SMALL/MID CAP EQUITY

ARISTOTLE
CAPITAL BOSTON

3Q 2023 Commentary

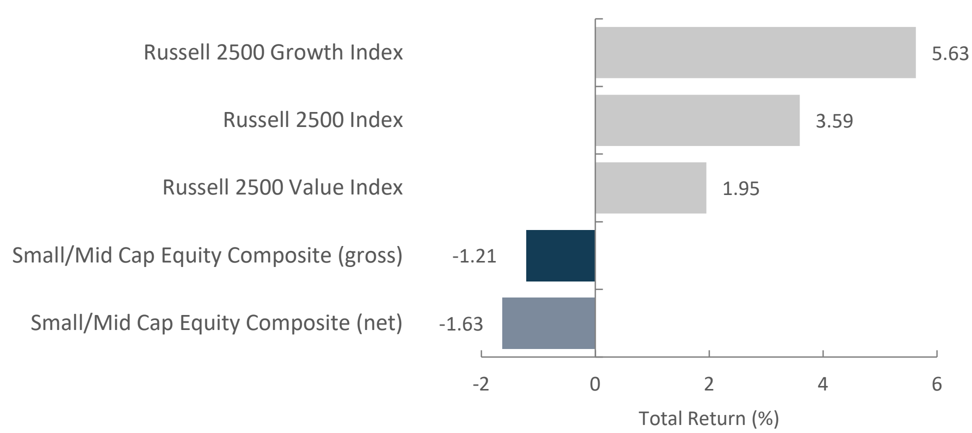
Markets Review

The Russell 2500 reversed course after rising 4.97% in the month of July, falling -9.29% in August and September, and closing out the quarter with a return of -4.78%. Performance was weaker down the cap spectrum with the Russell 2500 trailing the Russell 1000 for the third consecutive quarter, bringing the year-to-date gap between the two indices to 9.42% in favor of large caps. In spite of large caps recent streak of outperformance, many have noted the narrowness of the large cap market rally this year, with a select group of mega cap stocks coined the 'Magnificent 7' having driven the vast majority of large cap index gains so far this year. Surging oil prices and treasury yields, a broader and more protracted United Auto Workers strike, and the resumption of student loan payments all contributed to subdued market sentiment into quarter end. On the policy front, even as decades-high inflation showed meaningful signs of slowing, the Fed disappointed some investors' expectations of a quick pivot to cutting rates. Instead, the central bank indicated its resolve to keep interest rates higher for longer in mid-June, deciding to hold off on raising interest rates as it takes stock of how its prior rate hikes are impacting the real economy.

Stylistically, value stocks proved relatively resilient versus their more expensive growth counterparts during the quarter as evidenced by the Russell 2500 Value Index returning -3.66% compared to –6.84% for the Russell 2500 Growth Index. The gap between the two styles remains elevated on a year-to-date basis, however, with the Russell 2500 Growth Index having outperformed its value counterpart by 3.68% so far in 2023.

At the sector level, nine of the eleven sectors in the Russell 2500 Index generated negative returns during the third quarter and only four sectors generated returns ahead of the broader index, representing a second consecutive quarter of narrow sector leadership for the Index. Energy and Financials were the only sectors to deliver positive returns during the period with returns of 17.18% and 1.31%, respectively. Health Care (-14.22%) and Communication Services (-11.18%) both ended the quarter with double digit declines and are lagging the Index on a year-to-date basis.

Year-to-Date Returns



Sources: CAPS Composite Hub, 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.

Performance Review

For the third quarter of 2023, the Aristotle Small/Mid Cap Equity Composite generated a total return of -3.54% net of fees (-3.40% gross of fees), outperforming the -4.78% total return of the Russell 2500 Index. Outperformance was driven by a combination of security selection and allocation effects. Overall, security selection was strongest within the Health Care, Information Technology, and Industrials sectors and weakest in Financials, Consumer Discretionary and Consumer Staples. From an allocation perspective, underweights in Consumer Discretionary and Real Estate contributed to relative returns but were modestly offset by an overweight in Health Care and an underweight in Financials.

Relative Contributors	Relative Detractors
MACOM Technology Solutions	Dycom
Huron Consulting Group	Euronet Worldwide
Oceaneering	Wolverine World Wide
Diamondback Energy	Merit Medical Systems
Range Resources	Monro

CONTRIBUTORS

- **MACOM Technology Solutions (MTSI)**, a designer and manufacturer of high-performance semiconductor products, appreciated amid strength within its Industrial and Defense segment along with positive commentary around future AI data center demand. We maintain our position, as we believe the company's meaningful exposure to growing demand from Data Center and 5G end market applications along with the integration of recent acquisitions should drive additional shareholder value in periods to come.

