CORPORATE CREDIT

ARISTOTLE CREDIT PARTNERS

2Q 2024 Commentary – Institutional

Summary

U.S. corporate credit markets delivered mixed performance in the second quarter, as U.S. yields rose and credit spreads widened marginally. The Bloomberg U.S. Aggregate Bond Index eked out a small gain of 0.07% during the quarter but remained in negative territory for the year with a return of -0.71% in the first half. Bank loans continued to outperform both high yield bonds and investment grade corporate bonds with the Credit Suisse Leveraged Loan Index gaining 1.87% during the quarter, bringing its year-to-date return to 4.44%. High yield bonds also gained ground during the period, returning 1.09% during the quarter and 2.58% in the first half, as measured by the Bloomberg U.S. Corporate High Yield Bond Index. Conversely, investment grade corporate bonds continued to struggle as longer duration bonds underperformed, with the Bloomberg U.S. Corporate Bond Index returning -0.09% during the quarter and -0.49% in the first six months of the year.

U.S. equity markets continued to advance, as the "Magnificent 7" helped to push the S&P 500 Index to a new all-time high, with a total return of 4.28% in the quarter and 15.29% in the first half of 2024. Economic data released during the second quarter revealed slowing growth and modestly easing inflation. First quarter GDP showed the economy expanding at an annual rate of 1.4%, well below the 3.4% rate seen in the fourth quarter of 2023. Nonetheless, the U.S. labor market remained resilient with nonfarm payrolls beating expectations in May, although the unemployment rate ticked up to 4.0%, the highest level since January 2022. Meanwhile, U.S. inflation eased slightly, as annual CPI fell to 3.3% in May, the lowest since February.

The Federal Reserve (Fed) held rates steady in the second quarter leaving its benchmark rate unchanged for the seventh consecutive meeting in June. According to the Fed's updated Summary of Economic Projections (SEP), the committee now expects only 25 basis points of rate cuts in 2024 and nudged up median rate projections over the next few years. Fed Chair Powell acknowledged the solid pace of U.S. economic activity, a strong job market and easing inflation, but emphasized inflation remains elevated, and the Fed needs to see further progress on inflation before cutting rates. Elsewhere, the U.S. presidential campaign began in earnest and will likely garner further attention ahead of the November election.

Market Environment

U.S. Treasuries ended the quarter modestly weaker, with yields rising across the curve. The yield on the U.S. 2-year note climbed roughly 13 basis points during the quarter, and the yield on the U.S. 10-year note rose nearly 19 basis points. While the yield curve steepened marginally during the quarter, the spread between the yield on the 2-year and 10-year notes remained inverted for the 24th consecutive month, extending the longest such inversion in history. Despite moderating over the past two months after peaking in April, yields rose by more than 50 basis points across the curve in the first half.

Corporate credit spreads ended the quarter modestly wider after falling to the tightest levels in over two years in early April. High yield bond spreads ended the quarter approximately 10 basis points wider, as measured by the Bloomberg U.S. Corporate High Yield Bond Index, while investment grade corporate bond spreads widened roughly 4 basis points, as measured by the Bloomberg U.S. Corporate Bond Index.

U.S. corporate credit issuance remained strong, with refinancing continuing to drive the bulk of issuance. High yield bond supply totaled nearly $78 billion in the quarter, which was modestly slower than the prior quarter but almost double the total from the second quarter of 2023. Leveraged loan supply continued at a torrid pace, totaling roughly $385 billion during the quarter, more than 20% higher than the first quarter and more than quadruple the same period last year. Investment grade corporate issuance moderated after the first quarter's record sum, but topped $300 billion, which brought issuance in the first half to more than $800 billion, nearly 20% higher than the first half of 2023.

