

3Q 2024 Commentary

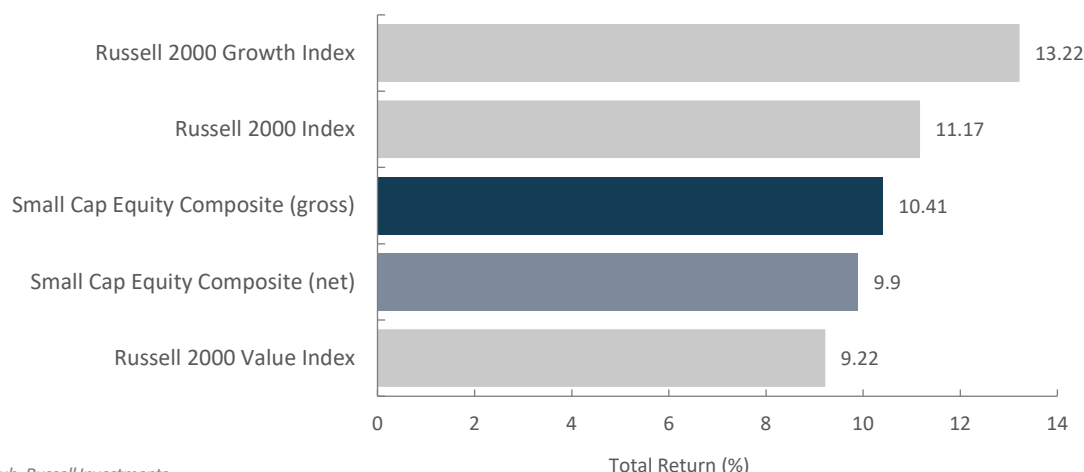
Markets Review

Small caps enjoyed strong gains in the third quarter with the Russell 2000 index delivering a total return of 9.27% but the performance belies the volatile path taken during the period. Equities rallied in July as a below consensus CPI print lent credence to the soft-landing narrative. However, the risk on environment was punctuated in early August as an interest rate hike by the Bank of Japan and the resulting unwind of the levered Yen carry trade rattled global markets. The second half of the quarter was influenced by softening economic data and the Federal Reserve (Fed). Following comments made at the August Jackson Hole economic symposium that the time had come for policy to adjust, the Federal Reserve voted to cut the Fed Funds by 50 basis points (bps). Markets embraced the decision, ending the inversion of the U.S. Treasury yield curve, and the front end is now pricing in roughly 100 bps of easing in 2024.

Stylistically, value stocks outperformed their growth counterparts during the quarter as evidenced by the Russell 2000 Value Index returning 10.15% compared to 8.41% for the Russell 2000 Growth Index. Energy was the only negative sector in both indices with much of the relative outperformance of the value index coming from interest rate-sensitive sectors such as Financials, Utilities, and Real Estate. Looking under the hood, the knock-on effects of lower interest rates could be seen in the value index, as three of the top ten performers during the quarter were home builders. While AI enthusiasm has subsided in the second half of 2024, pockets can still be seen in parts of the small cap market. Lumen Technologies, a languishing communications company, rallied in August and was the top third-quarter performer in the Russell 2000 index when the company announced \$5 billion in new business to provide private networks for AI scalars along with the potential for increased customer demand.

At the sector level, ten of the eleven sectors in the Russell 2000 Index recorded positive returns during the third quarter, led by the Real Estate (+18.16%), Communication Services (+17.79%), and Financials (15.14%) sectors. Conversely, Energy (-8.31%), Information Technology (+4.30%), and Materials (+8.14%) all lagged. Looking at market factors, profitable companies outperformed loss makers by nearly 125 bps during the quarter.

2024 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 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 2024, the Aristotle Small Cap Equity Composite posted a total return of 7.40% net of fees (7.57% gross of fees), trailing the 9.27% total return of the Russell 2000 Index. Underperformance was driven by both security selection and allocation effects. Overall, security selection was weakest in the Industrials and Health Care sectors and strongest in Information Technology and Materials. From an allocation perspective, an underweight in Real Estate and an overweight in Information Technology detracted from relative performance but this was partially offset by underweights in Materials and Health Care.

