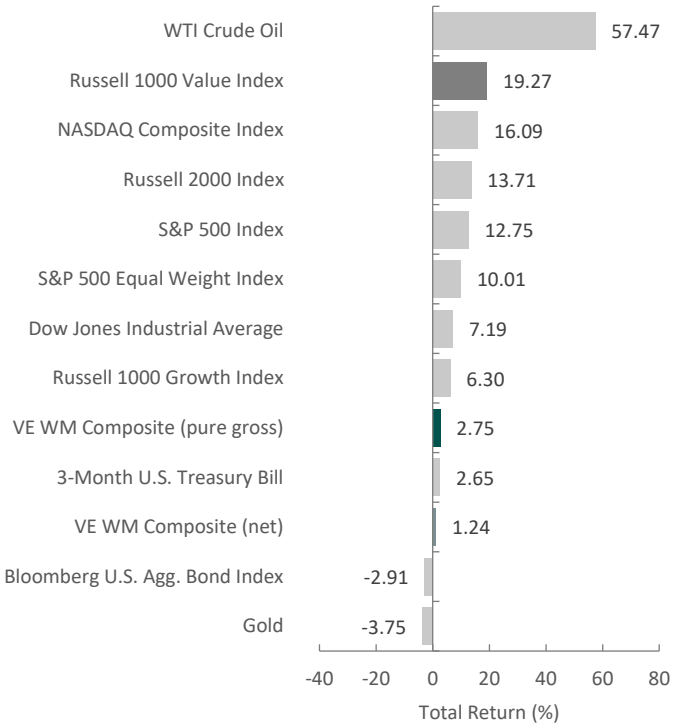
VALUE EQUITY

ARISTOTLE CAPITAL MANAGEMENT

3Q 2026 Commentary – Wealth Management

Markets Review

Year-to-Date Returns



Sources: CAPS CompositeHub™, Bloomberg

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Breakdowns in geopolitical negotiations, changes in central bank policy and renewed trade conflicts; we've seen it all before. Concentrated capital, driven by speculative enthusiasm and drawing attention away from fundamentally stable, predictable businesses; we've spoken about this at length.

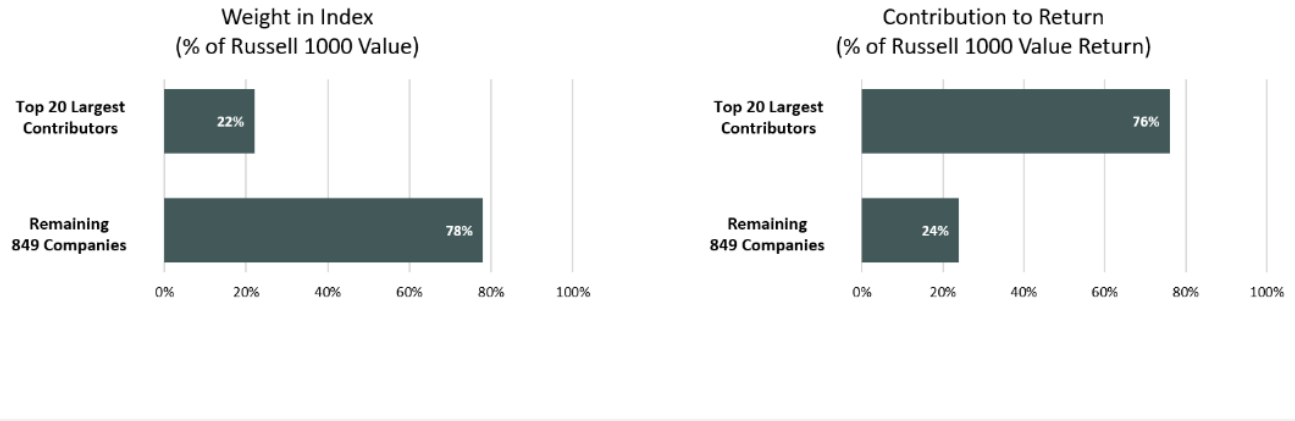
More recently, significant changes in the composition of our primary benchmark, the Russell 1000 Value, have reshaped the Index. Seven of the Index's ten largest contributors to returns during the first half of the year were removed at the end of June: Micron, Caterpillar, Applied Materials, AMD, Sandisk, Western Digital and Marvell Technology. At the same time, Apple and Microsoft entered the Index, while Amazon's weight increased significantly. Together, Amazon, Apple and Microsoft represented approximately 15% of the benchmark following the reconstitution, compared with approximately 10% for the Index's three largest constituents at the end of 2025.

