CORPORATE CREDIT

Aristotle Credit Partners, LLC 1Q 2022 Commentary – Institutional

Summary

U.S. corporate credit markets declined sharply in the first quarter amidst a large backup in interest rates as bank loans significantly outperformed high yield bonds and investment grade corporate bonds in the first quarter. Bank loans returned -0.10% during the period as measured by the Credit Suisse Leveraged Loan Index. High yield bonds faced their worst quarter since the first quarter of 2020 and returned -4.84% as measured by the Bloomberg U.S. Corporate High Yield Bond Index. Investment grade corporate bonds underperformed amidst a rout in longer duration assets and returned -7.69%, the worst quarterly return since 2008, as measured by the Bloomberg U.S. Corporate Bond Index.

U.S. equities fell as the S&P 500 Index returned -4.60% during the period. The decline was driven by several factors including an aggressive hawkish pivot from global central banks led by the Federal Reserve (Fed), persistent inflationary pressures and a spike in geopolitical tensions emerging from Russia's invasion of Ukraine in February. U.S. economic data painted a mixed picture as the labor market continued to improve while inflation continued to rise. The unemployment rate fell to 3.8% in February, its lowest level since February 2020, while inflation accelerated further from already elevated levels as the February Consumer Price Index (CPI) rose by 7.9% year-over-year, the fastest annual pace in nearly 40 years. At its March meeting, the Fed voted to raise the target for the benchmark federal funds rate by 25 basis points, the first increase since 2018. The Fed reiterated additional interest rate hikes will be needed, and it will accelerate the pace of tapering, reducing its holdings of Treasuries, agency debt and agency mortgage-backed securities (MBS). Geopolitical tensions also rose significantly with Russia's invasion of Ukraine, further clouding the global economic outlook and sparking a broad-based rally in commodities. On the COVID-19 front, while trends continued to improve in the U.S., a resurgence in China toward the end of the quarter led to regional lockdowns and added further uncertainty to the global growth outlook.

Market Environment

U.S. Treasury yields rose sharply in the first quarter with the front end of the curve leading the way, resulting in significant bear flattening. The yield on the U.S. 2-Year note climbed roughly 160 basis points during the period, while the yield on the U.S. 10-Year note rose roughly 83 basis points. The curve flattened further and threatened inversion beyond the 2-Year point toward the end of the quarter as the Treasury market rapidly repriced the Fed's tightening cycle. Longer duration bonds underperformed as the Bloomberg U.S. Aggregate Bond Index fell 5.93%, its largest quarterly decline in more than 40 years.

Alongside the selloff in risk assets, corporate credit spreads widened modestly but ended the quarter well off their widest levels seen in early March. High yield bond spreads widened roughly 38 basis points but ended the quarter more than 80 basis points below the March high as measured by the Bloomberg U.S. Corporate High Yield Bond Index. Investment grade corporate bond spreads also widened roughly 22 basis points as measured by the Bloomberg U.S. Corporate Bond Index.

High yield bond issuance slowed markedly in the first quarter with issuance totaling roughly $43 billion, the lowest first quarter total since 2016, as borrowers were cautious amidst the market turmoil and sharp backup in yields. Investment grade corporate bond issuance topped $450 billion in the first quarter with issuance rebounding in March, as monthly supply topped $230 billion. Additionally, leveraged loan supply totaled close to $110 billion in the first quarter, a modest slowdown compared to last year's pace.

On the demand side, investors continued to favor bank loan funds over high yield bond and investment grade corporate bond funds amidst robust demand for floating-rate instruments. U.S. leveraged loan funds experienced inflows of nearly $20 billion

in the first quarter, while U.S. high yield bond funds experienced outflows of nearly $25 billion and investment grade corporate bond funds experienced outflows of more than $10 billion.

