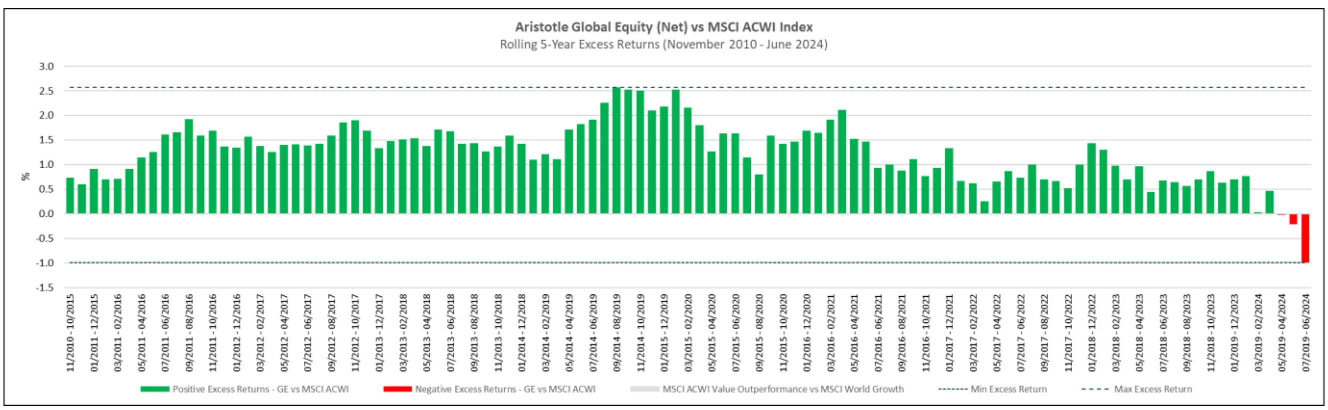
ARISTOTLE
CAPITAL MANAGEMENT

MEMORANDUM ADDRESSING CURRENT MARKET ENVIRONMENT

BY: ARISTOTLE CAPITAL MANAGEMENT, LLC

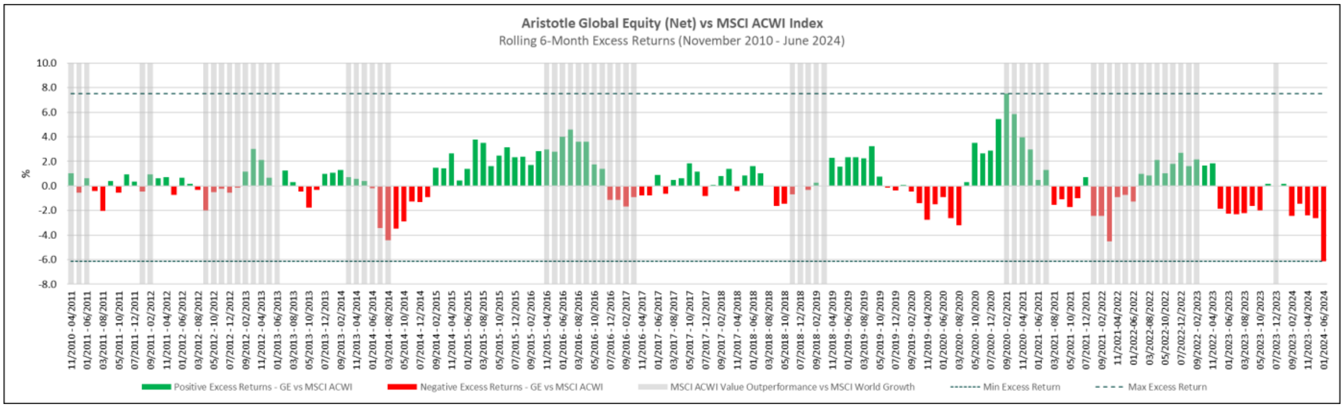
July 16, 2024 – On June 9 2024, Roger Federer gave an insightful graduation speech at Dartmouth College: "In tennis, perfection is impossible... **in the 1,526 singles matches I played in my career, I won almost 80% of those matches**... Now, I have a question for all of you... **what percentage of the POINTS do you think I won in those matches? Only 54%.** In other words, even top-ranked tennis players win barely more than half of the points they play. When you lose every second point, on average, you learn not to dwell on every shot. You teach yourself to think: OK, I double-faulted. It's only a point. OK, I came to the net and I got passed again. It's only a point... Here's why I am telling you this. When you're playing a point, it is the most important thing in the world. But when it's behind you, it's behind you... This mindset is really crucial, because it frees you to fully commit to the next point… and the next one after that… with intensity, clarity and focus… You want to become a master at overcoming hard moments. That to me is the sign of a champion… **You move on. Be relentless. Adapt and grow. Work harder. Work smarter.**"