Relative Contributors	Relative Detractors
Baldwin Insurance Group	Ardmore Shipping
ACI Worldwide	Acadia Healthcare
PetIQ	ModivCare
Belden	Patterson-UTI Energy
Mercury Systems	Community Healthcare Trust

CONTRIBUTORS

- **Baldwin Insurance Group (BWIN)**, a Florida-based insurance company operating in the advisory, underwriting, and Mainstreet (consumer/small business) segments, built on second-quarter momentum with above consensus earnings on account of business line growth and margin improvement. We believe the company is starting to benefit from investments in talent made over the past year as well as the launch of new products. We maintain a position as we believe the company should continue to benefit from a positive inflection in free cash flow, improving margins, and deleveraging.
- **ACI Worldwide (ACIW)**, a provider of software solutions to facilitate payment transactions for financial institutions, retailers, and payment processors around the world, benefited from strong second-quarter results largely driven by growth in the bank segment along with the announcement of a \$400 million stock buyback program. We maintain our investment as we believe the company is executing its strategy to maintain a strong market position in the payments software niche while upgrading its technology in select areas. With ongoing cost controls and high incremental margins on new revenue, we expect the company can drive additional growth with continued debt reduction and share repurchases.

DETRACTORS

- **Ardmore Shipping (ASC)**, a product and chemical transportation company focused on modern mid-sized vessels, drifted lower during the quarter as concerns over oil production and potentially weak Chinese growth weighed on the broader energy sector. We maintain a position, as we believe the company continues to operate from a position of strength, driven by recent shareholder-friendly capital allocation decisions, strong operating performance, and a favorable industry supply-demand backdrop.
- **Acadia Healthcare (ACHC)**, a behavioral healthcare and substance abuse treatment services company, declined in late September as a result of two negative news headlines related to patient care and questions about billing practices. While we take these developments seriously, we believe investors' reaction to the news has been more severe than warranted. Industry peers have faced similar levels of scrutiny in the past with limited fundamental impact, and unless additional information is uncovered, we believe the current scrutiny will be resolved without much of an impact on their business. We continue to believe the company is well positioned to be an important part of the solution to an unfortunately growing need for behavioral health services.



Recent Portfolio Activity

Buys/Acquisitions	Sells/Liquidations
First Interstate BancSystem	Enviri
	PetIQ

BUYS/ ACQUISITIONS

- **First Interstate BancSystem (FIBK)**, a financial holding company, provides community banking solutions to individuals, businesses, and municipalities. The company is selling at attractive valuations as we believe company specific self-help initiatives such as repositioning their balance sheet to take advantage of the Fed's forward curve are underappreciated by the market and not reflected in the current valuation.

SELLS/LIQUIDATIONS

- **Enviri (NVRI)**, an industrial services provider, was sold due to a change in our thesis arising from the company's inability to de-lever its balance sheet leading to muted forward growth projections.
- **PetIQ (PETQ)**, a manufacturer and distributor of pet health and wellness products, was sold as the stock had appreciated, causing its reward-to-risk profile to compress as it reached our valuation target.

Outlook

We continue to remain optimistic about the long-term potential for the small-cap segment of the U.S. market as valuations and potential tailwinds bode well for the asset class. As we look out to the final months of 2024, we are cautiously constructive as encouraging signs of economic stability are balanced by now consensus expectations of a soft landing scenario and risk pricing. While rate-cutting cycles have historically been constructive for small caps, there remains a long list of items creating uncertainty that could lead to greater volatility in the final months of the year. This includes but is not limited to, the reignition of inflationary pressures, labor strikes in key industries and ports, geopolitical tensions, U.S. equity index concentration issues, ongoing commercial real estate and regional banking concerns, and the looming presidential election. We are aware that most of these issues are well known, but the timing and magnitude of the impact of any and all of these issues remains unpredictable. Therefore, as we always have, we will continue to avoid the temptation to forecast their outcome in favor of assessing the potential impact from a range of potential outcomes within our company-specific, bottom-up analysis, and quality 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 (16.7x P/E for the Russell 2000 Index vs. 25.8x P/E for the Russell 1000 Index). Against a backdrop of disinflation, normalized interest rates, and a still growing U.S. economy, it looks to us that small-cap's stretch of underperformance has the potential to end. If the economy continues to stabilize, our view is that valuations are likely to rise for those businesses that have largely sat out the mega-cap performance regime. Lastly, we believe small caps remain better positioned to benefit from the reshoring of U.S. manufacturing, a pickup in M&A activity, fiscal policy bills passed in the last few years such as the IRA and Jobs Act, and several infrastructure projects on the horizon.

