) 478-4005
(310) 478-8496 — FAX
(877) 478-4722 — TOLL FREE
www.aristotlecap.com
e-mail: info@aristotlecap.com

Disclosures:

The opinions expressed herein are those of Aristotle Capital Management, LLC (Aristotle Capital) and are subject to change without notice. This material is not financial advice or an offer to purchase or sell any product.

The companies identified above are examples of holdings and are subject to change without notice. The companies were selected to help illustrate the investment process described herein. A complete list of holdings is available upon request. This information should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the holdings listed were or will be profitable, or that investment recommendations or decisions we make in the future will be profitable. Aristotle Capital reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. Past performance is no guarantee of future results. Recommendations for the last 12 months are available upon request.

Aristotle Capital Management, LLC (Aristotle Capital) is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Aristotle Capital, including our investment strategies, fees and objectives, can be found in our Form ADV Part 2, which is available upon request. ACML-17-844.