CORPORATE CREDIT

Aristotle Credit Partners, LLC — 2Q 2022 Commentary – Institutional

Summary

U.S. corporate credit markets continued to decline in the second quarter as bank loans outperformed investment grade corporate bonds and high yield bonds for the second consecutive quarter. Bank loans returned -4.35% during the period as measured by the Credit Suisse Leveraged Loan Index. Investment grade corporate bonds returned -7.26% as measured by the Bloomberg U.S. Corporate Bond Index with higher yields impacting longer duration bonds. High yield bonds fell -9.83% as measured by the Bloomberg U.S. Corporate High Yield Bond Index, resulting in the worst second quarter performance on record for the broad high yield bond market.

U.S. equities declined as the S&P 500 Index fell -16.10% during the quarter, bringing its year-to-date return to -19.96%. Tighter financial conditions, higher inflation and lower growth combined to undermine risk assets during the quarter. The Consumer Price Index (CPI) rose 8.6% year-over-year in May, while Gross Domestic Product (GDP) declined 1.6% in the first quarter and is projected to continue to decline in the second quarter. The labor market, however, remained resilient as the unemployment rate sat at its cycle low of 3.6% in May.

In response to soaring inflation, the Federal Reserve (Fed) raised the Fed Funds rate by 50 basis points in May and 75 basis points in June, bringing its benchmark rate to a range of 1.50% to 1.75%. The June hike was the largest since 1994 and the central bank signaled a hike of similar magnitude in July while acknowledging higher rates could lead to slower growth. The Fed also officially began the process of quantitative tightening as it slowly unwinds its $9 trillion balance sheet. Geopolitical tensions also persisted with Western governments intensifying pressure on Russia while battling the impact of rising oil and natural gas prices at home. Additionally, supply chain issues, which have been exacerbated by China's zero-COVID policy, and a strong U.S. dollar have dampened the overall economic outlook.

Market Environment

U.S. Treasury yields climbed further in the second quarter but at a more modest pace than in the first quarter. Yields shifted higher across the curve as the yield on the U.S. 2-Year note increased roughly 62 basis points and the yield on the U.S. 10-Year note rose nearly 68 basis points. In response to the weakening growth outlook in the second half of June, U.S. Treasury yields declined with the yield on the U.S. 10-Year note ending the quarter more than 40 basis points below its high from earlier in the month.

After a relatively sanguine start to the year, U.S. corporate credit spreads widened sharply in the second quarter. High yield bond spreads ended the quarter at the widest level since July 2020, rising roughly 248 basis points as measured by the Bloomberg U.S. Corporate High Yield Bond Index. Investment grade corporate bonds also widened to a multiyear high, ending the quarter roughly 41 basis points higher as measured by the Bloomberg U.S. Corporate Bond Index.

Issuance in the high yield bond market slowed dramatically in the second quarter with new supply totaling roughly $25 billion. The year-to-date total now stands at just $71 billion, down 76% compared to the same period in 2021. Investment grade corporate bond issuance slowed at a less dramatic pace with total year-to-date issuance falling close to 13% compared to the first half of 2021. Leveraged loan supply also suffered, falling to roughly $61 billion in the quarter as year-to-date volumes fell 48% compared to the prior year.

On the demand side, funds across all three sectors experienced outflows. High yield bond fund outflows for the quarter totaled nearly $15 billion, bringing the year-to-date total outflow to almost $43 billion, the largest six-month stretch of outflows on record. Leveraged loan funds experienced large inflows earlier in the year, but flows reversed in May with just over $3 billion in outflows for the quarter. Additionally, investment grade bond funds experienced outflows of nearly $54 billion in the first half of 2022.

Within the high yield bond universe, the decline in risk sentiment and sharp rise in credit spreads helped higher quality bonds outperform as ‘BB’s (-8.43%) outperformed ‘B’s (-10.76%) and ‘CCC’s (-12.98%). From an industry perspective, Food, Beverage & Tobacco (-6.49%) outperformed while Pharmaceuticals (-19.50%) underperformed. Defaults and distressed transactions picked up in the second quarter with more than $15 billion in defaults during the quarter as the 12-month trailing, par-weighted U.S. high yield default rate rose to 0.76% at the end of June, its highest level since September 2021 and 53 basis points above the year-to-date low in April.