The impact extends beyond individual constituents. The sector composition of the Russell 1000 Value has also changed meaningfully since late last year, with Information Technology increasing from approximately 12% of the Index to 21%, while Communication Services declined from approximately 8% to 3%. As a result, the exposures represented by the Index today are materially different from those represented by the same benchmark less than a year ago (and increasingly reminiscent of growth indexes of the past).

These changes have occurred during a period of unusually wide dispersion between high- and low-beta stocks. Over the past six months ending September 30, the highest-beta quintile of the Russell 1000 Value gained approximately 53%, while the lowest-beta quintile declined approximately 2%, a spread of about 55 percentage points. Beta, not simply value exposure, was therefore a major driver of relative returns during this period. For long-term investors, a value rally driven by higher beta can mask greater market risk, as higher returns may reflect greater market sensitivity rather than improving fundamentals.

Concentrated Leadership Has Reached Value Benchmarks

As of September 30, 2026



The **20 largest contributors** in the Russell 1000 Value Index, representing just **2% of constituents** and **approximately 22%** of index weight, **generated 76% of total index returns year-to-date.**

Index-level returns have masked much narrower participation[1] beneath the surface.

[1]*For purposes of this analysis, "narrower participation" refers to periods in which a relatively small number of securities account for a disproportionate share of an index's total return.*

While these dynamics help explain recent relative performance, we believe the more important forward-looking questions for long-term investors are, "What unintended risks have these dislocations created?" and "Where do the most attractive opportunities exist today?" Many of Value Equity's recent detractors have continued to grow earnings even as their valuation multiples have compressed, resulting in an increasingly attractive disconnect between fundamentals and share prices.

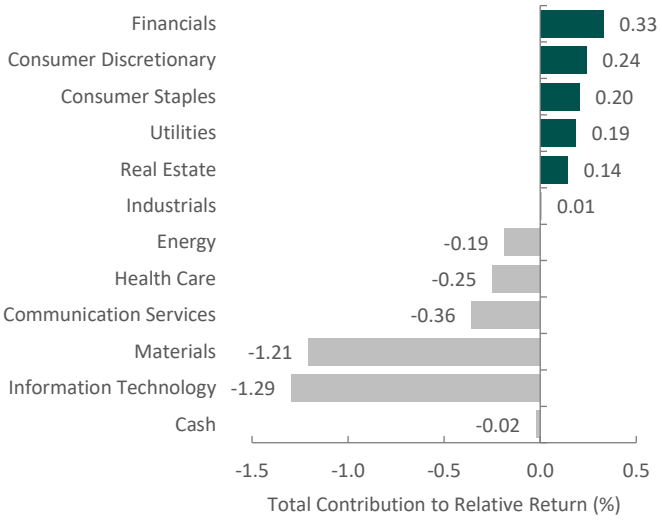
Performance and Attribution Summary

For the third quarter of 2026, Aristotle Capital's Value Equity WM Composite posted a total return of 0.41% pure gross of fees (-0.09% net of fees), underperforming the 2.61% return of the Russell 1000 Value Index and the 2.30% return of the S&P 500 Index. Please refer to the table for detailed performance.