- **Huron Consulting Group (HURN)**, a specialty consulting company that provides financial, operational, and digital consulting services to health care, education and commercial clients, appreciated after delivering strong results highlighted by continued momentum within the company's health care and education segments. We maintain our investment, as we believe the company remains well-positioned to capitalize on a demand backdrop aided by financial and operational pressures in its largest end-markets, along with secular tailwinds supporting digital transformation, analytics and cloud consulting.

DETRACTORS

- **Dycom (DY)**, a provider of engineering and construction services to the telecommunications and cable television industries, declined amid uncertainty regarding near term customer capital spending initiatives and their ensuing impact on fiber capex plans. We maintain a position as we believe the company remains well positioned for longer term growth alongside secular trends for expanding fiber deployments to support faster broadband connectivity speeds and opportunities to deploy fiber to rural or underserved areas across the country.

- **Euronet Worldwide (EEFT),** a provider of electronic payment and financial transaction solutions, declined during the period amid inflationary pressures and rising travel costs, leaving consumers with fewer funds for discretionary tourism spending and ultimately resulting in a negative impact on its Electronic Funds Transfer segment. We maintain our investment, as we believe the company's expansion into mobile and digital payments combined with a continued recovery in international travel can benefit shareholders in the periods to come.

Recent Portfolio Activity

Buys/Acquisitions	Sells/Liquidations
Patterson-UTI Energy	CalAmp
TKO Group Holdings	NexTier Oilfield Solutions
	World Wrestling Entertainment

BUYS/ ACQUISITIONS

- **Patterson-UTI Energy (PTEN),** an oilfield services company focused on drilling and pressure pumping solutions was added to the portfolio following its merger with NexTier Oilfield Solutions. Overall, we maintain a positive view on the business combination as the merging of the two entities creates a comprehensive drilling and completions franchise with leadership positions in contract drilling, pressure pumping and directional drilling. Furthermore, we believe the company will benefit from greater size and scale, synergistic cost savings initiatives, and a more diversified suite of offerings to serve its customers.

- **TKO Group Holdings (TKO),** a global sports and entertainment company formed through the merger of UFC and WWE, was added to the portfolio during the quarter. With assets spanning media & content, live events, sponsorship and licensing, we believe the company should be able to continue to capitalize on the booming global sports and entertainment ecosystem. Additionally, we believe the company's diverse global fan base and strategic international expansion plans position the company well amidst favorable industry growth trends and an ever-evolving media rights landscape.

SELLS/LIQUIDATIONS

- **CalAmp (CAMP)**, a supplier of Mobile Resource Management solutions that allow for the remote collection of data from vehicles and other assets was removed from the portfolio during the quarter. In spite of the company's efforts to convert its customer base from a hardware to subscription model, redesign its customer support systems, and introduce new products in recent years, a variety of factors contributed to the harvesting of these efforts being pushed out, unfavorably impacting the risk-reward profile of the business. Therefore, we decided to eliminate the position.

- **NexTier Oilfield Solutions (NEX)**, a provider of hydraulic fracturing and other completion-oriented oilfield services to exploration and production companies in the U.S. was removed from the portfolio by virtue of its merger with Patterson-UTI Energy.

- **World Wrestling Entertainment (WWE)**, an integrated media and entertainment company, was removed from the portfolio following its merger with Endeavor Group-owned UFC. The new publicly listed company that will combine the two entities will operate under the name TKO Group Holdings.

Outlook

Outside of a few major surprises, including the regional banking situation and an overly optimistic period of AI euphoria, it is perhaps surprising how little market risks and narratives have shifted over the last nine months. The two big uncertainties that many investors highlighted at the start of the year (i) whether inflation would persist and, (ii) whether there would be a recession, remain largely unresolved. While it is clear in the hard data that inflation has dropped over the course of the year, recent readings remain uncomfortably above the Federal Reserve's target levels. Rapid increases in food and energy prices also persisted throughout the quarter fueling further uncertainty in the outlook. On the economy, the consensus view at the start of 2023 was that we were heading into a recession, with the only questions being when it would kick in, and how deep it would be. To this point, those questions still remain. One reason for market resiliency this year has been the performance of the economy, which has managed to not only avoid a recession to this point but also deliver strong employment numbers. Against this uncertain backdrop, the market may continue swinging between wild optimism, where inflation is no longer viewed as a threat and the economy has a soft landing, and extreme pessimism, where inflation comes roaring back, and the economy falls into a recession. Because of the difficulty in forecasting these macroeconomic outcomes, we have always strived to avoid making such predictions. Instead, we will – as always – stay focused on forecasting the underlying fundamentals of the companies in which we invest rather than making top-down investment or portfolio decisions. We do, however, believe that a normalization of financial conditions through higher rates (nominal and real) and QT should result in a more favorable market environment for quality companies with strong fundamentals better than it had been in the years leading up to, and through the pandemic/2021 period during which “Easy Money Policy” distorted market and style dynamics. Thus far in 2023, including the third quarter, we have seen short-term periods where more reasonably valued companies have recovered on a relative basis, but this has not been a linear shift in the market as much of the first half rally was more sentiment-driven than fundamentally supported, in our view. Ultimately, we believe business fundamentals and valuations are the key determinants of investment returns over extended periods and that remains our focus.

