

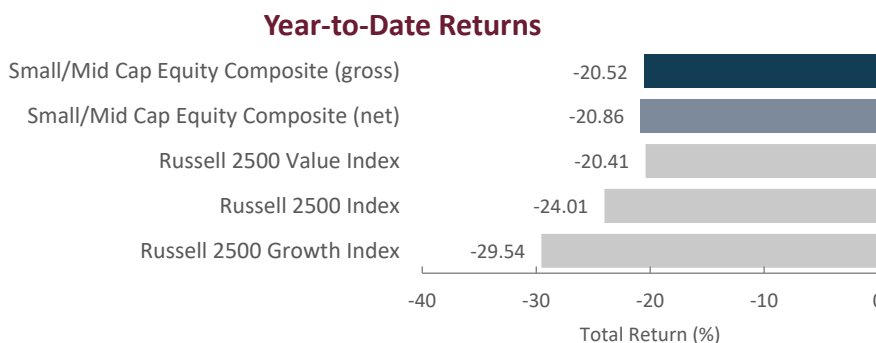
3Q 2022 Commentary

Markets Review

Small/mid cap equities searched for direction in the third quarter as volatility to upside and downside continued to test investors’ fortitude. What looked like a relatively rosy market backdrop through the first half of the quarter with the Russell 2500 Index up over 16%, turned sour in the middle of August, only to worsen further in September, pushing the index into negative territory by quarter-end. Equity market intra-quarter declines coincided with the Federal Reserve (Fed) reiterating that they would prioritize reining in inflation versus supporting growth. To that end, the quarter saw two more aggressive interest-rate hikes of 0.75 percentage points, one in July and then another in September, which leaves the effective federal-funds rate at 3.00%-3.25% exiting the third quarter, its highest level since 2008. Prior to raising the fed-funds rate by three-quarters of a point in June, the Fed had not raised its flagship policy rate by 0.75 percentage points in any single meeting since 1994. These actions led to a sharp rise in bond yields and a risk-off environment that extended to equity markets across the globe. Compared to their large cap counterparts, however, small/mid caps held up relatively well during the quarter with the Russell 2500 Index’s total return of -2.82%, besting the -4.61% return of the Russell 1000 Index. This snaps a five-quarter underperformance streak, its longest since the six quarters ending in the first quarter of 1999.

At the sector level, nine of the eleven economic sectors in the Russell 2500 Index posted negative returns during the quarter led by Real Estate (-10.23%), Communication Services (-9.56%) and Utilities (-8.15%). Conversely, Energy (+6.43%), Health Care (+0.49%), driven by gains in Biotechnology, and Industrials (-0.58%) were the top performing sectors during the quarter. From a fundamental characteristics standpoint, companies with higher betas, lower dividend yields and high short interest ratios outperformed. Unprofitable* companies within the Russell 2500 Index also outperformed profitable companies during the quarter by 7.60%.

Given the factor leadership outlined above, it may come as no surprise that the Russell 2500 Growth Index (-0.12%) outperformed the Russell 2500 Value Index (-4.50%) during the period. Although the quarter granted a slight reprieve from growth’s relative underperformance versus value over the past several quarters, value’s dominance over growth in recent periods continues to be reflected in their trailing twelve-month period returns, with the Russell 2500 Value Index returning -20.41% versus -29.54% for the Russell 2500 Growth Index.



*Sources: SS&C Advent, Russell Investments
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. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses. Aristotle Small/Mid Cap Equity Composite returns are preliminary pending final account reconciliation. Please see important disclosures at the end of this document.*

*Based on earnings expectations over the next twelve months.

Source: FactSet

Please see page 6 for Morgan Stanley Wealth Management disclosures.

