CORPORATE CREDIT

ARISTOTLE CREDIT PARTNERS

2Q 2023 Commentary – Institutional

Summary

U.S. corporate credit markets ended the quarter mixed, as U.S. yields rose and corporate credit spreads tightened. Bank loans outperformed both high yield bonds and investment grade corporate bonds, returning 3.12%, as measured by the Credit Suisse Leveraged Loan Index. High yield bonds also rallied, as high yield credit spreads tightened sharply in the last few weeks of the quarter, and the Bloomberg U.S. Corporate High Yield Bond Index returned 1.75%. Higher U.S. yields weighed on investment grade corporate bonds, as the Bloomberg U.S. Corporate Bond Index returned -0.29%. The broader bond market also felt the impact of higher yields during the quarter, as the Bloomberg U.S. Aggregate Bond Index returned -0.84%.

U.S. equities continued to rebound during the second quarter, as the S&P 500 Index returned 8.74%, its third consecutive quarterly gain. The Index's year-to-date return of 16.89% marked its strongest first half since 2019. Increasing expectations for a "soft landing" helped to support risk assets during the second quarter, as U.S. economic data remained fairly strong, and the tight labor market and cooling inflation helping to drive the overall narrative. In the U.S., consumer price inflation (CPI) continued to decline, as the annual headline rate fell to 4.0% in May, the lowest since March 2021. The annual core CPI rate, which has been much slower to decline, fell to its lowest level in over a year at 5.3% in May. While the unemployment rate ticked up to 3.7% in May, nonfarm payrolls beat expectations for the 14th consecutive month, as the economy added 339 thousand jobs in May. Additionally, first-quarter corporate earnings declined overall, but surpassed initial expectations, with many themes such as declining input pressures, supply chain normalization and consumer resilience.

With fears of banking contagion beginning to recede over the course of the quarter, many global central banks remained hawkish, as they continued to focus on elevated inflation. At its May meeting, the Federal Reserve (Fed) announced another 25-basis point hike, bringing its benchmark rate to a range of 5.00% to 5.25%. However, with the hiking cycle spanning ten consecutive meetings and topping 500 basis points, the Fed decided to leave rates unchanged at its June meeting, pausing for the first time in over a year. Nonetheless, the Fed maintained a hawkish stance and signaled the possibility of at least two more hikes before the end of the year, as they continue to battle stubborn inflationary pressures.

Market Environment

U.S. Treasuries were weaker during the second quarter and the yield curve bear flattened, as volatility declined following the first quarter's turmoil. The yield on the U.S. 2-year note climbed more than 80 basis points, with the bulk of the move occurring in the second half of the quarter, and it ended the quarter near the highest level since early March. The yield on the U.S. 10-year note rose to a lesser extent, climbing around 32 basis points, as the yield curve continued to invert. As a result, the yield spread between the 2-year and 10-year notes ended the quarter below 100 basis points, approaching the year-to-date low, a level not seen since 1981.

Higher U.S. yields were more than offset by tighter spreads in the high yield market, as spreads ended the quarter near the low of the year. High yield bond spreads declined roughly 65 basis points, ending the quarter below 400 basis points and near the lowest levels of the year, as measured by the Bloomberg U.S. Corporate High Yield Bond Index. Investment grade corporate bond spreads tightened modestly, retracing the first quarter's widening and ending the quarter roughly 15 basis points tighter, as measured by the Bloomberg U.S. Corporate Bond Index.

In the second quarter, issuance in the high yield bond market picked up from historically low levels, as it topped $55 billion, the highest quarterly total since the fourth quarter of 2021. Compared to the first half of 2022, year-to-date issuance in the high yield market increased roughly 34% but remains low compared to longer-term historical averages. Leveraged loan newissue volume totaled just over $66 billion in the second quarter, bringing the sum for the first half to nearly $137 billion, a decline of 24% compared to the same period in 2022. Investment grade corporate bond issuance topped $298 billion in the second quarter, a decline of more than 23% compared to the same quarter in 2022, although the total volume of nearly $688 billion in the first half was roughly in line with the same period in 2022.