Following a strong first quarter, high yield bond and leveraged loan funds continued to see inflows during the second quarter. High yield bond fund inflows topped $800 million in a choppy quarter, with more than $5.2 billion in outflows in April followed by steady inflows in both May and June. Leveraged loan fund inflows totaled roughly $7.8 billion during the period, compared to an outflow of nearly $8 billion in the second quarter of 2023. Leveraged loans were bolstered by robust collateralized loan obligation (CLO) demand, with CLO volume topping $52 billion ex-refi/resets during the quarter, more than twice the total from the same period last year. Investment grade corporate bond funds also saw solid inflows, with more than $35 billion of inflows during the quarter, bringing the year-to-date total to over $90 billion.

Within the high yield bond market, higher-quality bonds gained ground in the quarter, as ‘BB’s (+1.32%) outperformed ‘B’s (+1.03%) and ‘CCC’s (-0.01%). From an industry perspective, within the Bloomberg U.S. Corporate High Yield Bond Index, Pharmaceuticals (+10.16%), Brokerage (+2.30%) and Financials (+2.17%) outperformed, while Cable & Satellite (-2.00%), Telecommunications (-1.55%) and Media & Entertainment (-1.53%) continued to underperform.

Defaults and distressed exchanges moderated in the second quarter. The 12-month trailing, par-weighted U.S. high yield default rate, including distressed exchanges, declined roughly 80 basis points to end the quarter at 1.79% (1.17%, excluding distressed exchanges), more than 1.50% below its long-term historical average. Meanwhile, the loan par-weighted default rate, including distressed exchanges, fell roughly 42 basis points to end June at 3.10% (1.09%, excluding distressed exchanges), roughly in line with its long-term historical average.

Performance and Attribution Summary

High Yield Bond

The Aristotle High Yield Bond Composite returned 1.55% gross of fees (1.49% net of fees) in the second quarter, outperforming the 1.22% return of the ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index. Security selection was the primary contributor to relative performance. Industry allocation also contributed to relative performance, while sector rotation had a neutral effect. There were no offsetting detractors.

Security selection contributed to relative performance led by holdings in Cable & Satellite and Finance Companies. This was partially offset by selection in Pharmaceuticals and Pipelines & Distributors. Industry allocation also contributed to relative performance led by an underweight in Cable & Satellite and an overweight in Finance Companies. This was partially offset by underweights in Technology and Healthcare. Sector rotation had a neutral effect on relative performance, as the allocation to investment grade corporate bonds was offset by the allocation to bank loans.

Top Five Contributors	Top Five Detractors
Cablevision	Bausch Health
Air Lease	**Ferrellgas Partners**
Icahn Enterprises	**AmeriGas Partners**
Energy Transfer	**Titan International**
Next Alt SARL	Rakuten

**Bold securities held in representative account*

Short Duration High Yield Bond

The Aristotle Short Duration High Yield Bond Composite returned 1.42% pure gross of fees (1.29% net of fees) in the second quarter, compared to the 1.38% return of the ICE BofA 1-3 Year BB-B U.S. Cash Pay Fixed Maturity High Yield Constrained Index. Sector rotation was the primary detractor from relative performance, while industry allocation was the primary contributor to relative performance.

Sector rotation detracted from relative performance led by the allocation to investment grade corporate bonds. There were no offsetting contributors. Security selection also detracted modestly from relative performance led by holdings in Pharmaceuticals and Healthcare. This was mostly offset by selection in Finance Companies and Pipelines & Distributors. Conversely, industry allocation contributed to relative performance led by an overweight in Pharmaceuticals and an underweight in Cable & Satellite. This was partially offset by an underweight in Technology and an overweight in Pipelines & Distributors.

Top Five Contributors	Top Five Detractors
Level 3 Financing	Bausch Health
Petrofac	Staples
Icahn Enterprises	Gray Television
Hertz	Rakuten
New Fortress Energy	U.S. Acute Care Solutions

**Bold securities held in representative account*

Outlook

While our overall outlook for U.S. corporate credit markets remains largely unchanged compared to the end of the first quarter, we are beginning to see more dispersion across financial markets as economic growth slows and persistently elevated interest rates impact certain areas of the economy. Nonetheless, we believe underlying fundamentals remain supportive overall, while all-in yields are still relatively attractive. We continue to focus on higher-quality companies in industries with supportive tailwinds as we enter the second half of the year.