Positioning

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 our underlying company specific views rather than any top-down predictions for each sector. 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

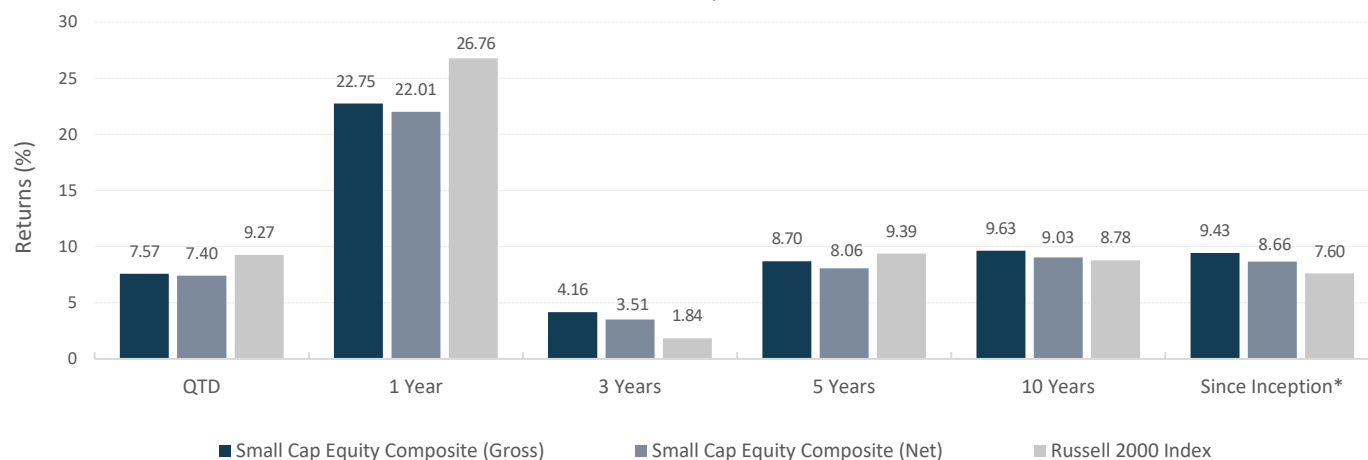


and a potential deceleration in goods spending following a period of strength. While the portfolio's allocation to Health Care is modestly below that of the benchmark, we continue to remain underweight the Biotechnology industry as many companies within that group do not fit our discipline due to their elevated levels of binary risk. 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 Cap Equity Composite Performance

All Periods Ended September 30, 2024



Year	Small Cap Equity Composite (Gross %)	Small Cap Equity Composite (Net %)	Russell 2000 Index (%)
YTD 2024	10.41	9.90	11.17
2023	7.56	6.85	16.93
2022	-9.58	-10.13	-20.44
2021	19.88	19.24	14.82
2020	10.08	9.47	19.96
2019	24.86	24.20	25.53
2018	-11.59	-12.03	-11.01
2017	18.98	18.43	14.65
2016	19.53	18.92	21.31
2015	3.20	2.72	-4.41
2014	3.32	2.45	4.89
2013	39.77	38.73	38.82
2012	17.39	16.58	16.35
2011	-0.85	-1.47	-4.17
2010	24.92	24.03	26.85
2009	39.37	38.11	27.19
2008	-34.27	-35.01	-33.80
2007	6.12	4.32	-1.55
2006**	7.31	7.31	2.97

Sources: CAPS Composite Hub, Russell Investments

Composite returns for periods ended September 30, 2024, are preliminary pending final account reconciliation.

*The Aristotle Small Cap Equity Composite has an inception date of November 1, 2006, 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.

**For the period November 2006 through December 2006.

Past performance is not indicative of future results. Performance results for periods greater than one year have been annualized.

Effective January 1, 2022, the Aristotle Small Cap Equity Composite has been redefined to exclude accounts with meaningful industry-specific restrictions or substantial values-based screens hampering implementation of the small cap strategy.

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. The material is provided for informational and/or educational purposes only and is not intended to be and should not be construed as investment, legal or tax advice and/or a legal opinion. Investors should consult their financial and tax adviser before making investments.

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 2000® Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 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 2000 Growth® Index measures the performance of the small cap companies located in the United States that also exhibit a growth probability. The Russell 2000 Value® Index measures the performance of the small cap companies located in the United States that also exhibit a value probability. The Russell 1000® Index measures the performance of the large cap segment of the U.S. equity universe. 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 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 composite may be greater or less than the benchmarks. It is not possible to invest directly in these indices.

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