High yield bond fund flows reversed in the second quarter. High yield bond funds experienced inflows of nearly $4 billion during the quarter, reducing year-to-date outflows to just over $11 billion. This marked a significant slowdown in outflows compared to the first half of 2022 when high yield bond funds experienced over $45 billion in outflows. Comparatively, leveraged loan funds did not see much relief, as June marked the 14th consecutive month of retail outflows. Leveraged loan funds reported a total outflow of more than $7 billion, bringing year-to-date outflows to over $18 billion, compared to inflows of over $15 billion in the first half of 2022. Despite net outflows in the first half of the year, negative net issuance continues to be generally supportive of the technical picture in both the high yield and bank loan markets. Investment grade corporate bond fund inflows continued during the quarter, with year-to-date inflows topping $60 billion, reversing last year's outflows.

Within the high yield bond market, lower-quality bonds outperformed in the second quarter, as 'CCC's (+4.18%) outperformed 'B's (+1.90%) and 'BB's (+0.89%). Year-to-date, 'CCC's outperformed 'B's by roughly 3.90% and 'BB's by 4.99%. From an industry perspective, within the Bloomberg U.S. High Yield Bond Index, Lodging & Leisure (+4.59%) outperformed, while Banking (-1.70%) underperformed, its second straight quarter of underperformance.

Defaults and distressed exchanges continued to pick up in the second quarter, as high yield bond and leveraged loan default rates hit a fresh two-year high at the end of June. The 12-month trailing, par-weighted U.S. high yield default rate, including distressed exchanges, rose roughly 80 basis points to end the quarter at 2.71% (1.64%, excluding distressed exchanges) and is approaching the long-term historical average of 3.20% (2.90%, excluding distressed exchanges). Meanwhile, the loan par-weighted default rate, including distressed exchanges, rose more than 70 basis points to end June at 2.94% (2.41%, excluding distressed exchanges), not far below the long-term historical average of 3.10% (3.00%, excluding distressed exchanges).

Performance and Attribution Summary

High Yield Bond

The Aristotle High Yield Bond Composite returned 1.18% gross of fees (1.11% net of fees) in the second quarter, underperforming the 1.25% return of the ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index. Security selection was the primary detractor from relative performance, while industry allocation contributed to relative performance.

Security selection detracted from relative performance led by holdings in Lodging & Leisure and Cable & Satellite. This was partially offset by selection in Utilities and Media & Entertainment. Sector rotation also detracted from relative performance led by the allocation to investment grade corporate bonds. This was partially offset by the allocation to bank loans. Industry allocation contributed to relative performance led by overweights in Lodging & Leisure and Transportation. This was partially offset by underweights in Healthcare and Pharmaceuticals.

Top Five Contributors	Top Five Detractors
AMC Networks	**iHeartMedia**
Lions Gate Capital	**DISH Network**
Titan International	**Carnival**
Gray Television	Level 3 Financing
JPMorgan Chase (First Republic)	QVC

**Bold securities held in representative account*

Investment Grade Corporate

The Aristotle Investment Grade Corporate Bond Composite returned 0.32% gross of fees (0.26% net of fees) in the second quarter, outperforming the -0.29% return of the Bloomberg U.S. Corporate Bond Index. Security selection was the primary contributor to relative performance, while yield curve positioning detracted from relative performance.

Security selection contributed to relative performance led by holdings in Technology and Banking. This was partially offset by selection in Real Estate Investment Trusts (REITs) & Real Estate-Related. Industry allocation contributed to relative performance led by overweights in Insurance and REITs & Real Estate-Related. This was partially offset by an overweight in Transportation and an underweight in Finance Companies. Sector rotation also contributed to relative performance led by the allocation to high yield bonds. The allocation to cash also contributed to relative performance. There were no offsetting detractors. Yield curve positioning detracted from relative performance and was partially offset by duration positioning.