Performance and Attribution Summary

High Yield Bond

The Aristotle High Yield Bond Composite returned -8.10% gross of fees (-8.15% net of fees) in the second quarter, outperforming the -9.49% return of the ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index. Security selection was the primary contributor to relative performance, while industry allocation was the primary detractor from relative performance.

Security selection contributed to relative performance led by holdings in Lodging & Leisure and Retailers & Restaurants. This was partially offset by security selection in Telecommunications and Real Estate Investment Trusts (REITs) & Real Estate-Related. Sector rotation also contributed to relative performance, led by the allocation to cash and investment grade corporate bonds. There were no offsetting sector rotation factors.

Industry allocation detracted from relative performance led by an overweight in Lodging & Leisure and an underweight in Food, Beverage & Tobacco. This was mostly offset by an underweight in Pharmaceuticals and an overweight in Energy.

Top Five Contributors	Top Five Detractors
Bausch Health	**Level 3 Financing**
Carnival	T-Mobile
Brinker	**iHeartMedia**
United Airlines	**Howard Hughes Corp**
RR Donnelley & Sons	**Beazer Homes**

**Bold securities held in representative account.*

Investment Grade Corporate

The Aristotle Investment Grade Corporate Bond Composite returned -7.20% gross of fees (-7.26% net of fees) in the second quarter, compared to the -7.26% return of the Bloomberg U.S. Corporate Bond Index. Security selection was the primary detractor from relative performance, while duration and yield curve positioning was the primary contributor to relative performance.

Security selection detracted from relative performance led by holdings in Media & Entertainment and REITs & Real Estate-Related. This was partially offset by selection in Energy and Metals & Mining. Industry allocation also detracted from relative performance led by overweights in Gaming and Insurance. This was partially offset by underweights in Aerospace & Defense and Food, Beverage & Tobacco. Sector rotation also detracted marginally from relative performance led by the allocation to high yield bonds, which was mostly offset by the allocation to cash.

Duration and yield curve positioning contributed to relative return. There were no offsetting detractors.

Top Five Contributors	Top Five Detractors
Wells Fargo	**Warner Bros.**
Prudential Financial	**Alexandria Real Estate**
Baker Hughes	**JetBlue**
Morgan Stanley	**T-Mobile**
First Citizens BancShares	**MPT Operating**

**Bold securities held in representative account.*

Strategic Credit

The Aristotle Strategic Credit Composite returned -6.36% gross of fees (-6.42% net of fees[1]) in the second quarter, underperforming the -5.91% 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. Sector Rotation was the primary detractor from relative performance, while security selection was the primary contributor to relative performance.

Sector rotation detracted from relative performance led by an overweight in high yield bonds, which was partially offset by the allocation to cash. Industry allocation also detracted from relative performance led by overweights in Lodging & Leisure and Finance Companies. This was partially offset by overweights in Energy and Transportation.

Security selection contributed to relative performance led by holdings in Energy and Lodging & Leisure. This was partially offset by security selection in Telecommunications and Cable & Satellite.

[1] As of June 30, 2022, 34% of the Composite consisted of a non-fee-paying account.

Top Five Contributors	Top Five Detractors
Quad/Graphics	**MGM Resorts**
Pacific Gas & Electric	**Hughes Satellite Systems**
Murphy Oil	**Services Properties Trust**
KB Home	**Lumen Technologies**
Penn National Gaming	**Beazer Homes**

**Bold securities held in representative account.*

Outlook

In the second quarter, the primary driver of corporate credit market performance shifted from interest rate risk to credit risk as higher-than-expected inflation and rising interest rates slowed growth. Despite increased volatility and wider credit spreads warranting a more cautious approach in the coming months, we believe the current environment favors specific segments of the corporate credit market such as higher quality high yield bonds.

The macroeconomic backdrop continued to darken in the second quarter, driving volatility in both yields and spreads. While the Fed has already increased its benchmark rate multiple times, we believe it is not yet near the neutral rate. While this is partially the result of an artificially low starting point after the unprecedented monetary policy response to the global pandemic, in our view, the Fed may be forced to hike into a recession to fight stubbornly high inflation. We believe the result could depress corporate margins and weigh on earnings estimates going forward.

