CORPORATE CREDIT

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

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 – SMA

The Aristotle High Yield Bond - SMA Composite returned -8.39% gross of fees (-8.52% 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 Media & Entertainment and Lodging & Leisure. This was partially offset by security selection in Retailers & Restaurants and Telecommunications. 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 partially offset by an underweight in Pharmaceuticals and an overweight in Diversified Manufacturing & Construction Machinery.

Top Five Contributors	Top Five Detractors
Bausch Health	**Telecom Italia**
Brinker	T-Mobile
RR Donnelley & Sons	**Beazer Homes**
Carnival	**Level 3 Financing**
United Airlines	**Bed Bath & Beyond**

**Bold securities held in representative account.*

High Yield Bond Focused ESG

The Aristotle High Yield Bond Focused ESG Composite returned -8.37% gross of fees (-8.50% 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 Media & Entertainment and Energy. This was partially offset by security selection in Retailers & Restaurants and Telecommunications. 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 overweights in Retailers & Restaurants and Lodging & Leisure. This was partially offset by an underweight in Pharmaceuticals and an overweight in Diversified Manufacturing & Construction Machinery.

Top Five Contributors	Top Five Detractors
Bausch Health	T-Mobile
Murphy Oil	**Telecom Italia**
Brinker	**Level 3 Financing**
RR Donnelley & Sons	**Beazer Homes**
Carnival	**Bed Bath & Beyond**

**Bold securities held in representative account.*

Short Duration High Yield Bond

The Aristotle Short Duration High Yield Bond Composite returned -5.29% gross of fees (-5.43% net of fees) in the second quarter, underperforming the -4.29% return of the ICE BofA 1-3 Year BB-B U.S. Cash Pay Fixed Maturity High Yield Constrained Index. Security selection was the primary detractor from relative performance, while sector rotation was the primary contributor to relative performance.

Security selection detracted from relative performance led by holdings in Retailers & Restaurants and Lodging & Leisure. This was partially offset by security selection in Consumer Products and Media & Entertainment. Industry allocation also detracted from relative performance led by overweights in Cable & Satellite and Real Estate Investment Trusts (REITs) & Real Estate-Related. This was partially offset by overweights in Consumer Products and Media & Entertainment.

Sector rotation contributed to relative performance led by the allocation to cash and investment grade corporate bonds. There were no offsetting sector rotation factors.

Top Five Contributors	Top Five Detractors
Brinker	**NuStar Logistics**
Teva	**DISH Network**
Natura & Co.	**Navient**
Popular	**Service Properties Trust**
Continental Resources	**Bed Bath & Beyond**

**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

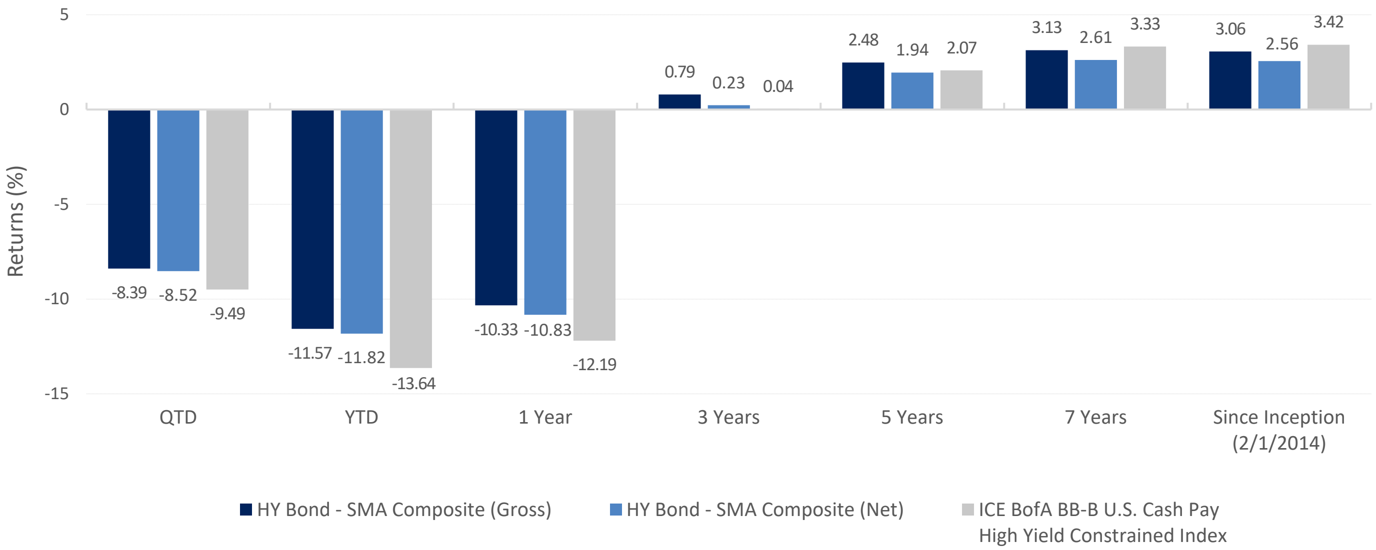
In our high yield portfolios, we modestly increased exposure to higher quality, more economically defensive credits and marginally reduced exposure to select consumer cyclical credits. While we remain significantly shorter than benchmark duration, the focus on higher quality high yield credits has marginally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

