

# Building a Strong Foundation

## Economic & Markets Overview

The U.S. economy experienced solid growth in 2018. Annual GDP growth was on pace to exceed 3% for the first time since 2005. Additionally, corporate profits grew by 10.4%, a six-year high, and unemployment reached nearly 50-year lows. Despite generally positive economic news in the U.S., slowing growth outside of the U.S., trade tensions and a tightening Fed, weighed heavily on U.S. equity markets, which suffered their first down year since 2008.

We saw increased volatility in the equity markets last year, led in part by a heightened focus on political rhetoric worldwide. At Aristotle<sup>1</sup>, rather than focus on “top-down” views or analysis of short-term events, we choose to focus on understanding and owning what we believe to be great businesses for the long-term. In our opinion, this approach has served our clients well over the years and decades.

## Aristotle Developments and Milestones in 2018

Despite net outflows in actively managed funds in 2018, total assets<sup>2</sup> at Aristotle grew by 10.3% to \$22.0 billion, as shown in the graph below. Aristotle’s continued growth can be attributed to a number of factors, including the high level of talent across our investment teams resulting in consistent long-term performance across our strategies.



**Aristotle Capital Management, LLC**  
U.S., International and Global Equities

- Value Equity
- International Equity
- Global Equity
- Global Opportunities



**Aristotle Capital Boston, LLC**  
U.S. Equities

- Small Cap Equity
- Small/Mid Cap Equity



**Aristotle Atlantic Partners, LLC**  
U.S. Equities

- Large Cap Growth
- Focus Growth
- Core Equity

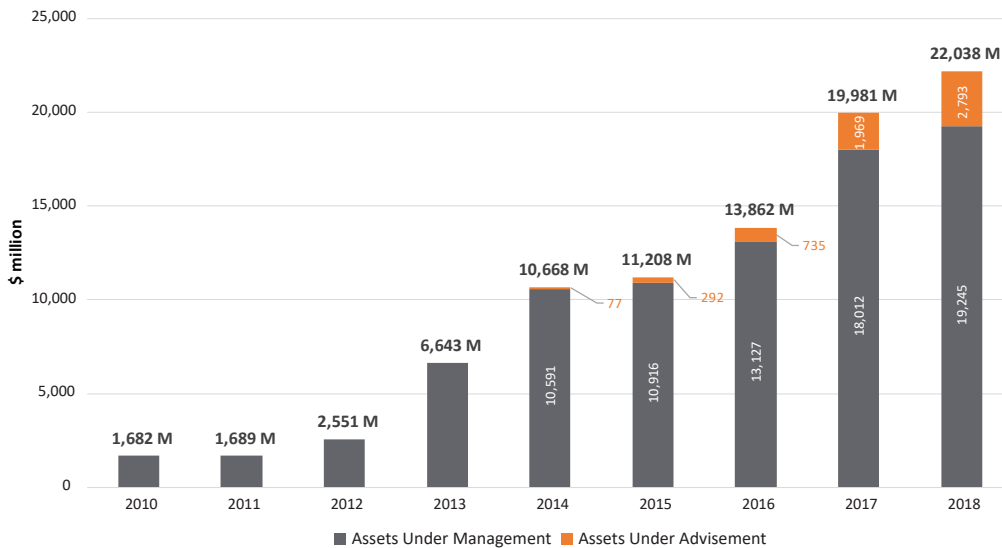


**Aristotle Credit Partners, LLC**  
Fixed Income

- High Yield and Short Duration High Yield
- Investment Grade Corporate
- Strategic Credit
- ESG

**Total assets approximately \$22 billion as of December 31, 2018<sup>3</sup>**

TOTAL ARISTOTLE ASSETS<sup>2</sup>



<sup>1</sup>The term Aristotle refers to Aristotle Capital and its affiliates. Aristotle Capital Management, LLC, Aristotle Capital Boston, LLC, Aristotle Atlantic Partners, LLC and Aristotle Credit Partners, LLC are affiliated organizations. Each is an independent investment adviser separately registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about each adviser, including the investment strategies, fees and objectives, can be found in their Form ADV Part 2, which is available upon request.