We expect inflation to remain at elevated levels into the second half of the year. In our view, rental and housing inflation will continue to rise and offset the effect of stabilizing food inflation, easing supply chain pressures and slowing demand for consumer goods. We believe weakness in economically sensitive commodities may also help moderate inflationary pressures while flagging a weaker growth outlook as industrial metals, in particular, rolled over into the end of the second quarter. We believe these underlying trends indicate tighter financial conditions are starting to impact consumption and increasing the probability of a recession.

We believe corporate America is still in solid shape as many companies benefitted from historically low rates by issuing a record sum of debt over the last two years. We are comfortable with most corporate balance sheets, and in our opinion, issuers have largely been successful in managing maturities through the end of 2024. Nonetheless, we believe it is important to distinguish between the companies that have already raised sufficient cash to weather a downturn and those that will require funding in the near future. We also remain wary of the bank loan market given most of these issuers have the majority of their longer-term financing tied up in floating rate debt and we believe short-term rates can continue to climb.

We are positioned cautiously across our portfolios and continue to favor companies with ample cash on their balance sheets. We believe a slowdown in growth may have a more negative impact on corporate earnings than on credit spreads. While we expect volatility to persist, we believe it can create opportunities as the significant repricing that has already occurred presents a much better entry point from a risk/reward and yield perspective.

High Yield Bond Positioning

In our high yield portfolios, we modestly increased exposure to higher quality, more economically defensive credits and marginally reduced exposure to select consumer cyclical credits. While we remain significantly shorter than benchmark duration, the focus on higher quality high yield credits has marginally increased the duration exposure of the portfolios.

Our high yield portfolios were conservatively positioned heading into the second quarter, thus we only marginally shifted exposure during the quarter. We maintained an average credit quality of nearly 'BB' in our high yield portfolios throughout the quarter. The increase in duration exposure was largely driven by our view on quality rather than on rates, which we believe can continue higher.

From an industry perspective, we made minor changes. Prior to this quarter, we added credits that we believe would benefit from the economy reopening and we remain comfortable with many of these names. However, within this group, we still prefer those companies providing consumer experiences over those producing and/or selling more discretionary consumer goods. At the end of the quarter, we held overweights in Transportation, Media & Entertainment and Energy alongside underweights in Technology, Telecommunications and Healthcare.

Investment Grade Corporate Positioning

In our investment grade corporate bond portfolios, we also maintained a more cautious approach, moving up in quality and modestly reducing a duration underweight. From an industry perspective, we only marginally adjusted exposure during the quarter.

We entered the second quarter with an underweight in duration and an overweight in 'BBB'-rated credits and reduced both over the course of the quarter. Compared to the high yield bond market, interest rates had a larger impact on performance in the investment grade corporate bond market this quarter with longer duration bonds underperforming. Nonetheless, we remain overweight 'BBB'-rated credits and continue to look for what we believe to be attractive yields amidst the repricing of the yield curve.

The largest industry exposures in our investment grade corporate bond portfolios were mostly unchanged. At the end of the quarter, we held overweights in Insurance, Transportation and REITs & Real Estate-Related alongside underweights in Banking, Retailers & Restaurants and Pharmaceuticals.

