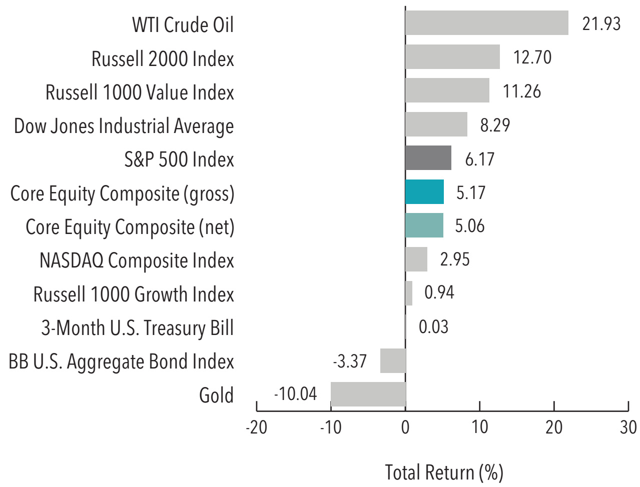
# Core Equity

1Q 2021 Commentary

## Markets Review

Markets (total return) performed as follows:

**Year to Date Returns**




*Sources: SS&C Advent, Bloomberg*
*Past performance is not indicative of future results. Aristotle Core Equity Composite returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Aristotle Atlantic Composite returns are preliminary pending final account reconciliation. Please see important disclosures at the end of this document.*

The U.S. equity market rose during the first quarter, making it the fourth consecutive quarter of positive performance. Overall, the S&P 500 Index gained 6.17% during the period. Concurrently, the Bloomberg Barclays U.S. Aggregate Bond Index fell 3.37%. In terms of style, the Russell 1000 Value Index outperformed its growth counterpart by 10.32% during the quarter, the second straight quarter that large-cap value stocks led large-cap growth stocks.

On a sector basis, all eleven sectors within the S&P 500 Index finished higher for the quarter, led by Energy, Financials and Industrials. The worst performers were Consumer Staples, Information Technology and Utilities.

The U.S. continued to make significant progress in combatting the spread of the COVID-19 virus, as the number of new daily cases fell to as low as ~39,000 in mid-March from its high of ~315,000 in early January. In addition to the ongoing rollout of the Pfizer and Moderna vaccines, the FDA issued emergency use authorization for Johnson & Johnson's single-shot vaccine. The CDC reports that, in the U.S., over 180 million vaccine doses have been delivered, over 140 million doses have been administered, and almost 30% of the population has received at least one dose to date.

On the political front, the Democratic party secured control of the Senate after the Georgia runoffs, paving the way for Congress to pass another round of stimulus. The $1.9 trillion American Rescue Plan issued $1,400 in direct payments to millions of individuals, extended unemployment benefits, expanded the child tax credit, continued eviction and foreclosure moratoriums, and provided additional funds for states, small businesses, schools, vaccine distribution and testing.

The size of the latest round of stimulus and expectations of a rapid recovery sparked fears of inflation and contributed to a sharp increase in the 10-year Treasury yield, although at 1.74% as of March 31, 2021, the 10-year yield remains low. In a continuation of prior actions, the Federal Reserve remains accommodative, citing the need for a full labor market recovery and sustained levels of higher inflation before a potential re-evaluation of policy.

## Performance and Attribution Summary

For the first quarter of 2021, Aristotle Atlantic's Core Equity Composite posted a total return of 5.17% gross of fees (5.06% net of fees), underperforming the S&P 500 Index, which recorded a total return of 6.17%. Since its inception on August 1, 2013, the Core Equity Composite has posted a total return of 16.11% gross of fees (15.56% net of fees), while the S&P 500 Index has reported a total return of 14.10%.