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Performance Review

For the third quarter of 2022, the Aristotle Small/Mid Cap Equity Composite generated a total return of -4.55% gross of fees (-4.67% net of fees), trailing the -2.82% total return of the Russell 2500 Index. Overall, security selection detracted while sector allocation positively contributed. Security selection within the Health Care, Information Technology and Energy sectors were the largest detractors on a relative basis, while selection within Financials, Communication Services and Materials contributed. From an allocation perspective, the portfolio benefited from an underweight in Real Estate and an overweight in Industrials; however, this was partially offset by an underweight in Energy and an overweight in Consumer Staples.

Relative Contributors	Relative Detractors
Acadia Healthcare	Catalent
Carlisle Cos	NCR
WillScot Mobile Mini Holdings	PetIQ
Gartner	Knowles
MACOM Technology Solutions	Harsco

CONTRIBUTORS

Security selection added the most value within the Financials, Communication Services and Materials sectors. From an allocation perspective, the portfolio benefited from an underweight in Real Estate and an overweight in Industrials. At the company level, **Acadia Healthcare** and **Carlisle Companies** were two of the largest contributors during the quarter.

- **Acadia Healthcare (ACHC)**, a provider of behavioral health and addiction services to patients in a variety of inpatient and outpatient settings, benefited from continued strong growth tailwinds from increasing demand for behavioral services. We maintain a position, as we believe the company is well-positioned to capitalize on the favorable supply/demand outlook for behavioral health, positive reimbursement trends and continued execution of its growth strategy.
- **Carlisle Cos (CSL)**, a diversified industrial manufacture of nonresidential roofing materials and industrial connectivity products, benefitted from strong demand, robust backlogs and solid execution in its Construction Materials and Weatherproofing Technologies segments. We maintain a position, as we believe company-specific operating efficiency initiatives, relatively stable re-roofing demand growth and selective acquisitions will drive above average revenue and earnings growth for the business moving forward.

DETRACTORS

Security selection detracted within the Health Care, Information Technology and Energy sectors. From an allocation perspective, the portfolio's underweight in Energy and an overweight in Consumer Staples detracted from relative performance. Additionally, the portfolio's orientation towards what we believe to be higher quality companies and avoidance of highly valued/unprofitable businesses also detracted. At the company level, **Catalent** and **NCR Corporation** were two of the largest detractors during the quarter.

- **Catalent (CTLT)**, a pharmaceutical contract development and manufacturing organization, declined following a rate-of-change slowdown in its COVID-related revenues along with ongoing near-term cost pressures. We maintain a position, as we believe the long-term value creation opportunity for the company remains intact, driven by its competitive position in biologics, sticky customer relationships and growing demand from biopharma companies for complex dose solutions.
- **NCR Corporation (NCR)**, an enterprise technology company that provides software and hardware to the financial, retail and restaurant/hospitality industries, declined following an announcement that the company's board had approved



to separate the company into two publicly traded entities in an attempt to unlock shareholder value as opposed to an outright sale which the market preferred. We maintain a position, as we believe the two separate enterprises should drive greater focus and expertise on their respective market opportunities. Furthermore, we believe demand for point-of-service terminals, self-checkout, digital payments and automated billing and accounting services serve as tailwinds for the company moving forward.

Recent Portfolio Activity

Buys/Acquisitions	Sells/Liquidations
Enhabit	Huntington Bancshares

BUYS/ACQUISITIONS

- **Enhabit (EHAB)**, a provider of home health and hospice services, was added to the portfolio by virtue of its spin-off from existing holding Encompass Health. We maintain a position, as we believe the company should benefit from aging demographic trends that can increase demand for the company's services.

SELLS/LIQUIDATIONS

- **Huntington Bancshares (HBAN)**, an Ohio-based bank holding company, was removed from the portfolio based on our belief that shares were fully valued and there were better opportunities to deploy capital elsewhere within the portfolio.

Outlook and Positioning

The risks to U.S. economic activity and thus the equity market overall, continue to be the same culprits that have been responsible for the market's volatility over the past several quarters: the speed and pace of interest rate hikes, supply chain issues, currency and commodity price swings, and geopolitical turmoil across the globe. The subsequent impact of these factors, among others, has resulted in a 24.01% decline in the Russell 2500 Index through the first nine months of the year.