Performance (%)	3Q26	YTD	1 Year	3 Years	5 Years	10 Years
Value Equity WM Composite (pure gross)	0.41	2.75	4.24	12.25	6.51	11.30
Value Equity WM Composite (net)	-0.09	1.24	2.20	10.07	4.41	9.09
Russell 1000 Value Index	2.61	19.27	23.81	20.07	11.92	11.43
S&P 500 Index	2.30	12.75	15.74	22.89	13.79	15.33

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Total Contribution to Relative Return by Sector Versus Russell 1000 Value Index
Third Quarter 2026



Source: FactSet

Past performance is not indicative of future results. Sector attribution shows how much of a portfolio's overall return is directly attributable to stock selection and asset allocation decisions within the portfolio, highlighting which sectors contributed or detracted to the total return. Attribution includes the reinvestment of income. Attribution is presented pure gross of fees and does not include the deduction of all fees and expenses that a client or investor has paid or would have paid. Please refer to the pure gross and net composite returns included within to understand the overall impact of fees.

The portfolio's underperformance relative to the Russell 1000 Value Index in the third quarter can be attributed to both security selection and allocation effects. Security selection in Information Technology, Materials and Communication Services detracted the most from relative performance. Conversely, security selection in Financials, an underweight in Consumer Discretionary and an overweight in Communication Services contributed. (Relative weights are the result of bottom-up security selection.)

Contributors and Detractors for 3Q 2026

Relative Contributors	Relative Detractors
Mitsubishi UFJ Financial	Martin Marietta Materials
Amgen	Microchip Technology
Sony	Corteva
Chevron	Carrier Global
TotalEnergies	Microsoft

Relative contributors and detractors are based on attribution total effect and exclude benchmark securities not held in the portfolio.

Martin Marietta, a leading supplier of construction aggregates and building materials, was the largest detractor during the quarter. Despite continued strength in the company's underlying results, shares declined as investors remained cautious about the outlook for construction activity and the timing of a recovery in interest-rate-sensitive end markets. Martin Marietta reported record second quarter revenues, continued pricing gains and strong operating performance during the period. The company also completed the $13.5 billion acquisition of Lhoist North America, significantly expanding its higher-margin Specialties business and adding more than two billion tons of high-quality limestone reserves. The transaction also broadens Martin Marietta's exposure to infrastructure and industrial end markets, including domestic manufacturing, data centers and energy development. We believe the company's advantaged reserve positions, disciplined pricing and the continued shift toward higher-value upstream materials should support attractive long-term earnings and cash flow generation.

Microchip Technology, the microcontroller (MCU) and analog semiconductor producer, was a significant detractor during the period. The company's stock sold off despite continued evidence of improvement in its underlying business. Customer inventories continued to normalize and bookings remained strong, supporting a recovery in demand following the prolonged industry downturn. Higher factory utilization and disciplined expense management also contributed to improved profitability and cash flow generation. While management noted potential capacity constraints at certain external manufacturing partners, Microchip's internal capacity remains sufficient to support its growth expectations. We believe the company's broad product portfolio, longstanding customer relationships and commitment to extended product lifecycles position it well to benefit from a continued recovery in its core end markets, while growing opportunities in data centers and aerospace & defense provide additional avenues for long-term growth.

Amgen, the biopharmaceutical company, was one of the largest contributors during the quarter. The company has continued to benefit from growth across several newer and expanding medicines, including Repatha (cholesterol), Evenity (osteoporosis), Tezspire (asthma) and Uplizna (rare autoimmune diseases), as well as emphasizing clinical developments across its pipeline. While Amgen faces increasing biosimilar competition for several of its mature biologic therapies, the company is also benefiting from opportunities in the growing biosimilars market. Leveraging its biologics expertise and global manufacturing scale, the company has generated more than $15 billion in biosimilar sales since 2018, with additional candidates in development. We believe the breadth of Amgen's portfolio and improving research productivity, combined with its ability to capitalize on its global commercial and manufacturing infrastructure, position the company to benefit as its pipeline develops.