Aristotle High Yield Bond - SMA Composite Performance

All Periods Ended June 30, 2022

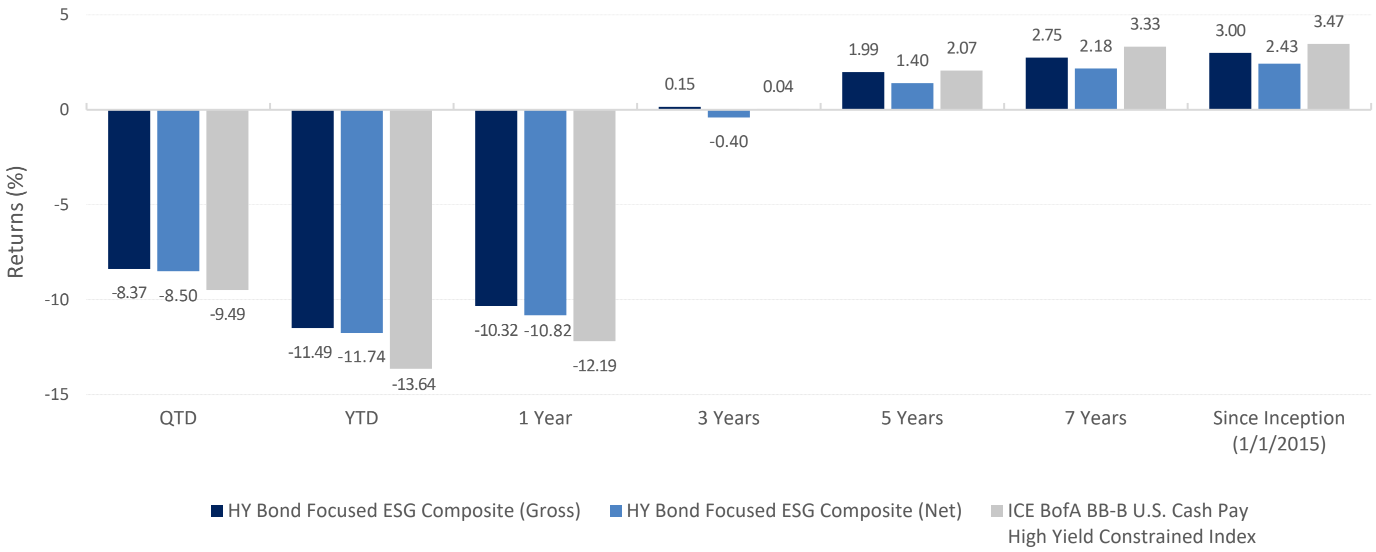


Year	High Yield Bond – SMA Composite (Gross %)	High Yield Bond – SMA Composite (Net %)	ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index (%)
2022 YTD*	-11.57	-11.82	-13.64
2021	4.08	3.51	4.58
2020	6.96	6.29	6.32
2019	13.89	13.37	15.09
2018	-0.85	-1.31	-2.04
2017	5.65	5.16	6.98
2016	11.15	10.65	14.76
2015	-2.58	-3.03	-2.82
2014**	1.37	1.02	2.75

Sources: SS&C Advent; ICE BofA
**Composite returns are preliminary pending final account reconciliation.*
***2014 is a partial-year period of eleven months, representing data from February 1, 2014 to December 31, 2014.*
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 High Yield Bond Focused ESG Composite Performance