Strategic Credit Positioning

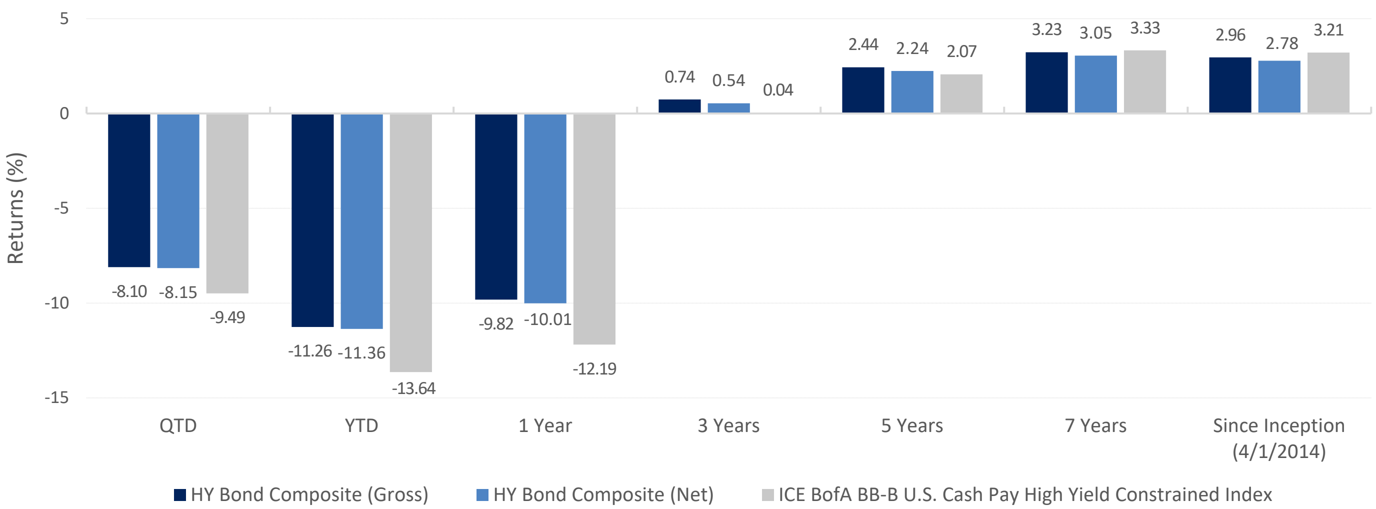
In our strategic credit portfolios, we marginally increased an overweight in high yield bonds while further increasing an underweight in bank loans and maintaining an underweight in investment grade corporate bonds. As a result, we reduced a duration underweight relative to the blended benchmark.

The largest sector allocation in our strategic credit portfolios continues to be higher quality high yield bonds. While bank loans outperformed both investment grade corporate bonds and high yield bonds for the second consecutive quarter, we further reduced bank loan exposure. With the risk backdrop deteriorating, we prefer to avoid the liquidity risk and credit risk in the bank loan market in favor of shorter duration, higher quality high yield bonds.

As of June 30, the strategy was composed of 72.2% high yield bonds, 18.8% investment grade corporate bonds and 5.0% bank loans. Roughly 4.0% was held in cash. We held overweights in Energy, Lodging & Leisure and Automotive & Captive Finance alongside underweights in Technology, Banking and Healthcare.