Within the high yield bond market, the riskier segments outperformed as 'B's (-3.53%) and 'CCC's (-3.88%) outperformed 'BB's (-5.94%) with higher quality bonds bearing more interest rate risk than the lower quality segments of the market. From an industry perspective, Energy (-2.60%) outperformed led by the rally in commodities, while Communications (-6.60%) trailed the broader high yield bond market. Default activity remained very low by historical standards with only $1.6 billion of actual defaults during the quarter as the 12-month trailing, par-weighted U.S. high-yield default rate fell to a record low of 0.23% at the end of March.

Performance and Attribution Summary

High Yield Bond

The Aristotle High Yield Bond Composite returned -3.44% gross of fees (-3.49% net of fees) in the first quarter, outperforming the -4.58% return of the ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index.

Security selection contributed to relative performance led by holdings in Media & Entertainment and Retailers & Restaurants. This was partially offset by security selection in Industrials and Telecommunications. Sector rotation also contributed to relative performance led by the allocation to bank loans, which was only partially offset by the allocation to investment grade corporate bonds. Additionally, industry allocation contributed modestly to performance led by an underweight in Food, Beverage & Tobacco and an overweight in Transportation. This was partially offset by overweights in Insurance and Retailers & Restaurants.

Top Five Contributors	Top Five Detractors
Kraft Heinz	PBF Energy
Quad/Graphics	**Dell**
Altice	**WW International**
Tenneco	**Rent-A-Center**
Gray Television	**MetLife**

**Bold securities held in representative account.*

Investment Grade Corporate

The Aristotle Investment Grade Corporate Bond Composite returned -7.34% gross of fees (-7.41% net of fees) in the first quarter, outperforming the -7.69% return of the Bloomberg U.S. Corporate Bond Index. Sector rotation was the primary contributor to relative performance, while security selection was the primary detractor from relative performance.

The allocation to cash and an underweight in the long end of the yield curve relative to the benchmark contributed to relative performance, while yield curve positioning detracted from relative performance. Industry allocation had a neutral effect on relative performance as an underweight in Industrials and an overweight in Transportation were largely offset by an overweight in Insurance and an underweight in Pharmaceuticals.

Security selection detracted from relative performance led by holdings in Transportation and Insurance. This was partially offset by security selection in Banking and Real Estate Investment Trusts (REITs) & Real Estate-Related.

Top Five Contributors	Top Five Detractors
Wells Fargo	**MetLife**
Verizon	**United Airlines**
MPT Operating	**Ally Financial**
Prudential Financial	**Discovery Communications**
Alexandria Real Estate	**Brown & Brown**

**Bold securities held in representative account.*

Strategic Credit

The Aristotle Strategic Credit Composite returned -3.44% gross of fees (-3.49% net of fees[1]) in the first quarter, compared to the -3.45% return of the blended benchmark of one-third Bloomberg U.S. High Yield Ba/B 2% Issuer Capped Bond Index, one-third Bloomberg U.S. Intermediate Corporate Bond Index and one-third Credit Suisse Leveraged Loan Index. Security selection was the primary contributor to relative performance, while sector rotation was the primary detractor from relative performance.

Security selection contributed to relative performance led by holdings in Media & Entertainment and Automotive & Captive Finance. This was partially offset by security selection in Consumer Products and Diversified Manufacturing & Construction Machinery. Industry allocation also contributed modestly to performance led by overweights in Energy and Lodging & Leisure. This was partially offset by overweights in Automotive & Captive Finance and Retailers & Restaurants.

Sector rotation detracted from relative performance led by an underweight in bank loans, which was partially offset by an underweight in investment grade corporate bonds.

[1] As of March 31, 2022, 33% of the Composite consisted of a non-fee-paying account.

Top Five Contributors	Top Five Detractors
Tenneco	**Wells Fargo**
Carpenter Technology	**Lumen Technologies**
CSC Holdings	**Air Lease**
Murphy Oil	**Dell**
Antero Resources	**United Airlines**

**Bold securities held in representative account.*

Outlook

We believe three major themes have shaped the performance of corporate credit markets thus far in 2022: A more hawkish Fed, more persistent and higher-than-expected inflation and increased geopolitical risk resulting from Russia's invasion of Ukraine. Despite the increase in uncertainty generated by these three themes, we continue to believe there are opportunities in U.S. corporate credit markets and maintain a positive outlook, especially for shorter duration high yield bonds.