| Performance (%) | 1Q21 | 1 Year | 3 Years | 5 Years | Since Inception* |
|---|---|---|---|---|---|
| Core Equity Composite (gross) | 5.17 | 60.12 | 19.79 | 18.78 | 16.11 |
| Core Equity Composite (net) | 5.06 | 59.48 | 19.30 | 18.30 | 15.56 |
| S&P 500 Index | 6.17 | 56.35 | 16.76 | 16.28 | 14.10 |

**The Core Equity Composite has an inception date of August 1, 2013. 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. Aristotle Atlantic Composite returns are preliminary pending final account reconciliation. Please see important disclosures at the end of this document.*

During the first quarter, the portfolio's underperformance relative to the S&P 500 Index can be attributed to security selection, while allocation effects also detracted from relative returns. An underweight in Energy as well as security selection in Financials and Real Estate detracted the most to relative performance. Conversely, security selection in Communication Services as well as an underweight in Consumer Staples and overweight in Industrials contributed the most to relative results.

| Relative Contributors | Relative Detractors |
|---|---|
| Ameriprise Financial | Adaptive Biotechnologies |
| Bio-Techne | Ball |
| Skyworks Solutions | Intercontinental Exchange |
| J.P. Morgan Chase | Costco Wholesale |
| Bank of America | Alexandria Real Estate Equities |

## Top Contributors

### *Ameriprise Financial, Inc.*

During the first quarter, Ameriprise reported fourth quarter 2020 results that showed continued strength in the Advice & Wealth Management division, as evidenced by further margin expansion and earnings growth. Client fund flows were particularly strong, suggesting that positive news about COVID-19 vaccines and optimism about an accelerated reopening of the U.S. economy were driving improved investor sentiment. In addition, with a largely fee-based revenue model tied to assets under management, the company benefited from rising equity markets during the quarter.

### *Bio-Techne Corporation*

Bio-Techne shares were strong during the first quarter following fourth quarter 2020 results that exceeded investor expectations, highlighted by greater than 19% organic revenue growth. The company continues to be well positioned to capture the increase in R&D spending associated with COVID-19, as well as broad-based spending in a strong environment for biopharma companies. The reopening of the economy could also bode well for increased liquid biopsy testing in the urology setting.

## Bottom Detractors

### *Adaptive Biotechnologies Corporation*

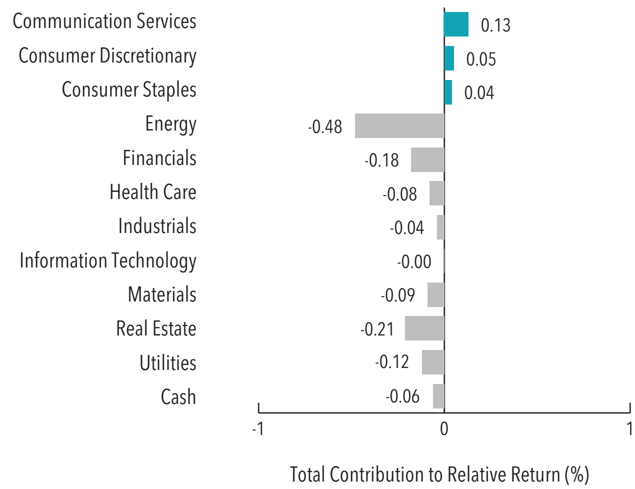
Adaptive Biotechnologies underperformed during the first quarter as higher P/E multiple growth stocks were pressured by the rapid rise in interest rates. Adaptive reported better-than-expected revenues as clonoSEQ assay penetration continued to improve. During the quarter, the company announced that Genentech had decided to halt development of a cancer therapy drug in partnership with Adaptive; however, the decision was based on safety of the target, not a safety issue with the drug. Adaptive noted that the partnership with Genentech continues to proceed with a great deal of excitement from both companies.

### *Ball Corporation*

Ball underperformed during the first quarter despite fourth quarter 2020 earnings results that were generally in line with management guidance and included improved outlooks for 2021 capital expenditures and new plant start-up costs. However, given the stock's historically high valuation and investor rotation into more cyclical stocks within the Materials sector, Ball underperformed. We continue to believe that, over the long term, the company will benefit from strong growth in global beverage can volumes and a switch from plastic to aluminum substrates, as well as a shift to specialty aluminum can packaging.