The question at this point is less about what has happened over the past twelve months but more importantly about where we are headed for the remainder of the year and into 2023. As we have indicated many times over the years, our ability to call the direction and magnitude of the market's moves over the short term is no better (or worse) than anyone else's. Therefore, we do not attempt to do so. Rather, we continue to monitor events as they unfold and factor those developments into our company-specific and portfolio-specific analyses. Overall, we remain encouraged by the fact that our conversations with hundreds of small-cap companies so far in 2022 point to a relatively "stable" environment for their businesses. Companies are reporting a wide array of operating conditions for their business, from reasonably robust to continued sluggishness, but the general consensus in recent meetings is that conditions have not experienced a sudden and rapid deterioration. That is not to say that such a turn of events could not happen before the end of the year; rather, it is just meant to highlight the divergence between the market's action and what we hear from small cap companies. With quarterly earnings season set to take center stage, we will see if their collective tones have changed or if it will be more of the same.

Another positive note stems from current valuations of small/mid cap companies. Small/mid cap equities continue to remain attractive on a forward valuation basis, both on an absolute level and relative to large caps. As of quarter-end, the relative forward P/E of the Russell 2500 Index versus the Russell 1000 Index continues to trade at a discount to its long-term average and now sits at its cheapest levels since the Dot-com bubble. For long-term investors, these valuations may imply a more favorable setup for small/mid caps relative to large caps in the periods to come. The strengthening of the U.S. dollar may also have an outsized impact on third quarter earnings. In particular, large multinational companies may see a headwind as sizable chunks of their sales come from outside the U.S. That is because as the value of the dollar rises, it makes U.S.-produced goods more expensive outside the country. Continued strength in the U.S. dollar coupled with ongoing geopolitical turmoil and reshoring efforts may offer a relative boost to small and mid cap companies versus large caps moving forward.

Nevertheless, with uncertainty, volatility and investor pessimism enduring, we believe these environments reinforce the need for selectivity and further argue for a focus on companies with quality characteristics, particularly strong balance sheets and