The overall global macroeconomic backdrop has become significantly cloudier than it was at the end of 2021. While the Fed telegraphed tighter policy toward the end of last year, the Fed's hawkishness so far in 2022 has caught the market by surprise and led to a rapid selloff, concentrated in the front end of the yield curve. With the Fed signaling quantitative tightening will

begin in June, we believe there is the potential for the yield curve to steepen given the backdrop of a still strong economy and the extent of the repricing that has already occurred in the front end of the yield curve.

We also believe inflation risks could prove to be more stubborn than originally forecasted toward the end of last year. The impact of the war in Ukraine on commodity prices is just one example of how exogenous shocks have only magnified issues that could lead to stickier inflation. We believe consumers are already beginning to adapt their behavior to higher inflation, and the resulting rise in consumer inflation expectations could lead to more endemic inflation. In our opinion, there is a possibility that companies could eventually face a slowdown in topline demand as consumers' discretionary income comes under pressure. For companies, the resulting pressure on margins and pricing power could push them to seek topline growth through more leveraged, shareholder-friendly policies.

High yield supply decreased more than we originally expected in the first quarter, and we believe issuance may continue to fall below expectations over the next few quarters. In our opinion, the opportunistic refinancing window for corporates is closed, thus the issuance that does occur this year could be used to fund share repurchases and mergers and acquisitions (M&A). We believe a shift from refinancing-related issuance to M&A and share repurchase-related issuance would be negative for credit market fundamentals. In the investment grade market, we also expect issuance to slow down, which would be positive on the margin for the supply/demand picture.

We believe overall risk, from geopolitical to credit risk, has increased significantly over the past three months. While we see these risks persisting in the coming quarters, we believe the best strategy to protect against these risks is to focus on credit fundamentals and segments of the market that, in our opinion, have already priced in what we believe to be a significant amount of risk, while seeking to avoid the segments of the market that could succumb to less balance sheet-friendly activities.

High Yield Bond Positioning

In our high yield bond portfolios, we continue to favor short duration high yield bonds, especially after the rapid repricing of the 2- to 3-year segment of the yield curve over the past quarter. From an industry perspective, we adjusted our portfolios to add exposure to companies that focus on providing consumer experiences rather than consumer goods.

While duration and interest rates are typically inversely correlated, duration has increased for many high yield bond benchmarks over the past quarter despite the large backup in U.S. yields. Before the increase in interest rates, many bonds had been trading to their call date but as interest rates have increased, these bonds are now trading to their maturity date. We believe most of this adjustment has already happened, and we continue to hold a duration underweight relative to the benchmark in our high yield bond portfolios.

With the reopening of the economy, we also believe there is pent-up demand for consumer experiences (e.g., travel and concerts), which could benefit companies in certain industries. Despite rising input costs, we believe some of the areas that may benefit are concert and event providers, conference-oriented lodging providers and airlines. As a result, we increased exposure to these areas, holding overweights in Media & Entertainment, Transportation and Lodging & Leisure alongside underweights in Technology, Telecommunications and Healthcare.

Investment Grade Corporate Positioning

In our investment grade corporate bond portfolios, we continue to favor credit risk over interest rate risk and remain overweight 'BBB'-rated credits and underweight duration relative to the benchmark. From an industry perspective, we only modestly adjusted exposure during the quarter.