**Total Contribution to Relative Return by Sector versus S&P 500 Index**

*First Quarter 2021*




*Source: FactSet*

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## Recent Portfolio Activity

The table below shows all buys and sells completed during the quarter, followed by a brief rationale.

| Buys | Sells |
|---|---|
| General Motors | Roper Technologies |
| | Alexion Pharmaceuticals |
| | Salesforce.com |

## Buys

### *General Motors Company*

General Motors designs, builds and sells trucks, crossover vehicles, passenger cars and automobile parts worldwide and provides automotive financing products and services through General Motors Financial Company. In addition, the company is investing heavily in its growing autonomous and electric vehicle businesses. The company reports its results in four operating segments: GM North America (GMNA), GM International (GMI), Cruise and GM Financial. Cruise is the company's global segment focused on the development and commercialization of autonomous vehicle technology.

General Motors has fully embraced vehicle electrification, as evidenced by $27 billion in planned investments in the coming years and a stated goal to introduce at least 30 electric models by 2025, including new models in 2021 from the Hummer and Cadillac brands. The company recently announced a program called BrightDrop in which General Motors will manufacture fully electric cargo vans for FedEx. In addition, the company plans to leverage its proprietary all-new Ultium modular platform and battery system to efficiently build and launch new electric vehicles.

The company has also invested heavily in autonomous vehicles through its majority-owned self-driving technology company Cruise. The company is currency testing driverless vehicles in multiple U.S. cities and recently benefited from a $2 billion investment by Microsoft. Due to General Motor's planned shift to electric and autonomous vehicles, the company could see increased interest from ESG-focused investors.

## Sells

### *Roper Technologies, Inc.*

We sold our position in Roper due to what we consider a historically high valuation and concerns about the company's future acquisition opportunities. Acquisitions have been a significant driver of Roper's growth over the past 10 years, but the company's market capitalization has grown to nearly $44 billion; larger-sized deals would likely be needed to have a similar impact on future growth. In addition, large acquisitions can create additional integration risk, in our view.

### *Alexion Pharmaceuticals, Inc.*

We sold our position in Alexion following the announcement that AstraZeneca would acquire the company. At the time of the announcement, the offer price represented an approximate 40% premium to Alexion's most recent closing price.