In investing, as in tennis, perfection is impossible. We encountered this truism with humility this quarter. Since inception of the Global Equity strategy in November 2010 there have been 105 months of rolling 5-year periods, and prior to the second quarter of 2024 the strategy had outperformed the MSCI ACWI Index (ACWI) in 100% of those periods (net of all fees, see chart below). What made this feat so notable was the fact that it was accomplished despite the significant regional (U.S. > Non-U.S.) and style (Growth > Value) headwinds over the last decade.



Rolling 5-year returns graph calculated using monthly data. Market environment returns reflect average annualized returns for rolling 5-year periods within each market environment category. The Aristotle Global Equity Composite has an inception date of November 1, 2010. Performance results for periods greater than one year have been annualized. Performance is preliminary pending final account reconciliation. Past performance is not indicative of future results. Returns are presented net of investment advisory fees and include the reinvestment of all income. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses.

Just as Roger won 80% of matches while winning only 54% of his points, the previously unblemished rolling 5-year record of the strategy occurred while outperforming only 58% (92/159) of rolling 6-month periods net of fees. While short-term underperformance should be expected, as shown in the chart below, the 6-month period ending June 2024 was the worst 6-month period relative to ACWI since inception. Do we question ourselves? Always. We ask questions to ensure we are not missing anything. In pursuit of answers, we work harder, we work smarter, and move on. If we are wrong, we correct, work harder, work smarter, and move on.



Rolling 6-month returns graph calculated using monthly data. Market environment returns reflect returns for rolling 6-month periods within each market environment category. The Aristotle Global Equity Composite has an inception date of November 1, 2010. Performance results for periods greater than one year have been annualized. Performance is preliminary pending final account reconciliation. Past performance is not indicative of future results. Returns are presented net of investment advisory fees and include the reinvestment of all income. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses.

On one front, working harder and smarter means sharpening our pencils on what remains our time-tested investment process: *deeply* knowing the companies we own and owning them for *all the right reasons* – a pragmatic approach to **quality** (which we believe allows us to own some of the world's greatest businesses), a holistic definition of **value** (which looks at what a company may earn in a *normal* environment), and identifying company specific **catalysts** (those shareholder-enriching initiatives in progress, yet to play out).