The sharp backup in interest rates in the first quarter led to historically large drawdowns for longer duration, higher quality segments of the fixed income market. We believe a steeper yield curve could lead to further losses in this segment of the market, and we seek to maintain an underweight in duration. Despite the duration underweight in our investment grade corporate bond portfolios, the overweight in 'BBB'-rated credits has helped keep the effective yield in our investment grade corporate bond portfolios above that of their respective benchmarks. Nonetheless, the overweight in 'BBB'-rated credits

weighed on performance in the first quarter as the credit spread on 'BBB'-rated credits widened more than that of the higher quality tiers in the investment grade corporate bond universe.

Within our investment grade corporate bond portfolios, we added an overweight in Media & Entertainment driven by idiosyncratic factors. Otherwise, industry-level exposure was quite similar compared to exposure at the end of 2021. At the end of the quarter, we held overweights in Insurance, Transportation and Brokerage & Asset Management alongside underweights in Banking, Pharmaceuticals and Retailers & Restaurants.

Strategic Credit Positioning

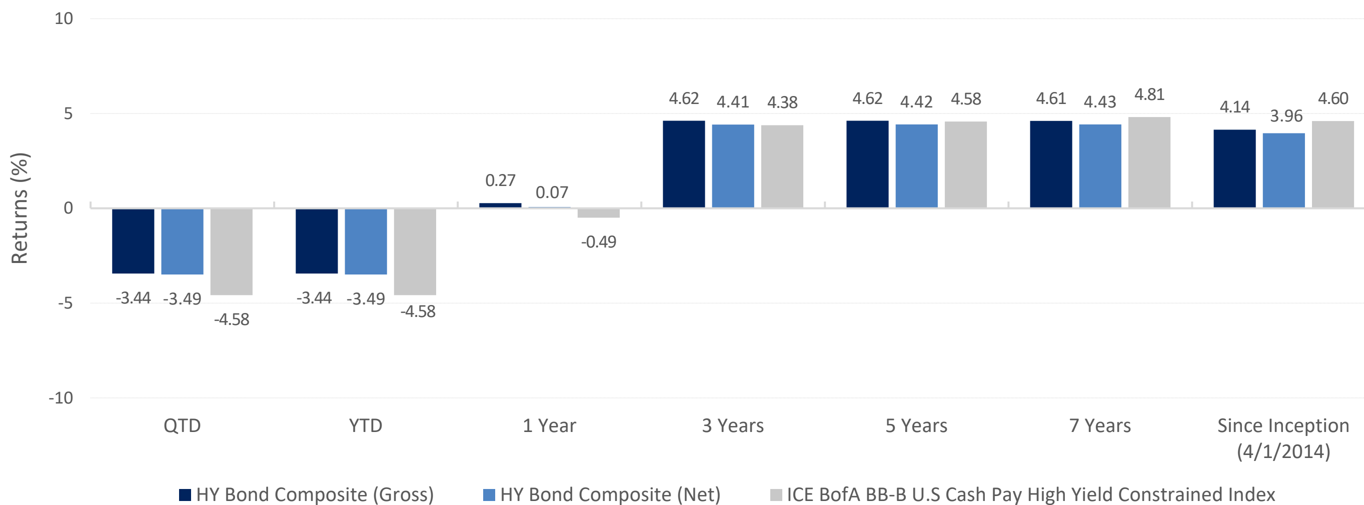
In our strategic credit portfolios, we increased an overweight in high yield bonds while further increasing underweights in bank loans and investment grade corporate bonds. We also maintained a duration underweight relative to the blended benchmark as we have over the past several quarters.

Despite the relative outperformance of bank loans during the quarter, the deterioration in the backdrop for risk assets has led us to hold off on increasing exposure to bank loans, as we believe bank loans hold significantly more liquidity risk and credit risk than other segments of the corporate credit market. Instead, we increased our exposure to shorter duration, higher quality high yield bonds while reducing hybrid investment grade corporate bond exposure in our strategic credit portfolios.

As of March 31, the strategy was composed of 71.4% high yield bonds, 18.4% investment grade corporate bonds and 6.4% bank loans. Roughly 3.8% was held in cash. We held overweights in Lodging & Leisure, Energy and Transportation alongside underweights in Technology, Banking and Healthcare.