### *Salesforce.com, Inc.*

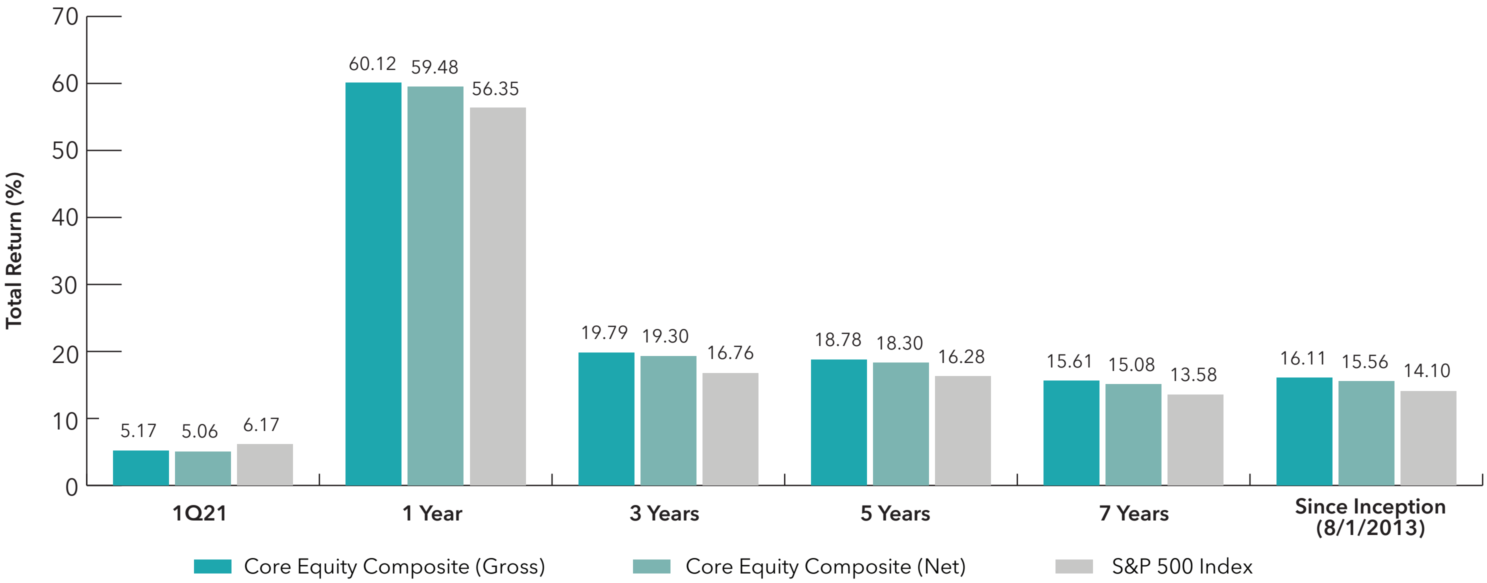
We sold our position in Salesforce.com and shifted the weighting into what we consider more economically sensitive holdings in Software, Industrials and Energy. We believed that Salesforce.com's valuation could experience continued pressure, largely driven by rising interest rates.

## Outlook

The outlook for U.S. large-cap equities will likely be driven by a reopening of the economy, steady Federal Reserve monetary policy and additional federal fiscal stimulus. The increase in COVID-19 vaccination levels, coupled with a steep decline in COVID-19-related hospitalizations, has led many states to reopen their economies. We believe these reopenings are the main driver of the recent increase in employment, as well as improvement in various other economic statistics. In our view, the Federal Reserve seems committed to continue to stay on the sidelines with regard to changes in monetary policy as the debate over whether rising inflation represents a material risk takes center stage. The recent increase in inflation has pushed long-term interest rates higher, which is largely responsible for the contraction in P/E ratios of higher-multiple stocks, in our opinion. We believe that the positive offset to higher interest rates is an expectation of more robust earnings growth, driven by states reopening and federal fiscal stimulus. We believe the magnitude of the earnings growth acceleration should be enough to offset the compression in equity P/E multiples. Based upon our expectation that the U.S. economic recovery will be swift in nature, we expect to see a shift in investor sentiment in the back half of the year away from cyclical stocks to the more secular growth stocks. Our focus will continue to be at the company level, with an emphasis on companies with secular tailwinds or strong product-driven cycles.

## Aristotle Core Equity Composite Performance

*All Periods Ended March 31, 2021*




| Year | Core Equity Composite (Gross %) | Core Equity Composite (Net %) | S&P 500 Index (%) |
|---|---|---|---|
| 2021 YTD | 5.17 | 5.06 | 6.17 |
| 2020 | 26.80 | 26.30 | 18.40 |
| 2019 | 35.85 | 35.30 | 31.49 |
| 2018 | -4.96 | -5.36 | -4.38 |
| 2017 | 22.30 | 21.85 | 21.83 |
| 2016 | 10.51 | 9.97 | 11.96 |
| 2015 | 5.75 | 5.13 | 1.38 |
| 2014 | 12.30 | 11.61 | 13.69 |
| 8/1/13 - 12/31/13 | 13.81 | 13.51 | 10.68 |

Composite returns for all periods ended March 31, 2021 are preliminary pending final account reconciliation.
The Aristotle Core Equity Composite has an inception date of August 1, 2013 at a predecessor firm. During this time, Mr. Fitzpatrick had primary responsibility for managing the strategy. Performance starting November 1, 2016 was achieved at Aristotle Atlantic.