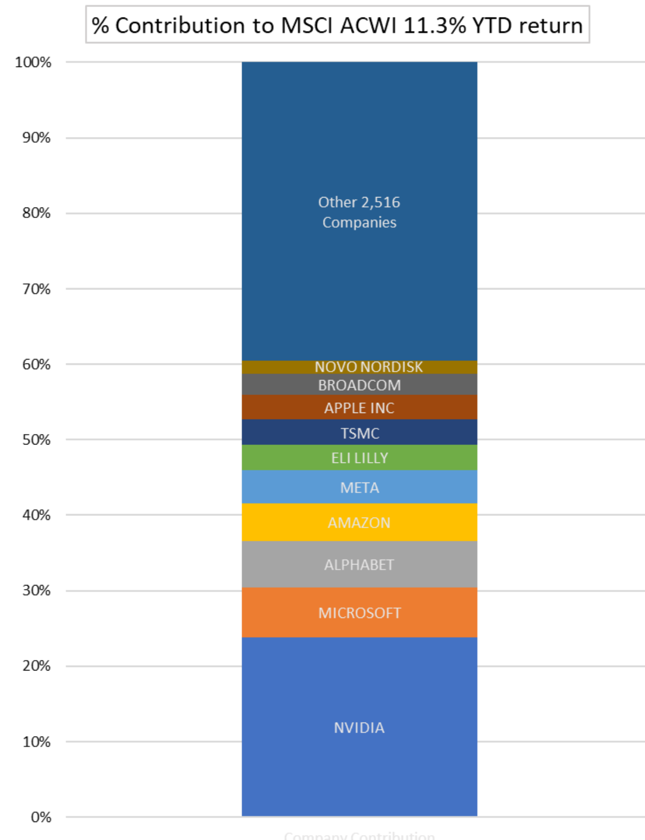
For us, long-term excess returns are a mutually-desired outcome – one we share with our investors. Indeed, this is why clients have hired us and we are invested alongside them! However, as perverse as it may sound, our number one focus is ***not*** beating a benchmark. Instead, our primary focus is to better understand our existing holdings and their value chains (e.g., competitors, suppliers, customers and disruptors). This approach provides us with a knowledge edge, allowing us to identify overlooked catalysts (positive or negative), confidently hold (or step aside to learn more) during temporary adversity, and ensure we stay within our circle of competence. We believe achieving this objective has and will continue to provide the maximum potential for excess returns.

This quarter, working harder and smarter means spending more time than usual understanding and explaining drivers of short-term underperformance. This endeavor involves a review of the contribution, characteristics, and historical returns of the ten largest companies in the ACWI, most of whose businesses we admire but many we choose not to own at this juncture.

The indomitable force over the last 18 months has been well documented. OpenAI's ChatGPT launch in November 2022 emerged from the rubble of a valuation reset in the markets following the fastest and steepest increase in interest rates in modern history. The AI hype fueled a massive rally, and nowhere is this more apparent than the U.S. equity market (S&P 500) which is up 46% since the end of 2022. Remarkably, over 75% of the S&P 500's return over the period came from ten stocks. To put that in historical context, the ten largest companies in the S&P 500 have explained 23% of annual returns since 1975 (on average) – nowhere near the concentration of today.

Similarly, during the first six months of 2024, 60% of the ACWI's 11.3% return came from 10 stocks, with 24% of the contribution from Nvidia alone. Put another way: 0.4% of the companies in the index generated 60% of the return. The median stock in the index was up less than 1%.

The incredible demand for accelerated compute (AI-related) chips and infrastructure are from some of the largest, most profitable companies in the world (Microsoft, Alphabet, Amazon, META, Baidu, Alibaba, etc.). However, we question the sustainability of that demand and the durability of Nvidia's competitive advantage. We question the valuation levels, particularly given peak demand and margins. And most importantly, we question the historic levels of index concentration considering all the above. We are not suggesting we are in another dotcom bubble, as current market leaders generate enormous amounts of cash and, while expensive, are not absurdly priced.



However, this hype has propelled the ACWI to historic levels of concentration, heavily exposed to richly valued U.S. technology and internet companies. How should one think about the increased concentration risk? Can reality keep up with ever-increasing expectations and a fantastic narrative? We recognize these are some of the dilemmas our clients and other asset allocators are asking themselves. Alas, we do not have all the answers. Nor will we pontificate on the various outcomes. Our highest conviction recommendation is to resist the temptation to chase. **The comfort of running with the herd is a behavioral bias that has a well-documented history of leading to poor outcomes. The benefits of thinking independently are as fruitful today as any time in recent history.**

We remain, at our core, investors in what we believe to be proven companies that have withstood the test of time. We are focused on the long-term success of our businesses, not on the narrative of the moment. After all, an investor should not care if a stock is popular or not, but only if it can be bought below its intrinsic value. As of June 30, 2024, the Aristotle Global Equity portfolio trades at 15.1x our estimate of normalized earnings vs. 18.7x for the ACWI. "Normalized earnings" represent our estimate of the earnings power of the business after accounting for catalyst driven, on-going, fundamental improvements in the business. In our estimation, the Global Equity portfolio is trading at a greater than 20% discount to our estimate of its intrinsic value. We would be hard-pressed to make the same statement about the ACWI.