<sup>2</sup>Assets includes assets under management and assets under advisement. Assets under advisement refers to assets on which our firm provides advice or consultation but for which our firm either does not have discretionary authority or does not arrange or effectuate the transactions. Assets under advisement could also be those which we monitor for a client on a non-discretionary basis, where we may make recommendations but where the client is the party responsible for arranging or effecting the purchase or sale.

<sup>3</sup>As of December 31, 2018, Aristotle Capital had \$15.54 billion of assets under management and \$2.40 billion of assets under advisement; Aristotle Boston had \$3.16 billion of assets under management and \$0.10 billion of assets under advisement; Aristotle Atlantic had \$0.07 billion of assets under management and \$0.28 billion of assets under advisement; and Aristotle Credit had \$0.45 billion of assets under management and no assets under advisement. Aristotle Capital, Aristotle Credit, Aristotle Boston and Aristotle Atlantic were formed in 2010, 2013, 2014 and 2016, respectively. Continued on page 4.

- **Aristotle Capital's International Equity strategy** celebrated its **10-year anniversary** during 2018. The strategy uses a bottom-up security selection process to identify what we believe to be quality businesses outside of the U.S. Its long-term track record is compelling, having outperformed both the MSCI EAFE Index and MSCI ACWI ex USA Index in 62% and 100% of rolling five-year periods on a net of fees basis, respectively, since inception (88% and 100%, respectively, gross of fees). The strategy's annualized performance ended December 31, 2018 is shown below.

Performance (%)	1 Year	3 Years	5 Years	10 Years	Since Inception (1/1/2008)
International Equity Composite (gross)	-9.69	4.15	1.66	8.95	4.22
International Equity Composite (net)	-10.12	3.66	1.16	8.41	3.72
MSCI EAFE Index (net)	-13.79	2.87	0.53	6.31	0.40
MSCI ACWI ex USA Index (net)	-14.20	4.47	0.67	6.57	0.26

- **Aristotle Boston's Small/Mid Cap Equity strategy** also reached its **10-year anniversary**<sup>4</sup>. With a long-term focus, reflected by its low turnover, the strategy has outperformed the Russell 2500 Index in 61% and 58% of rolling three- and five-year periods on a net of fees basis, respectively, since inception (80% and 79%, respectively, gross of fees). The strategy's annualized performance ended December 31, 2018 is shown below.

Performance (%)	1 Year	3 Years	5 Years	10 Years	Since Inception (1/1/2008)
Small/Mid Cap Equity Composite (gross)	-10.22	7.89	6.04	13.56	8.60
Small/Mid Cap Equity Composite (net)	-10.55	7.32	5.35	12.86	7.99
Russell 2500 Index	-10.00	7.32	5.14	13.14	7.31

- The **Aristotle Collective Investment Trust**, which was launched a little more than two years ago, closed the year at **over \$900 million** in total assets under management. These daily valued, institutional only, commingled funds are structured for qualified retirement assets and may be well suited for our growing defined benefit and defined contribution client base. We have partnered with SEI to establish these vehicles for our Global Equity, International Equity, Small Cap Equity, Small/Mid Cap Equity (SMID) and Value Equity strategies.

## 2018 Investment Highlights across the Aristotle Family<sup>5</sup>

**Aristotle Atlantic** buys companies that can benefit from strong product cycles and positive secular themes or cyclical trends. Avery Dennison Corp. (AVY), among the world leaders in radio-frequency identification (RFID) tags used for inventory management and sticky labels used by businesses to add their branding to products such as drinks, food, personal care and pharmaceuticals, is an example of an investment based on several strong product cycles. We believe several drivers in place will propel long-term top-line growth as the company continues to shift to high-value, high-margin product lines and market segments. We also believe that increasing exposure to emerging markets, where continued growth of consumer demand drives increasing retail purchases and e-commerce, will benefit Avery Dennison's RFID tag and branding labels and graphics businesses.