Aristotle High Yield Bond Composite Performance

All Periods Ended March 31, 2022

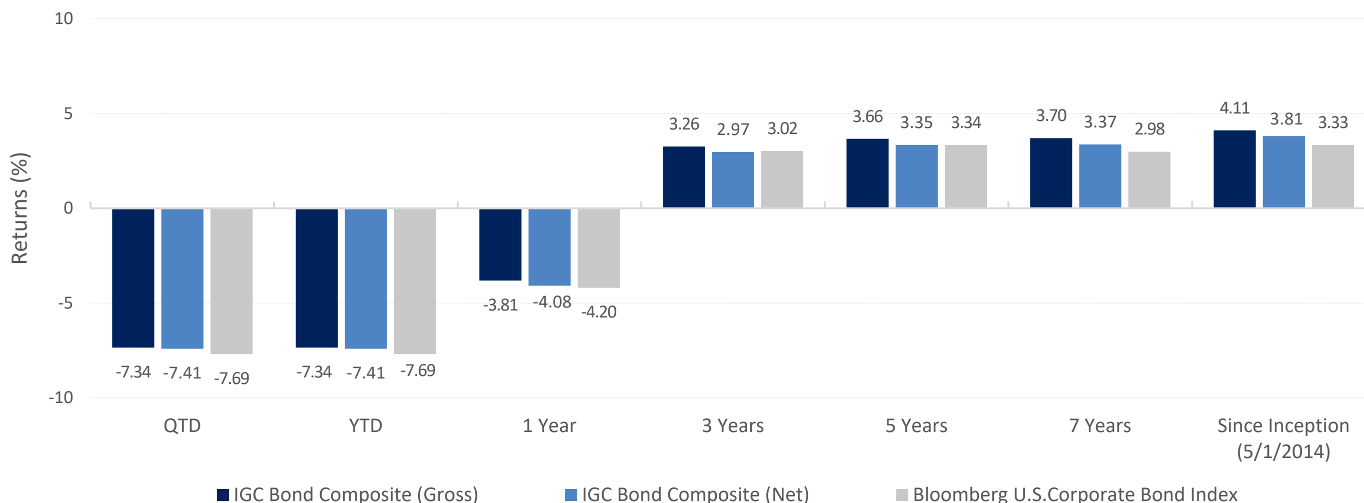


Year	High Yield Bond Composite (Gross %)	High Yield Bond Composite (Net %)	ICE BofA BB-B U.S Cash Pay High Yield Constrained Index (%)
2022 YTD*	-3.44	-3.49	-4.58
2021	4.30	4.09	4.58
2020	6.01	5.81	6.32
2019	13.61	13.41	15.09
2018	-0.94	-1.12	-2.04
2017	6.42	6.24	6.98
2016	12.05	11.86	14.76
2015	-2.21	-2.37	-2.82
2014**	-1.21	-1.30	0.49
SUPPLEMENTAL PERFORMANCE			
2013	7.87	7.29	6.29
2012	14.32	13.70	14.58
2011	4.55	3.97	5.43
2010	14.77	14.15	14.25
2009***	27.88	27.31	39.81

Sources: SS&C Advent; FTSE
**Composite returns are preliminary pending final account reconciliation.*
***2014 is a partial-year period of nine months, representing data from April 1, 2014 to December 31, 2014.*
****2009 is a partial-year period of ten months, representing data from March 1, 2009 to December 31, 2009.*
The Aristotle High Yield Bond strategy has an inception date of April 1, 2014; however, the strategy initially began at Douglas Lopez's predecessor firm. A supplemental performance track record from March 1, 2009 to December 31, 2013 (Mr. Lopez's departure from the firm) is provided. The returns are based on a separate account from the strategy while it was being managed at Doug Lopez's predecessor firm and performance results are based on custodian data. During this time, Mr. Lopez had primary responsibility for managing the account.
Past performance is not indicative of future results. Returns presented are gross and net of investment advisory fees and include the reinvestment of all income. Please refer to disclosures at the end of this document.