Our recent underperformance relative to the ACWI, while disappointing, is not alarming given our value-oriented style and the narrowness of the market. Nor does recent performance reflect a sustained drought of excess returns. Instead, we see the past 18 months as an extreme endpoint in a very strong up market that came after many years of consistent outperformance.

Like Roger Federer, our focus is less on winning short-term "points" as much as it is on winning long-term "matches." This perspective is directly tied to the time horizon we apply to the business we own and the research we conduct on behalf of our investors. We are willing to stand on the sidelines when high-quality businesses come with price tags that continue to melt up, because we care less about winning every point (outperforming every quarter or year) and more about winning the match (outperforming over the long-term). Time to work harder, work smarter, and move on!

Calendar Year Returns as of 6/30/2024

	11/1/2010 – 12/31/2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD 2024
Global Equity (%)	**4.56**	**-6.44**	**16.33**	**23.88**	**2.59**	**1.40**	**10.93**	**24.05**	**-7.93**	**28.73**	**17.80**	**19.87**	**-17.54**	**19.80**	**5.20**
MSCI ACWI Index (%)	4.93	-7.35	16.13	22.80	4.16	-2.36	7.86	23.97	-9.42	26.60	16.25	18.54	-18.36	22.20	11.30
Excess Return (bps)	***-37***	***91***	***20***	***108***	***-157***	***376***	***307***	***8***	***149***	***213***	***155***	***133***	***82***	***-240***	***-610***
MSCI World Index (%)	5.03	-5.54	15.83	26.68	4.94	-0.87	7.51	22.40	-8.71	27.67	15.90	21.82	-18.14	23.79	11.75
Excess Return (bps)	***-47***	***-90***	***50***	***-280***	***-235***	***227***	***342***	***165***	***78***	***106***	***190***	***-195***	***60***	***-399***	***-655***

Trailing Returns as of 6/30/2024

	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception	Inception Date
Global Equity (%)	**12.85**	**3.37**	**9.76**	**8.92**	**9.62**	**11/1/2010**
MSCI ACWI Index (%)	19.38	5.43	10.74	8.43	9.14	
Excess Return (bps)	***-653***	***-206***	***-98***	***49***	***48***	
MSCI World Index (%)	20.19	6.58	11.76	9.15	10.07	
Excess Return (bps)	***-734***	***-321***	***-200***	***-23***	***-45***	

Source: Aristotle Capital Management. The Aristotle Global Equity Composite has an inception date of November 1, 2010. Past performance is not indicative of future results. Performance results for periods greater than one year have been annualized. Returns are preliminary pending final account reconciliation. Returns are presented net of investment advisory fees and include the reinvestment of all income. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses. This material is not financial advice or an offer to buy or sell any product.

Disclosures:

Effective June 1, 2024, MSCI ACWI (Net) was stated as the primary benchmark and MSCI World (Net) became the secondary benchmark. The Aristotle Global Equity Composite has an inception date of November 1, 2010.

Normalized earnings are based a representative account from the Aristotle Global Equity Composite ("Composite"). The representative account was chosen since, in our view, it is the account within the Composite that most closely reflects the portfolio management style of the strategy. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors, including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. You should not assume that any of the securities transactions, sectors or holdings discussed in this report are or will be profitable, or that recommendations Aristotle Capital Management, LLC (Aristotle Capital) makes in the future will be profitable or equal the performance of the securities listed in this report. There is no assurance that any securities, sectors or industries discussed herein will be included in or excluded from an account's portfolio. Aristotle Capital reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. This is not a recommendation to buy or sell a particular security. Recommendations made in the last 12 months are available upon request. Past performance is not indicative of future results.

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. 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 MSCI ACWI Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. With approximately 2,900 constituents, the index covers approximately 85% of the global investable equity opportunity set. The MSCI World Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance in 23 developed markets countries. The MSCI World Index includes the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The volatility (beta) of the Composite may be greater or less than that of the benchmarks. It is not possible to invest directly in these indices.

Aristotle Capital Management, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Aristotle Capital, including our investment strategies, fees and objectives, can be found in our Form ADV Part 2, which is available upon request. ACM-2407-236