Chevron, one of the world's largest integrated energy companies, was a leading contributor during the quarter. While higher oil prices provided a favorable backdrop, we remain more focused on the continued improvement in the underlying economics of the business. The completion of the Tengiz expansion moved a significant multi-year project from investment into production. Meanwhile, the 2025 acquisition of Hess added Guyana's Stabroek block to Chevron's asset portfolio, where six announced developments have breakeven costs below $35 per barrel. In addition, its Permian Basin footprint is shifting from an emphasis on production growth toward cash generation as spending moderates and operating efficiencies improve. The company also reached its $3 billion structural cost-reduction target six months ahead of schedule. Looking forward, we believe low-cost production growth from Guyana, increasing capital efficiency across the portfolio and continued operating discipline should support higher returns and FREE cash flow as the company benefits from several years of significant investment.

Recent Portfolio Activity

During the quarter, we sold our position in Oshkosh and purchased Carrier Global.

Buys	Sells
Carrier Global	Oshkosh

We most recently invested in Oshkosh, a manufacturer of specialty vehicles and access equipment, in early 2022. During our holding period, we believe the company executed well on many of the catalysts we had identified, including improved profitability through pricing discipline, manufacturing efficiencies, a more favorable business mix, continued product innovation and the ramp-up of production of the U.S. Postal Service's Next Generation Delivery Vehicle program. Given the progress, we chose to sell our position and redeploy the proceeds into what we believe is a more attractive opportunity in Carrier Global.

Carrier Global Corporation

Headquartered in Florida, Carrier Global is a leading global provider of heating, ventilation and air conditioning (HVAC) solutions. The company traces its roots to Willis Carrier's invention of modern air conditioning in 1902 and today serves residential, commercial and transportation markets around the world. Carrier holds leading positions across several HVAC categories and owns a portfolio of well-recognized brands, including Carrier, Viessmann and Transicold.

Carrier became an independent public company following its 2020 spinoff from United Technologies. Since then, management has substantially reshaped the business, divesting the company's Fire & Security and Commercial Refrigeration operations and acquiring Viessmann Climate Solutions and Carrier's former joint venture with Toshiba (Carrier Japan). These transactions have transformed Carrier into a more focused HVAC company with technologies spanning traditional ducted systems, ductless and mini-split systems, heat pumps, inverter-based air conditioning, and large commercial applications.

We believe the world remains structurally "under air-conditioned." Rising global temperatures, increasing living standards, and electrification of buildings to incorporate heating and more stringent energy-efficiency requirements should support long-term demand for HVAC equipment. Importantly, we find that Carrier's breadth of technologies and geographic reach position the company to benefit from growing HVAC demand diversified across markets and applications rather than relying on any single technology or end market.

High-Quality Business

Some of the quality characteristics we have identified for Carrier include:

- Leading market positions across several HVAC categories, including U.S. residential and light commercial, European residential and commercial, and transport refrigeration;
- Strong brands and distribution networks, which create meaningful barriers to entry, particularly in developed residential HVAC markets;
- An expanding parts and service business, which provides more recurring revenue and attractive margins while deepening Carrier's relationships with its installed customer base; and
- A well-regarded and stable management team that has successfully repositioned Carrier into a more focused HVAC company following its separation from United Technologies.

Attractive Valuation

We believe shares of Carrier are attractively valued relative to our estimates of the company's normalized earnings and FREE cash flow generation. In our view, the current valuation does not fully reflect the potential for residential HVAC volumes in North America and Europe to recover from depressed levels, continued market share gains in commercial HVAC, or further expansion of the company's higher-margin aftermarket parts and service business. Carrier also generates meaningful FREE cash flow, supporting a well-covered and growing dividend while providing additional capital for share repurchases and other capital allocation opportunities.