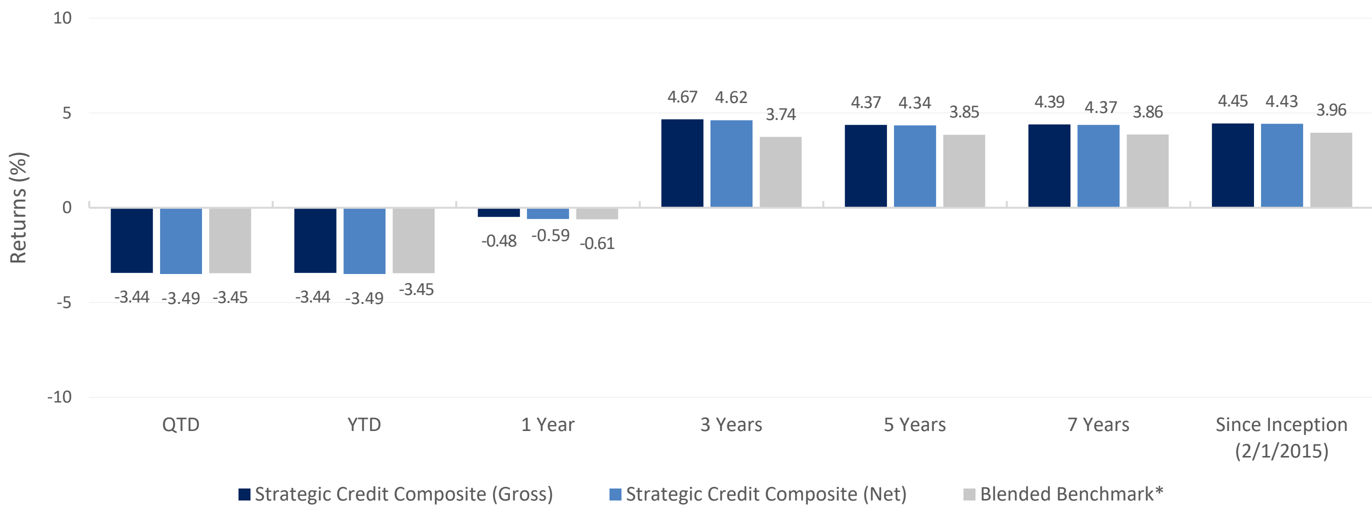
Aristotle Investment Grade Corporate Bond Composite Performance

All Periods Ended March 31, 2022



Year	Investment Grade Corporate Bond Composite (Gross %)	Investment Grade Corporate Bond Composite (Net %)	Bloomberg U.S. Corporate Bond Index (%)
2022 YTD*	-7.34	-7.41	-7.69
2021	-0.81	-1.10	-1.04
2020	8.64	8.41	9.89
2019	16.34	15.94	14.54
2018	-2.41	-2.76	-2.51
2017	6.93	6.56	6.42
2016	8.69	8.46	6.11
2015	0.58	0.08	-0.68
2014**	3.87	3.84	3.16
SUPPLEMENTAL PERFORMANCE			
2013	0.63	0.28	-1.53
2012	15.38	14.98	9.82
2011	8.48	8.10	8.15
2010	11.42	11.04	9.00
2009***	2.93	2.81	3.15

Sources: SS&C Advent, Bloomberg
**Composite returns are preliminary pending final account reconciliation.*
***2014 is a partial-year period of eight months, representing data from May 1, 2014 to December 31, 2014.*
****2009 is a partial-year period of four months, representing data from September 1, 2009 to December 31, 2009.*
Past performance is not indicative of future results. Returns presented are gross and net of investment advisory fees and include the reinvestment of all income. The primary benchmark was retroactively changed from Bloomberg U.S. Credit Bond Index to Bloomberg U.S. Corporate Bond Index effective March 31, 2017. The Aristotle Investment Grade Corporate Bond strategy has an inception date of May 1, 2014; however, the strategy initially began at Terence Reidt's predecessor firm. A supplemental performance track record from September 1, 2009 to December 31, 2013 (Mr. Reidt's departure from the firm) is provided. The returns are based on a separate account from the strategy while it was being managed at Terence Reidt's predecessor firm and performance results are based on custodian data. During this time, Mr. Reidt had primary responsibility for managing the account. Please refer to disclosures at the end of this document.