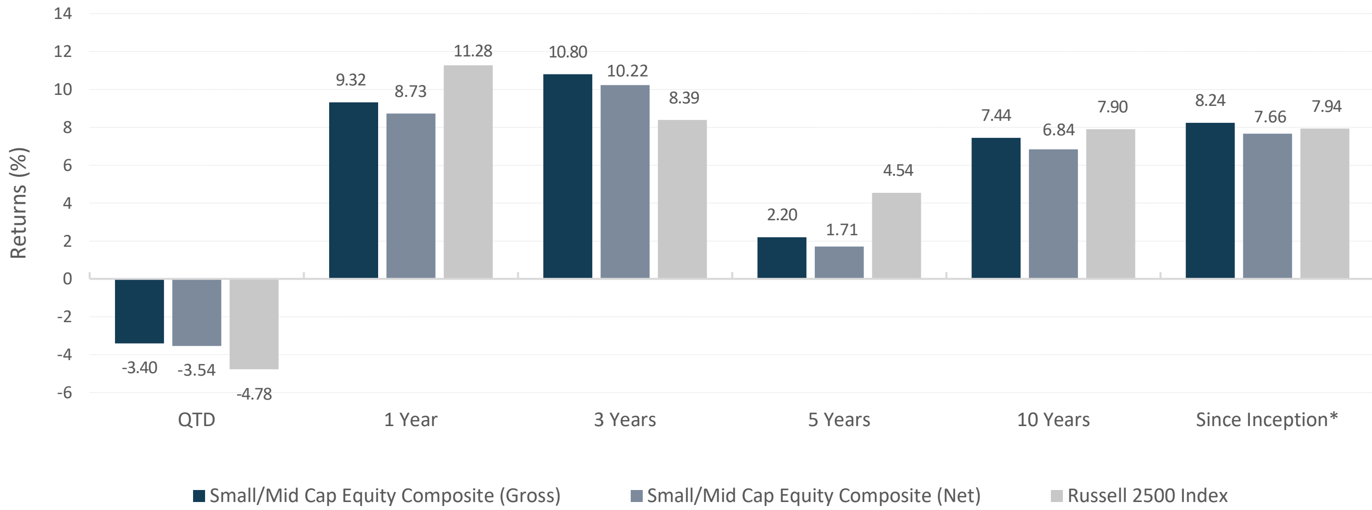
From an asset class perspective, valuations of small versus large continue to remain near multi-decade lows, which we believe suggests a more favorable setup for small caps relative to large caps in the periods to come (13.2x P/E for the Russell 2500 Index vs. 21.2x P/E for the Russell 1000 Index). Based upon relative P/E alone, there has been no other time in the Russell 2500’s history that has been as attractive relative to large cap as in recent times. Additionally, earnings and sales growth are expected to improve for small & mid caps in 2024 and outpace that of large caps, which we believe provides further fundamental support and potential upside for the asset class. A peak in US large-cap market concentration has also historically been followed by sustained small & mid cap outperformance. Small & mid caps are less vulnerable to a top-heavy market, helping reduce the index’s sensitivity to individual company performance. Moreover, small & mid caps tend to outperform large caps when inflation falls from high levels as well as during recovery periods coming out of economic downturns. Investors thinking of positioning around these trends may benefit from moving down in market capitalization, in our opinion.

Positioning

As always, we remain focused on long-term business fundamentals, even in the face of elevated short-term volatility. 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. 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 of many retail businesses and a potential deceleration in goods spending following a period of strength fueled in part by government backed stimulus payments. We also continue to be underweight in Real Estate as a result of 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, 2023



Year	Small/Mid Cap Equity Composite (Gross %)	Small/Mid Cap Equity Composite (Net %)	Russell 2500 Index (%)
2023 YTD	-1.21	-1.63	3.59
2022	-12.11	-12.58	-18.37
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: CAPS Composite Hub, Russell Investments
Composite returns for periods ended September 30, 2023 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 firm's coverage of Signature Bank includes time at a predecessor firm.

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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