**Aristotle Boston** manages high-conviction portfolios comprised of a diversified mix of companies that are believed to be of high quality and possess long-term value. MACOM Technology Solutions Holdings, Inc. (MTSI), a designer and manufacturer of high-performance semiconductors, was added to the portfolios. Due to previous investments in new product R&D, we believe the company is well positioned to benefit from significant secular growth opportunities within the data center, telecommunications and industrial & defense markets, which have the potential to drive shareholder value creation as well as offer significant upside potential for the company's shares.

<sup>4</sup>The Aristotle Small/Mid Cap Equity Composite has an inception date of January 1, 2008 at a predecessor firm. During this time, portfolio managers Dave Adams and Jack McPherson had primary responsibility for managing the strategy. Performance starting January 1, 2015 was achieved at Aristotle Boston.

<sup>5</sup>Investment examples for Aristotle Capital, Aristotle Boston and Aristotle Atlantic were selected based on the following criteria; each represents a new portfolio holding added to multiple strategies during 2018. For Aristotle Credit, the security selected represents the single largest new purchase in 2018 in one or more investment strategies.

Past performance is not indicative of future results. Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. For example, a 0.5% annual fee deducted quarterly (0.125%) from an account with a ten-year annualized growth rate of 5.0% will produce a net result of 4.4%. Actual performance results will vary from this example.

**Aristotle Capital** utilizes a rigorous fundamental, bottom-up process that consists of identifying what we believe to be high quality companies with attractive valuations and catalysts that have the potential to close the valuation gap over a three- to five-year time horizon. Sony Corp. (SNE) is an example of an investment made during the year across all Aristotle Capital strategies. With over \$75 billion in annual sales and an iconic brand, Sony is a global household name. After pruning business lines and refocusing various segments, Sony's main earnings drivers today are the Game & Network Services, Financial Services, Semiconductors and Music segments. In addition to commanding leading market share positions, these businesses enable consumers to create, communicate and entertain across multiple platforms in the digital and physical worlds. Led by CEO Kenichiro Yoshida, Sony is undergoing a transformation from a slow-moving, and at times, loss-making entity to a product focused, cost-conscious and, in our view, more consistently profitable global enterprise.

**Aristotle Credit** focuses on investing in the non-distressed segments of the corporate credit market. The investment process consists of a unique blend of top-down and bottom-up research, with a focus on liquidity, transparency, ESG and relative value. Molina Healthcare, Inc. (Molina) is a defensively positioned company in the managed care industry. We are impressed with the company's new management team and actions taken to improve their credit profile. Molina arranges for the delivery of healthcare services to persons eligible for Medicaid and other programs for low-income families and individuals. These programs continue to expand as more states outsource this service to the private sector. The managed care sector has materially consolidated and pricing is expected to remain solid which we believe will allow the company to improve its credit ratings over time. Molina has improved its ESG scores with improvements to corporate governance and patient safety.

## Aristotle Enhancements and Additions

Following-up on the successful implementation of SS&C Advent's Geneva global portfolio management and accounting platform in 2017, this past year we migrated to Office 365 and added Marketo, a powerful software tool to help us engage with our clients and increase our operational efficiencies. We are also currently in the process of adopting Charles River, an industry leader in trading and post-trade settlement software. Charles River serves half of the top 100 global investment management firms by automating front and middle office investment support.

In addition to our ongoing investment in technology infrastructure, we continued to add experienced professionals across departments, including Compliance, Business Solutions, Distribution, Finance, Human Resources, Marketing and Operations. Our success is based on our people, and Aristotle remains committed to building a company in which employees feel valued and can realize their potential. We are fortunate to have an extraordinary group of employees to serve our clients.

## Giving Back

At Aristotle, we are committed to actively participating in our communities by partnering with a number of outstanding organizations and nonprofits that advance health, education and human services not only to support these valuable efforts but also to enrich our own lives through teamwork and continuous learning.