Year	Strategic Credit Composite (Gross %)	Strategic Credit Composite (Net %)	Blended Benchmark* (%)
2022 YTD**	-3.44	-3.49	-3.45
2021	3.10	3.03	2.99
2020	7.77	7.76	6.02
2019	12.59	12.58	11.15
2018	-0.82	-0.82	-0.32
2017	4.99	4.99	5.03
2016	11.85	11.85	9.60
2015***	-2.88	-2.88	-1.84

Sources: SS&C Advent, Bloomberg, Credit Suisse
**Blended benchmark represents a blend of blend of 1/3 Bloomberg U.S. High Yield Ba/B 2% Issuer Capped Bond Index, 1/3 Bloomberg U.S. Intermediate Corporate Bond Index and 1/3 Credit Suisse Leveraged Loan Index. The Bloomberg U.S. High Yield Loans Index was retired on September 30, 2016 and was replaced with the Credit Suisse Leveraged Loan Index effective October 1, 2016.*
***Composite returns are preliminary pending final account reconciliation.*
****2015 is a partial-year period of eleven months, representing data from February 1, 2015 to December 31, 2015.*
Past performance is not indicative of future results. Returns presented are gross and net of investment advisory fees and include the reinvestment of all income. Please refer to disclosures at the end of this document.

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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 Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers that are all U.S. dollar denominated. The Bloomberg U.S. Corporate Bond Index is a component of the Bloomberg U.S. Credit Bond Index. The Bloomberg U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded. The Bloomberg U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Index is frequently used as a stand-in for measuring the performance of the U.S. bond market. In addition to investment grade corporate debt, the Index tracks government debt, mortgage-backed securities (MBS) and asset-backed securities (ABS) to simulate the universe of investable bonds that meet certain criteria. In order to be included in the Index, bonds must be of investment grade or higher, have an outstanding par value of at least $100 million and have at least one year until maturity. The S&P 500 Index is the Standard & Poor's Composite Index and is a widely recognized, unmanaged index of common stock prices. It is market cap weighted and includes 500 leading companies, capturing approximately 80% coverage of available market capitalization. The ICE Bank of America (ICE BofA) BB-B U.S. Cash Pay High Yield Constrained Index measures the performance of the U.S. dollar-denominated BB-rated and B-rated corporate debt issued in the U.S. domestic market, a fixed coupon schedule and a minimum amount outstanding of $100 million, issued publicly. Allocations to an individual issuer in the Index will not exceed 2%. The Credit Suisse Leveraged Loan Index is a market-weighted index designed to track the performance of the investable universe of the U.S. dollar-denominated leveraged loan market. The Bloomberg U.S. High Yield Ba/B 2% Issuer Capped Bond Index is an issuer-constrained version of the U.S. Corporate High Yield Index that measures the market of U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bonds rated Ba/B. The Index limits the maximum exposure to any one issuer to 2%. The Bloomberg U.S. Intermediate Corporate Bond Index is designed to measure the performance of U.S. corporate bonds that have a maturity of greater than or equal to one year and less than 10 years. The Index includes investment grade, fixed-rate, taxable, U.S. dollar-denominated debt with $250 million or more par amount outstanding, issued by U.S. and non-U.S. industrial, utility and financial institutions. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The volatility (beta) of the Composites may be greater or less than the indices. It is not possible to invest directly in these indices. Composite and index returns reflect the reinvestment of income.

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