Top Five Contributors	Top Five Detractors
Dell	**Centene**
United Airlines	**PG&E**
MetLife	**BNY Mellon**
Warner Bros	**Principal Financial**
Enterprise Products	**Walmart**

**Bold securities held in representative account*

Outlook

We believe the strength in U.S. corporate credit markets in the first half of 2023 reflects both declining expectations of a recession and largely healthy balance sheets for U.S. companies, especially for where we are in the business cycle. While interest rates may have some room to rise and corporate credit spreads can widen modestly from current levels, we believe there are still plenty of opportunities in U.S. corporate credit given current levels of yield and strong fundamentals.

At the end of the first quarter, interest rate markets were pricing in the possible end of the Fed's current rate hiking cycle and the possibility of rate cuts in the second half of 2023. Three months (and one hike) later, expectations have shifted considerably, with one to two more hikes now expected before year-end. Throughout this period, we have maintained the view that inflation would be more stubborn than expected and, as a result, the Fed would be forced to keep rates higher for longer. While headline inflation has declined recently, Core CPI and wage inflation remain sticky. We believe the Fed continues to be focused on bringing inflation closer to its target range, and, as a result, we think the Fed has room for one or two more hikes in the coming months with rates remaining elevated through the end of the year.

Within a global context, we believe the U.S. economy continues to be the most resilient. Consumption remains strong, especially for higher income consumers, as asset prices (e.g., equities, real estate, etc.) continue higher. Even areas that should be sensitive to rising interest rates, such as residential real estate, remain surprisingly resilient, especially in sharp contrast to certain segments of the commercial real estate market. We believe the strong labor market has been a driving force, helping support consumer spending and confidence. So far this year, even negative catalysts, such as the banking crisis in March and the debt ceiling stalemate in recent months, proved to be short-lived. With the economy holding in, we believe risk assets, including U.S. corporate credit, have benefited from declining recessionary expectations. Nonetheless, we believe it will be important to keep a close eye on the labor market and consumer spending data going forward, as the lagged effects of tighter monetary policy and more restrictive credit conditions work through the economy.

We believe technical factors have been very supportive of U.S. corporate credit markets in the first half, especially in the high yield market. While high yield bond issuance picked up from historically low levels, net issuance and the supply/demand imbalance remained supportive. Notably, in the last few weeks of the second quarter, U.S. rates rose sharply while high yield bond prices remained relatively stable, resulting in tighter spreads across the market. Additional factors have limited high yield bond supply on the margin, as “rising stars” are upgraded to investment grade and mergers and acquisitions-related issuance remains low. While retail outflows have continued, the pace has slowed, and we believe there is still significant demand from institutional investors. Some of these factors may dissipate as the year progresses and, in light of an uptick in default rates over the past several months, we remain focused on the higher-quality segments of the high yield market.

Overall, we believe corporate balance sheets are relatively strong, and, coupled with a resilient economy and favorable technical backdrop, U.S. corporate credit should continue to offer opportunities. We believe corporate credit markets are much healthier than they have been during prior periods of elevated interest rates. There are certainly risks in our view, with the possibility of a slowdown leading to wider spreads while interest rates stay elevated. Nonetheless, we still believe U.S. corporate credit markets should be able to withstand a mild downturn and modestly higher rates, offering the potential for positive total returns in the coming months.

High Yield Bond Positioning

In our high yield bond portfolios, we increased our quality tilt, while maintaining a duration underweight relative to the benchmark. At the moment, we are focused on industry and credit-specific themes, remaining overweight experience-related industries and seeking to avoid credits that have significant refinancing needs on the horizon.

With the yield curve still inverted, we remain focused on credit risk in the front end of the curve. In the last few weeks of the quarter, lower-quality credits outperformed as credit spreads tightened sharply. Nonetheless, we continued to focus on higher-quality credits during the quarter, slightly reducing exposure to split-rated (B/CCC) credits and marginally increasing exposure to ‘BBB’-rated (investment grade) credits trading at what we believe to be more attractive spreads. We are also avoiding segments of the market where we see tighter spreads relative to the broader market and credits that have significant financing needs over the next year or two.