Our community work has included supporting St. Jude in its fight to end childhood cancer, mentoring youth and volunteering in neighborhoods in great economic need. In addition, each holiday season, Aristotle makes a monetary donation on behalf of our clients to a charity determined by our employees. In 2018, we contributed to Direct Relief to support relief efforts following the devastating California wildfires.

## Looking Ahead

The name Aristotle (Greek name Aristotélēs) means "the best purpose," which is derived from the words aristos (best) and telos (purpose). Aristotle's mission and "best purpose" is to achieve excellence for our clients, our employees, our community and our shareholders. We believe that our adherence to this mission statement will help us to continue building a strong foundation that will lead to success in the years to come. We look forward to a prosperous and productive 2019. On behalf of the Board of Managers and the Aristotle family, we thank you for your trust and partnership.

Sincerely,



**Gary Lisenbee**

Co-CEO, Co-Chief Investment Officer

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<sup>3</sup>Aristotle Capital was established in the fourth quarter of 2010; Aristotle Credit was established in the fourth quarter of 2013; Aristotle Boston was established in the fourth quarter of 2014; and Aristotle Atlantic was established in the fourth quarter of 2015. As of December 31, 2017, Aristotle Capital had \$15.11 billion of assets under management and \$1.56 billion of assets under advisement; Aristotle Boston had \$2.44 billion of assets under management and \$0.10 billion of assets under advisement; Aristotle Atlantic had \$0.04 billion of assets under management and \$0.29 billion of assets under advisement; and Aristotle Credit had \$0.41 billion of assets under management and no assets under advisement. As of December 31, 2016, Aristotle Capital had \$11.08 billion of assets under management and \$0.67 billion of assets under advisement; Aristotle Boston had \$1.63 billion of assets under management and \$0.05 billion of assets under advisement; Aristotle Atlantic had \$0.01 billion of assets under management and no assets under advisement; and Aristotle Credit had \$0.38 billion of assets under management and no assets under advisement. As of December 31, 2015, Aristotle Capital had \$9.26 billion of assets under management and \$0.28 billion of assets under advisement; Aristotle Boston had \$1.25 billion of assets under management and \$3.30 million of assets under advisement; and Aristotle Credit had \$0.39 billion of assets under management and no assets under advisement. As of December 31, 2014, Aristotle Capital had \$8.84 billion of assets under management and \$0.07 billion of assets under advisement; Aristotle Boston had \$1.35 billion of assets under management and no assets under advisement; and Aristotle Credit had \$0.38 billion of assets under management and no assets under advisement. As of December 31, 2013, Aristotle Capital had \$6.64 billion of assets under management and no assets under advisement; and Aristotle Credit had \$0.50 million of assets under management and no assets under advisement. As of December 31, 2012, Aristotle Capital had \$2.55 billion of assets under management and no assets under advisement. As of December 31, 2011, Aristotle Capital had \$1.68 billion of assets under management and no assets under advisement. As of December 31, 2010, Aristotle Capital had \$1.68 billion of assets under management and no assets under advisement.

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Past performance is not indicative of future results. Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. For example, a 0.5% annual fee deducted quarterly (0.125%) from an account with a ten-year annualized growth rate of 5.0% will produce a net result of 4.4%. Actual performance results will vary from this example. 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. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions Aristotle makes in the future will be profitable or equal the performance of the securities discussed herein. There is no assurance that any securities, sectors or industries discussed herein will be included in or excluded from an account's portfolio. Recommendations made in the last 12 months are available upon request.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. The MSCI EAFE Index consists of the following 21 developed market countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 developed market countries (excluding the United States) and 23 emerging market countries. With over 1,800 constituents, the Index covers approximately 85% of the global equity opportunity set outside the United States. The Russell 2500 Index measures the performance of the small to mid cap segment of the U.S. equity universe. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The volatility (beta) of the Composite may be greater or less than the benchmarks. It is not possible to invest directly in these indices. ACM-1901-91

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