Compelling Catalysts

Catalysts we have identified for Carrier, which we believe will cause its stock price to appreciate over our three- to five-year investment horizon, include:

- Increasing global air-conditioning penetration, supported by rising living standards, electrification and regulatory requirements that encourage adoption of more efficient, higher-value HVAC systems;
- Continued expansion of Carrier's aftermarket parts and service business, where improved capture of its installed base should contribute to more recurring revenue, higher margins and less cyclical earnings over time;
- Market share gains in large commercial, or "applied," HVAC, where Carrier has reinvigorated its product offering since becoming independent, with additional growth opportunities from data centers and other industrial applications requiring increasingly sophisticated cooling technologies;
- Normalization of residential HVAC demand in North America and Europe, including European heat-pump demand, where industry volumes remain below historical levels;
- Benefits from the Viessmann acquisition, including its strong European brand, installer network and heat-pump technology that can potentially be leveraged across Carrier's broader geographic footprint; and
- Continued capital deployment through a growing dividend and share repurchases, supported by meaningful FREE cash flow generation.

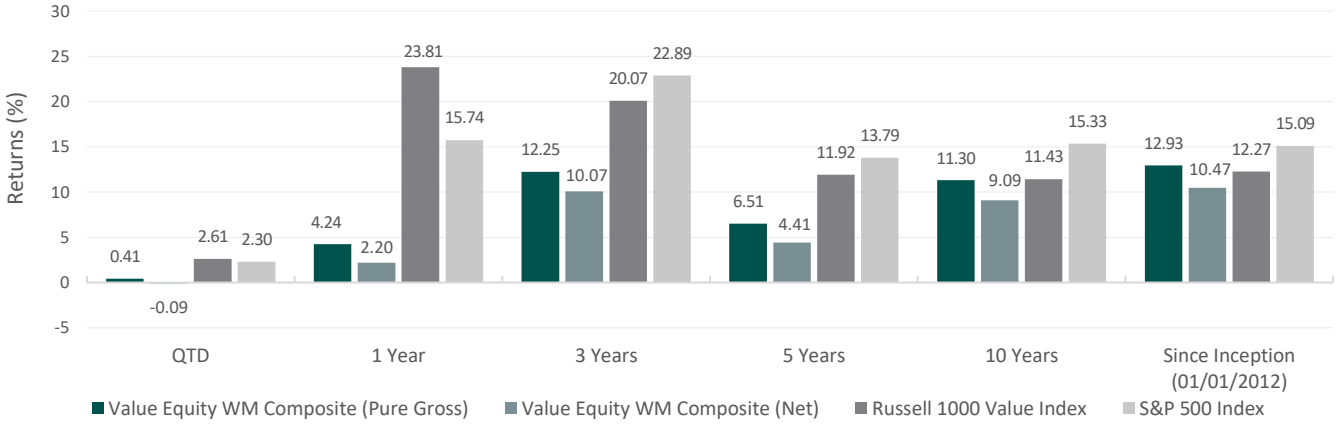
Conclusion

Periods of relative underperformance can test conviction, particularly when market leadership is narrow and rapidly changing. However, we believe the appropriate response is not to chase what has recently worked but to remain focused on the long-term drivers of value creation. This discipline has guided our investment process across multiple market cycles and continues to shape how we position the portfolio today.

Importantly, recent performance has not been accompanied by a deterioration in the businesses we own. In many cases, earnings have continued to grow even as valuation multiples have compressed, creating what we believe is an increasingly attractive disconnect between share prices and normalized earnings power. While periods like this are challenging, they can also create opportunity for long-term investors. We believe the very conditions that have challenged recent relative performance have strengthened the portfolio's prospective return potential.