Industry and credit-specific views drove the majority of changes to our high yield bond portfolios during the quarter. From an industry perspective, we reduced exposure to credits within Media & Entertainment where we see higher capital expenditure requirements, front-end loaded maturities and a more competitive landscape going forward. We continue to favor experience-related credits, increasing exposure to Gaming and certain credits within Retailers & Restaurants, such as propane distributors and auto dealers. At the end of the quarter, we held overweights in Transportation, Energy and Lodging & Leisure alongside underweights in Technology, Telecommunications and Cable & Satellite.

Investment Grade Corporate Positioning

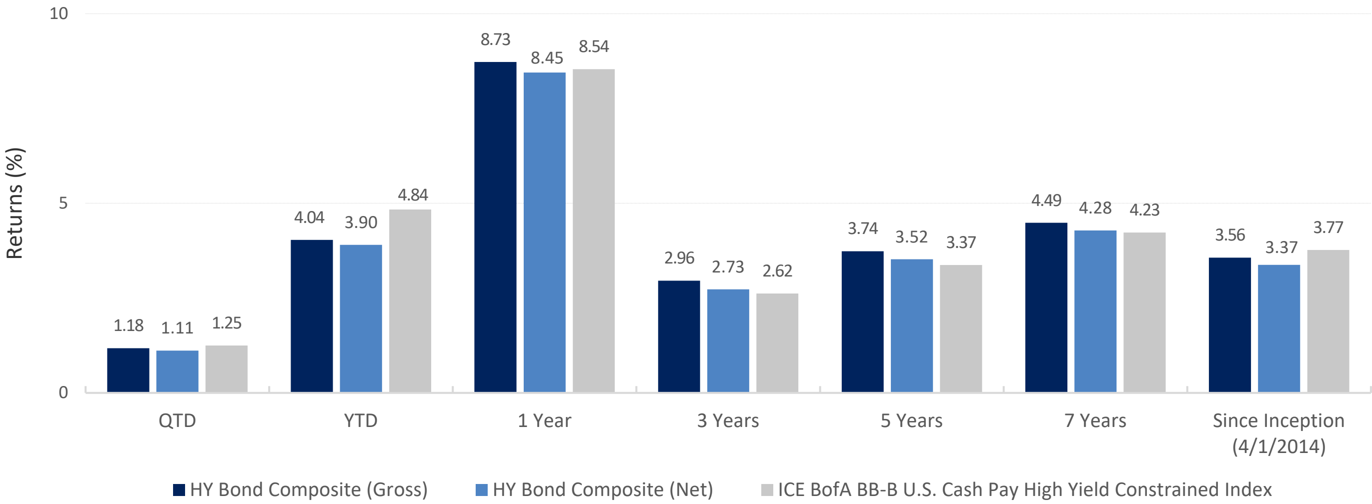
In our investment grade corporate bond portfolios, we moved to a more neutral stance on duration, with an increased focus on tactical opportunities. From an industry perspective, we continue to favor experience-related credits, while also increasing exposure to industries we believe are attractive from a relative value standpoint at this point in the cycle.

Investment grade corporate credit spreads tightened to a much lesser degree than high yield bond spreads in June, thus higher interest rates led to negative returns. From a duration perspective, we adopted a more neutral stance given the current yield curve environment. Overall, we reduced exposure to split-rated/crossover credits (BBB/BB) and modestly added to higher quality tiers during the quarter, but industry views drove the majority of positioning changes.

From an industry perspective, we added exposure to Utilities, which we see as attractive on a relative value basis. Additionally, we added an overweight in Gaming and reduced an underweight in Retailers & Restaurants, focusing on experience-related credits, while reducing an overweight in Insurance and shifting to an underweight in Technology. At the end of the quarter, we held overweights in Finance Companies, REITs & Real Estate-Related and Pipelines & Distributors alongside underweights in Food, Beverage & Tobacco, Banking and Diversified Manufacturing & Construction Machinery.