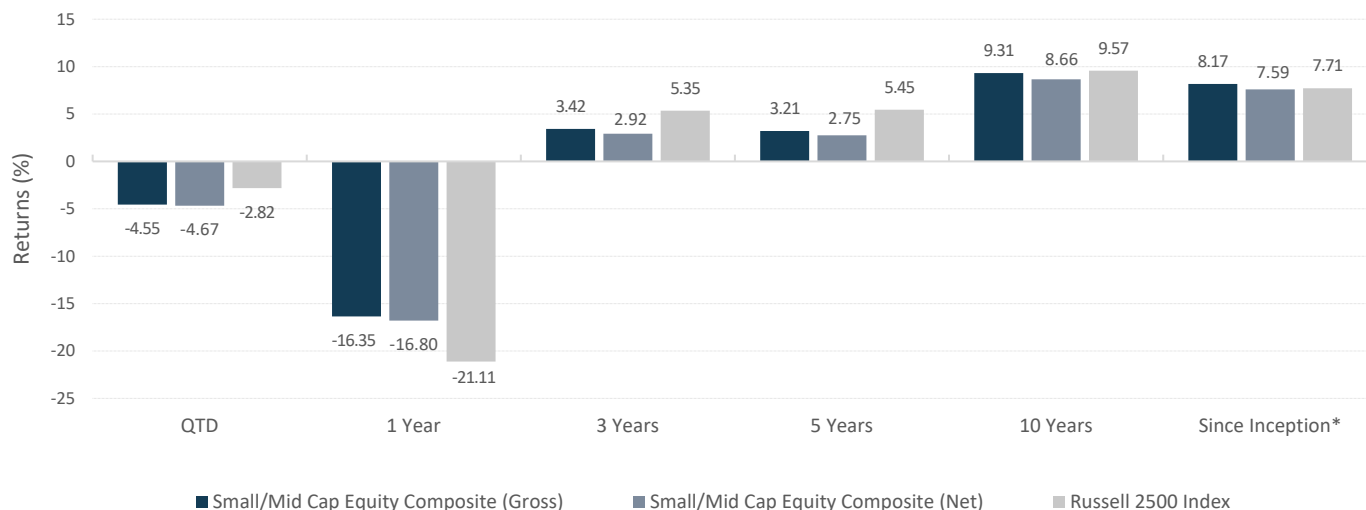


healthy profitability to offer a buffer if economic conditions continue to slow. As always, our current positioning is a function of our bottom-up security selection process and our ability to identify what we view as attractive investment candidates, regardless of economic sector definitions. Recent purchases and sales have been spread across industries and are idiosyncratic in nature, as opposed to being tied to an outlook for a particular sector. Overweights in Industrials and Information Technology are mostly a function of recent portfolio activity and the relative performance of our holdings in these sectors over the past few periods. Conversely, we continue to be underweight in Consumer Discretionary, as we have been unable to identify what we consider to be compelling long-term opportunities that fit our discipline given the rising risk profiles as a result of structural headwinds for various brick and mortar businesses. We also continue to be underweight in Real Estate as a result of valuations and structural challenges for various end markets within the sector. Given our focus on long-term business fundamentals, patient investment approach and low portfolio turnover, the strategy's sector positioning generally does not change significantly from quarter to quarter; however, we may take advantage of periods of volatility by adding selectively to certain companies when appropriate.



Aristotle Small/Mid Cap Equity Composite Performance

All Periods Ended September 30, 2022



Year	Small/Mid Cap Equity Composite (Gross %)	Small/Mid Cap Equity Composite (Net %)	Russell 2500 Index (%)
2022 YTD	-20.52	-20.86	-24.01
2021	18.50	17.93	18.18
2020	10.23	9.71	19.99
2019	23.73	23.25	27.77
2018	-10.22	-10.55	-10.00
2017	13.98	13.24	16.81
2016	22.73	21.89	17.59
2015	3.77	3.17	-2.90
2014	2.91	1.78	7.06
2013	38.34	37.41	36.82
2012	16.49	15.27	17.88
2011	0.00	-1.11	-2.51
2010	28.17	28.07	26.70
2009	28.88	28.88	34.38
2008	-30.53	-30.53	-36.78

Sources: SS&C Advent, Russell Investments

Composite returns for periods ended September 30, 2022 are preliminary pending final account reconciliation.

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

Effective January 1, 2022, the Russell 2500 Value Index was removed as the secondary benchmark for the Aristotle Boston Small/Mid Cap Equity Strategy. Non-fee-paying accounts represented less than 5% of the SMID Cap Composite assets from December 31, 2010 to December 31, 2013. As of December 31, 2014, there were no non-fee-paying accounts in the Composite. In instances where non-fee paying accounts were included in the SMID Cap Composite, the highest model fee was applied to recalculate the net returns for composite purposes and the impact on the since inception return of the composite was deemed immaterial. Past performance is not indicative of future results. Performance results for periods greater than one year have been annualized.

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. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses. Please see important disclosures enclosed within this document.

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All investments carry a certain degree of risk, including the possible loss of principal. Investments are also subject to political, market, currency and regulatory risks or economic developments. International investments involve special risks that may in particular cause a loss in principal, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs.

These risks typically are greater in emerging markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid. Value stocks can perform differently from the market as a whole and other types of stocks.

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The opinions referenced are as of the date of publication, may be modified due to changes in the market or economic conditions, and may not necessarily come to pass.

The Russell 2500 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500 Growth® Index measures the performance of the small/mid cap companies located in the United States that also exhibit a growth probability. The Russell 2500 Value® Index measures the performance of the small/mid cap companies located in the United States that also exhibit a value probability. The Russell 1000 Index is a subset of the Russell 3000® Index, representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market capitalization 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.

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