Aristotle Value Equity WM Composite Performance

All Periods Ended September 30, 2026



Sources: CAPS CompositeHub™, Russell Investments, Standard & Poor's

Year	Value Equity WM Composite (Pure Gross %)	Value Equity WM Composite (Net %)	Russell 1000 Value Index (%)	S&P 500 Index (%)
YTD 2026	2.75	1.24	19.27	12.75
2025	11.88	9.70	15.91	17.88
2024	7.78	5.67	14.37	25.02
2023	20.16	17.83	11.46	26.29
2022	-14.71	-16.52	-7.54	-18.11
2021	26.17	23.69	25.16	28.71
2020	15.96	13.58	2.80	18.40
2019	32.59	30.14	26.54	31.49
2018	-8.33	-10.21	-8.27	-4.38
2017	22.25	19.84	13.66	21.83
2016	18.03	15.72	17.34	11.96
2015	3.81	1.71	-3.83	1.38
2014	11.71	8.41	13.45	13.69
2013	30.99	27.18	32.53	32.39
2012	21.41	17.94	17.51	16.00

Past performance is not indicative of future results. The information provided should not be considered financial advice or a recommendation to purchase or sell any particular security or product. Performance results for periods greater than one year have been annualized.

The Aristotle Value Equity WM Composite has an inception date of 10/1/1979. As of 1/1/2024, the Composite was renamed from the Value Equity Wrap Composite and the inception date was updated to 1/1/2012. This update was implemented to align the start date of the composite track record with the start date of the current decision maker. Performance achieved by the firm prior to that date is available upon request.

Composite returns are presented pure gross and net of the maximum wrap fee and include the reinvestment of all income. Pure gross returns do not reflect the deduction of any trading costs or other fees and are supplemental to the net returns. Net returns are calculated by subtracting the highest applicable wrap/SMA fee, which includes trading costs and custodial fees, from the pure gross composite return. (From inception to 12/31/2015, the highest applicable wrap/SMA fee is 3.00% on an annual basis, or 0.75% quarterly. From 1/1/2016 to 12/31/2023, the highest applicable wrap/SMA fee is 2.00% on an annual basis, or 0.50% quarterly and 0.17% monthly from 1/1/2024 to present.)

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Capital's Value Equity Strategy. The representative account is a discretionary client account which was chosen to most closely reflect the investment style of the strategy. The criteria used for representative account selection is based on the account's period of time under management and its similarity of holdings in relation to the strategy. Recommendations made in the last 12 months are available upon request.

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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. While Large-capitalization companies may have more stable prices than smaller, less established companies, they are still subject to equity securities risk. In addition, large-capitalization equity security prices may not rise as much as prices of equity securities of small-capitalization companies. Securities of small- and medium-sized companies tend to have a shorter history of operations and 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. Information and data presented has been developed internally and/or obtained from sources believed to be reliable. Aristotle Capital does not guarantee the accuracy, adequacy or completeness of such information.

The Russell 1000® Value Index measures the performance of the large cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. The S&P 500® Index is the Standard & Poor's Composite Index of 500 stocks 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 S&P 500 Equal Weight Index is designed to be the size-neutral version of the S&P 500. It includes the same constituents as the cap-weighted S&P 500, but each company in the S&P 500 Equal Weight Index is allocated the same weight at each quarterly rebalance. The Russell 1000® Growth Index measures the performance of the large cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. 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 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Dow Jones Industrial Average® is a price-weighted measure of 30 U.S. blue-chip companies. The Index covers all industries except transportation and utilities. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite includes over 3,000 companies, more than most other stock market indexes. The Bloomberg U.S. Aggregate Bond Index is an unmanaged index of domestic investment grade bonds, including corporate, government and mortgage-backed securities. The WTI Crude Oil Index is a major trading classification of sweet light crude oil that serves as a major benchmark price for oil consumed in the United States. The 3-Month U.S. Treasury Bill is a short-term debt obligation backed by the U.S. Treasury Department with a maturity of three months. The volatility (beta) of the Composite may be greater or less than its respective benchmarks. It is not possible to invest directly in these indices.

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