Aristotle High Yield Bond Composite Performance

All Periods Ended June 30, 2023

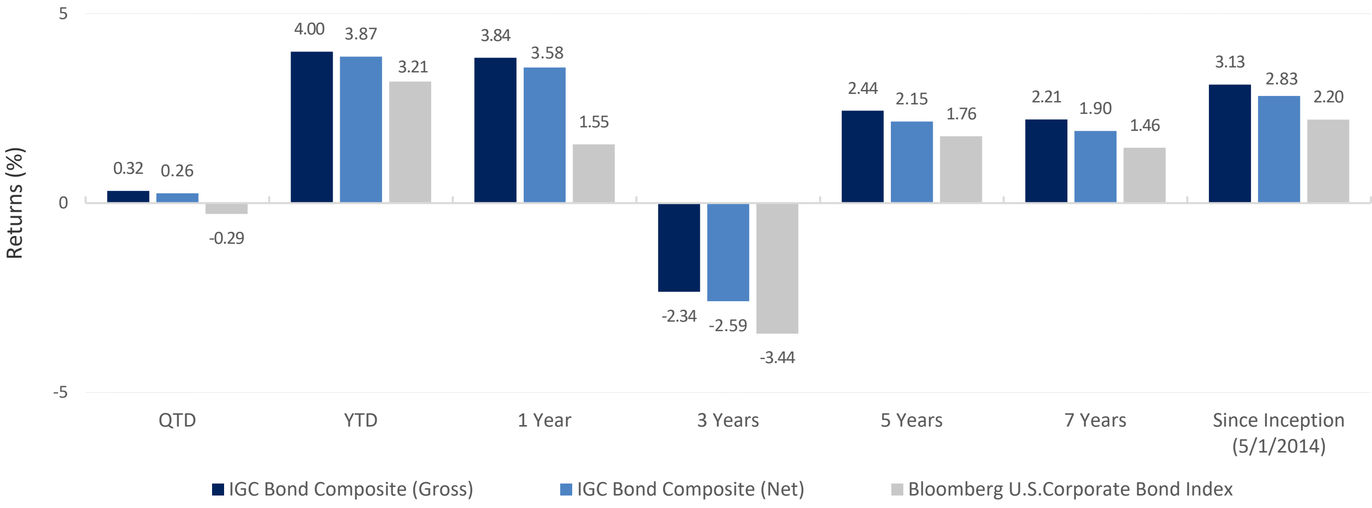


Year	High Yield Bond Composite (Gross %)	High Yield Bond Composite (Net %)	ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index (%)
2023 YTD*	4.04	3.90	4.84
2022	-7.26	-7.48	-10.59
2021	4.30	4.09	4.58
2020	6.01	5.81	6.32
2019	13.61	13.41	15.09
2018	-0.94	-1.12	-2.04
2017	6.42	6.24	6.98
2016	12.05	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.*
Past performance is not indicative of future results. Composite 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. 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. Please refer to disclosures at the end of this document.

Aristotle Investment Grade Corporate Bond Composite Performance

All Periods Ended June 30, 2023



Year	Investment Grade Corporate Bond Composite (Gross %)	Investment Grade Corporate Bond Composite (Net %)	Bloomberg U.S. Corporate Bond Index (%)
2023 YTD*	4.00	3.87	3.21
2022	-14.15	-14.37	-15.76
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. Composite 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. 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.

DISCLOSURES:

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. There are risks specifically associated with fixed income investments such as interest rate risk and credit risk. Bond values fluctuate in price in response to market conditions. Typically, when interest rates rise, there is a corresponding decline in bond values. This risk may be more pronounced for bonds with longer-term maturities. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. High yield securities are generally rated lower than investment grade securities and may be subject to greater market fluctuations, increased price volatility, risk of issuer default, less liquidity, or loss of income and principal compared to investment grade securities.

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Composite 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.

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 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. Consumer Price Index 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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