Aristotle High Yield Bond Composite Performance

All Periods Ended June 30, 2022

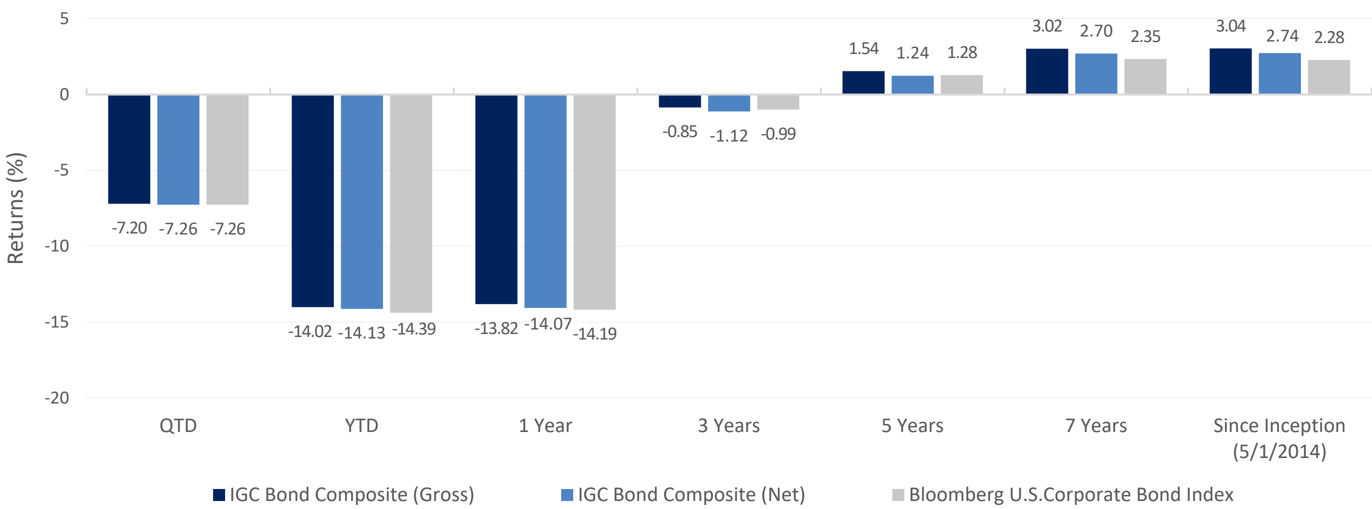


Year	High Yield Bond Composite (Gross %)	High Yield Bond Composite (Net %)	ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index (%)
2022 YTD*	-11.26	-11.36	-13.64
2021	4.30	4.09	4.58
2020	6.01	5.81	6.32
2019	13.61	13.41	15.09
2018	-0.94	-1.12	-2.04
2017	6.42	6.24	6.98
2016	12.05	11.86	14.76
2015	-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. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses. Please refer to disclosures at the end of this document.

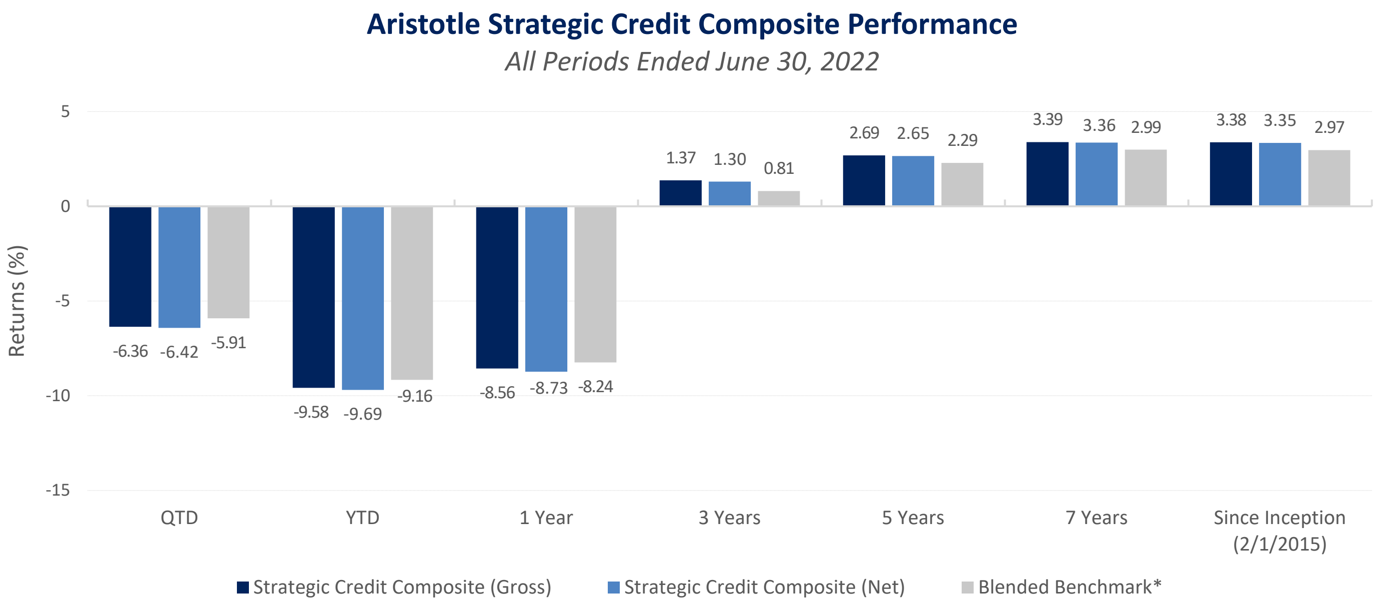
Aristotle Investment Grade Corporate Bond Composite Performance

All Periods Ended June 30, 2022



Year	Investment Grade Corporate Bond Composite (Gross %)	Investment Grade Corporate Bond Composite (Net %)	Bloomberg U.S. Corporate Bond Index (%)
2022 YTD*	-14.02	-14.13	-14.39
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. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses. 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**	-9.58	-9.69	-9.16
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. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses. Please refer to disclosures at the end of this document.

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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 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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