The macroeconomic outlook has become more balanced over the past few months, as U.S. economic activity has shown signs of slowing despite a healthy labor market and continued support from fiscal spending. While U.S. consumer spending remains relatively healthy in the aggregate, consumer sentiment declined steadily during the quarter, as the divide between higher-end consumers and the rest continues to widen. Globally, the U.S. economy is still the cleanest dirty shirt, as the economies of Europe and China have been unable to gain momentum in the first half of the year. Nonetheless, while U.S. financial markets remained strong on the surface, underlying performance diverged significantly between the largest companies and the rest of the market. We see the possibility of a bumpier road ahead as risks inherently increase when the economy and financial markets rely on narrower leadership to support overall growth.

While inflation has shown signs of easing in recent months, it remains above the Fed's target and, as a result, market expectations for future interest rate cuts have been pared back dramatically in the first half of the year. The Fed last hiked rates at its July 2023 meeting, and the current pause is likely to continue for at least a few more months. Despite global central banks (e.g., Bank of Canada and the European Central Bank) beginning to ease in the second quarter, the Fed remains cautious of cutting rates too soon and sparking a reacceleration in inflation. While the next move is almost inevitably lower, barring a major slowdown, we believe the path will be more gradual and shallower than the market expected just a few months ago. Therefore, we remain cautious on rate-sensitive areas of the economy, where we see risks continuing to build.

We believe corporate balance sheets remain strong overall, although we are seeing a divergence between higher-quality companies with prudent management teams and smaller firms with significant leverage and higher funding costs. Corporate earnings have remained strong, but the hurdle has only increased and we have begun to see the market punish earnings misses in recent months. We expect to see further difficult debt refinancings for companies with more highly levered capital structures, especially those in secularly declining industries, and we remain cautious of companies with more shareholder-friendly policies. Conversely, we continue to favor what we believe to be higher-quality, larger companies with management teams that have been proactive in shoring up their balance sheets to prepare for potentially slower growth, but we also acknowledge that valuations have become quite compressed. In this segment of the market, we expect spreads to remain rangebound but continue to seek opportunities for relatively attractive all-in yields.

In our view, the overall market narrative continues to be dominated by a few major themes, such as artificial intelligence (AI), re-shoring/near-shoring of U.S. manufacturing and the resilient higher-end U.S. consumer. These themes have been apparent for some time, so any shifts to this narrative pose a potential risk. Furthermore, with geopolitical risks rising and uncertainty likely to increase ahead of the U.S. elections, we believe there is less room for error going forward. As a result, we continue to favor companies with sound capital structures in the higher-quality segment of the high yield bond market, where we see relatively attractive income opportunities relative to recent history and the potential for positive total returns.

High Yield Bond Positioning

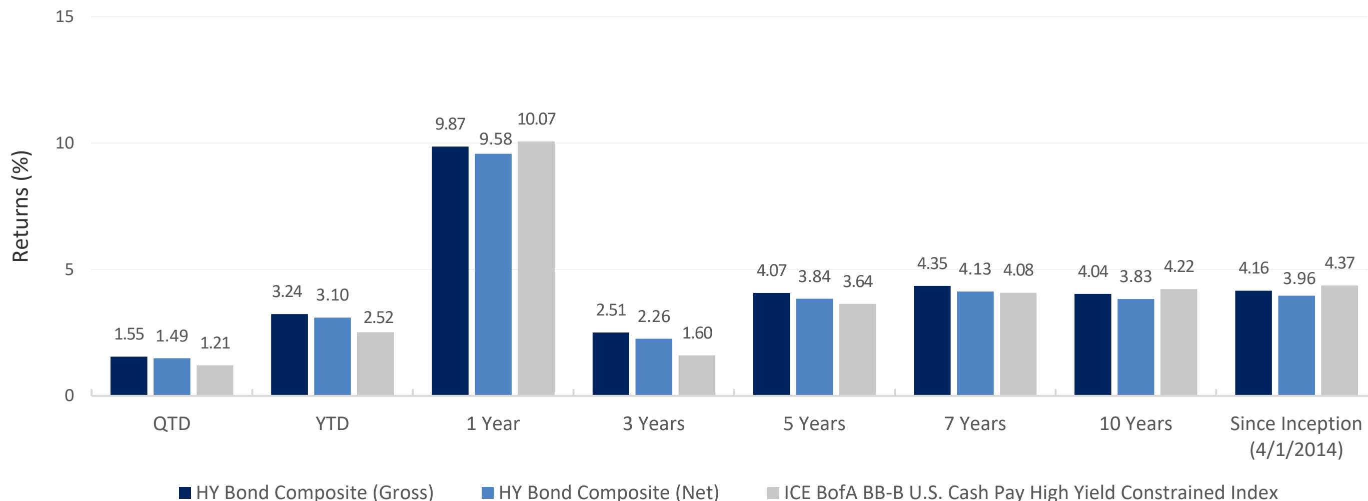
In our high yield bond portfolios, we have continued to increase exposure to higher-quality credits in the short-to-intermediate part of the curve, while favoring companies with a domestic (U.S.) focus. We remain focused on fundamental, bottom-up credit selection in segments of the market that we believe should outperform in an environment of slowing growth and elevated risks.