All Periods Ended June 30, 2022



Year	High Yield Bond Focused ESG Composite (Gross %)	High Yield Bond Focused ESG Composite (Net %)	ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index (%)
2022 YTD*	-11.49	-11.74	-13.64
2021	3.74	3.17	4.58
2020	5.39	4.80	6.32
2019	12.68	12.07	15.09
2018	-0.53	-1.08	-2.04
2017	5.88	5.21	6.98
2016	10.27	9.72	14.76
2015	-1.43	-1.92	-2.82

Sources: SS&C Advent; ICE BofA
**Composite returns are preliminary pending final account reconciliation.*
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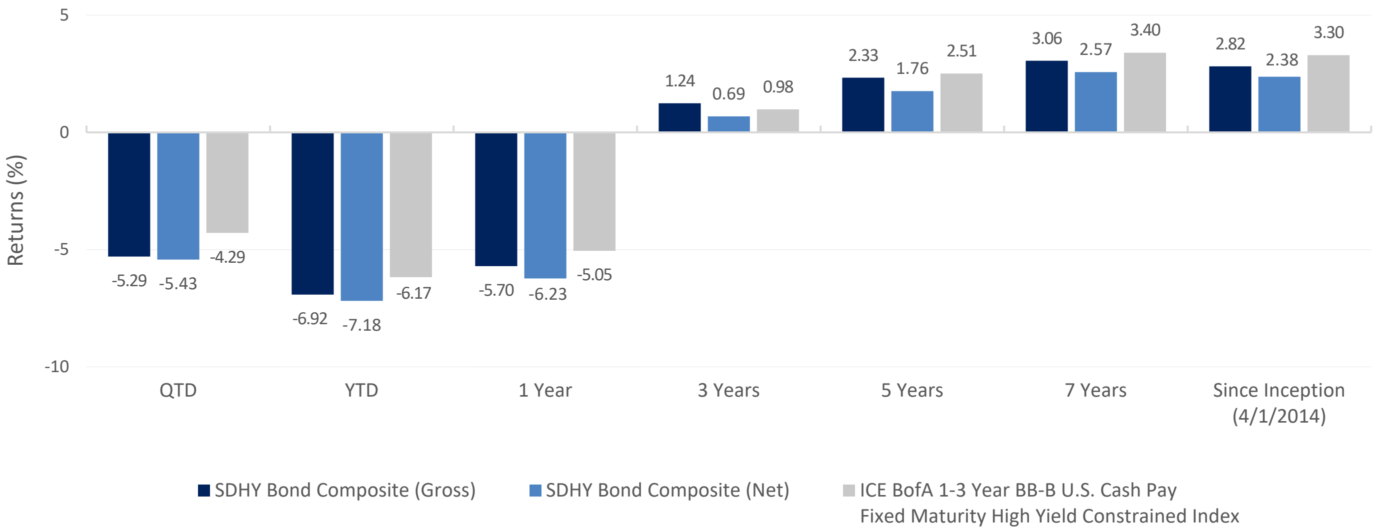
Aristotle Short Duration High Yield Bond Composite Performance

All Periods Ended June 30, 2022



Year	Short Duration High Yield Bond Composite (Gross %)	Short Duration High Yield Bond Composite (Net %)	ICE BofA 1-3 Year BB-B U.S. Cash Pay Fixed Maturity High Yield Constrained Index (%)
2022 YTD*	-6.92	-7.18	-6.17
2021	4.25	3.68	4.27
2020	4.06	3.49	2.40
2019	9.28	8.68	8.72
2018	0.79	0.24	2.23
2017	4.00	3.54	4.84
2016	8.19	7.93	11.07
2015	1.26	1.01	0.01
2014**	-0.74	-0.88	0.79

Sources: SS&C Advent; ICE BofA
**Composite returns are preliminary pending final account reconciliation.*
***2014 is a partial-year period of period of nine months, representing data from April 1, 2014 to December 31, 2014.*
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 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 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 ICE Bank of America (ICE BofA) 1-3 Year BB-B U.S. Cash Pay Fixed Maturity High Yield Constrained Index tracks the performance of the U.S. dollar-denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the U.S. domestic market; including 144A securities, both with and without registration rights. Qualifying securities must have risk exposure to countries are members of the FX-G10, Western Europe, or territories of the United States and Western Europe. The FX-G10 includes all Euro members: the United States, Japan, the United Kingdom, Canada, Australia, New Zealand, Switzerland, Norway and Sweden. Qualifying securities include only those rated BB1 through B3. Perpetual securities are not included as all securities must have a fixed final maturity date. All final maturity dates must range between one and three years. It is a capitalization-weighted index, constrained to 2% maximum weighting per issuer. 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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