Compared to the prior quarter, we kept duration exposure largely unchanged and continue to see opportunities in the belly of the curve that may benefit from a steeper yield curve. Additionally, we increased exposure to ‘BB’-rated credits relative to the benchmark and are looking to opportunistically add exposure to ‘BBB’-rated credits trading with wider spreads. Despite risk-on sentiment over the past few months, we believe it is notable to see higher-quality credits beginning to outperform. As the potential Fed rate cuts get pushed further into the future, the market is coming around to the major refinancing risks facing some of the lower-quality companies in industries facing secular decline. While this may eventually present opportunities, we do not see favorable risk-reward in bottom-fishing in these parts of the market yet.

From an industry perspective, we remain focused on themes we believe should act as a tailwind for specific industries. While we continue to see certain Lodging & Leisure, Retailers & Restaurants and Transportation companies benefitting from a robust higher-end consumer, we have modestly reduced overweights. We also remain overweight certain Energy credits that we believe should benefit from elevated data center power demand from AI. Conversely, we maintained underweights in Cable & Satellite and Telecommunications, where we see persistent elevated rates continuing to weigh on highly levered credits. At the end of the quarter, we held overweights in Energy, Transportation and Retailers & Restaurants alongside underweights in Technology, Telecommunications and Chemicals.

Aristotle High Yield Bond Composite Performance

All Periods Ended June 30, 2024



Year	High Yield Bond Composite (Gross %)	High Yield Bond Composite (Net %)	ICE BofA BB-B U.S. Cash Pay High Yield Constrained Index (%)
2024 YTD*	3.24	3.10	2.52
2023	10.72	10.44	12.55
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; ICE BofA

**Composite returns are preliminary pending final account reconciliation.*

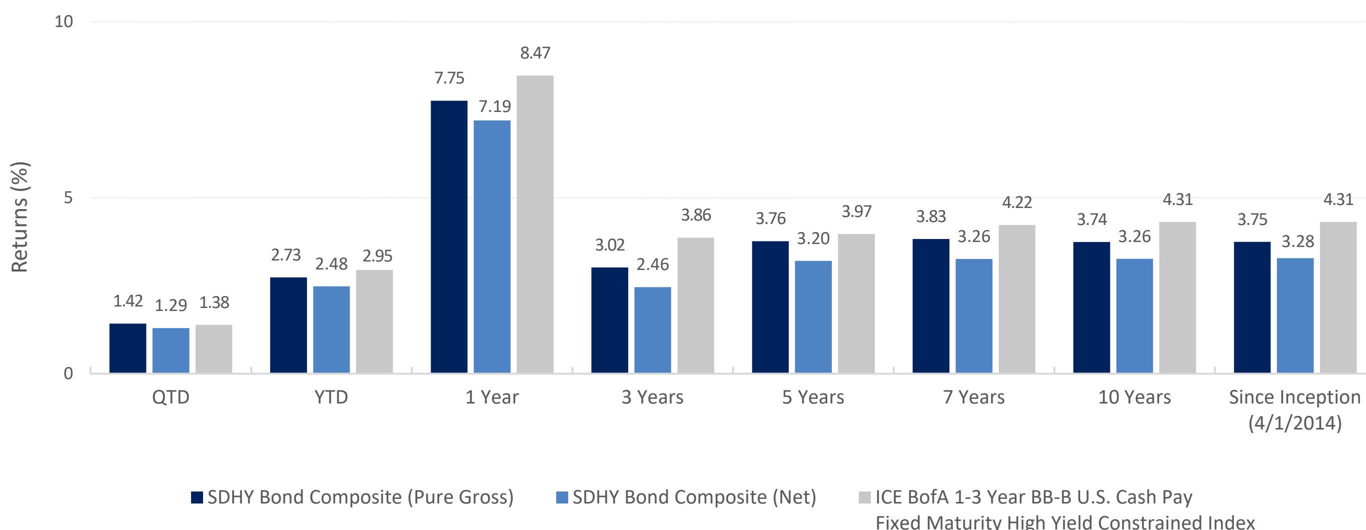
***2014 is a partial-year period of nine months, representing data from April 1, 2014 to December 31, 2014.*

****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 Short Duration High Yield Bond Composite Performance

All Periods Ended June 30, 2024



Year	Short Duration High Yield Bond Composite (Pure Gross %)	Short Duration High Yield Bond Composite (Net %)	ICE BofA 1-3 Year BB-B U.S. Cash Pay Fixed Maturity High Yield Constrained Index (%)
2024 YTD*	2.73	2.48	2.95
2023	8.51	7.92	10.34
2022	-3.20	-3.74	-2.52
2021	4.25	3.68	4.27
2020	4.06	3.49	2.40
2019	9.28	8.68	8.72
2018	0.79	0.24	2.23
2017	4.00	3.54	4.84
2016	8.19	7.93	11.07
2015	1.26	1.01	0.01
2014**	-0.74	-0.88	0.79

Sources: SS&C Advent; ICE BofA
**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.*
Past performance is not indicative of future results. Composite and benchmark returns reflect the reinvestment of income. Pure Gross: Pure gross returns do not reflect the deduction of any trading costs, fees or expenses. Pure gross returns prior to September 2017 reflect the deduction of transaction costs. Model Net Performance: Starting from September 2017, composite returns are presented pure gross and net of the highest wrap fee stated. Performance for periods prior to September 2017 are presented pure gross and net of actual investment advisory fees. 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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Past performance is not indicative of future results. Performance results for periods greater than one year have been annualized. Composite returns are preliminary pending final account reconciliation.

High Yield Bond Returns: Composite and benchmark returns reflect the reinvestment of income. 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.

Short Duration High Yield Bond Returns - Pure Gross: Pure gross returns do not reflect the deduction of any trading costs, fees or expenses. Pure gross returns prior to September 2017 reflect the deduction of transaction costs. Model Net Performance: Starting from September 2017, composite returns are presented pure gross and net of the highest wrap fee stated. Performance for periods prior to September 2017 are presented pure gross and net of actual investment advisory fees.

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. The ICE Bank of America (ICE BofA) 1-3 Year BB-B U.S. Cash Pay Fixed Maturity High Yield Constrained Index tracks the performance of the U.S. dollar-denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the U.S. domestic market; including 144A securities, both with and without registration rights. Qualifying securities must have risk exposure to countries are members of the FX-G10, Western Europe, or territories of the United States and Western Europe. The FX-G10 includes all Euro members: the United States, Japan, the United Kingdom, Canada, Australia, New Zealand, Switzerland, Norway and Sweden. Qualifying securities include only those rated BB1 through B3. Perpetual securities are not

included as all securities must have a fixed final maturity date. All final maturity dates must range between one and three years. It is a capitalization-weighted index, constrained to 2% maximum weighting per issuer. The 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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