

VALUE EQUITY FUND

4Q 2017 Commentary

Markets Review

A strong global economy and robust corporate profits—along with low inflation and still-supportive monetary policies globally—provided a steady macroeconomic backdrop, pushing U.S. equities further into record territory during the quarter. The U.S. economy is in its ninth year of expansion, and the bull market that began in March 2009 is officially the second-longest on record, surpassed only by the run from 1987 to 2000. Wage growth is developing as a result of tight labor markets—unemployment stands at just 4.1%—and U.S. consumer spending remains healthy, reducing the risk of a recession and keeping risk appetite elevated.

In December, Congress passed the much-publicized Tax Cuts and Jobs Act of 2017. The new law, which is particularly favorable to corporations, enacts major changes to the tax code, lowering the top tax rate for corporations from 35% to 21%. The new law also provides incentives encouraging companies to repatriate some of the estimated \$1.4 trillion held overseas. If repatriated, these funds have the potential to provide a further boost to equities.

All of the major Russell U.S. equity indices ended the quarter in positive territory, with large cap companies leading the way, followed by mid caps and small caps trailing. With respect to style, internet-related companies propelled “growth” categories to once again outperform their value counterparts across the capitalization spectrum. For the quarter, the Russell 1000 Growth Index returned 7.86%, while the Russell 2000 Value Index returned “just” 2.05%. Within the Russell 1000 Value Index, all 11 GICS sectors posted positive returns. Information Technology (+10.28%), Materials (+8.81%) and Financials (+8.49%) were the biggest advancers. While technology companies and other growth-oriented stocks led the rally in October and November, value stocks began to close the performance gap in December.

In the fourth quarter, the Federal Reserve (Fed) raised short-term interest rates by one-quarter of a percent. It was the third interest rate increase of the year and the fifth (each by one-quarter percent) since rates were almost zero in 2015. The Fed Funds target rate ended 2017 with an upper limit of 1.5%. The new Fed Chairman, Jerome Powell, was appointed in November and is expected to take over for Janet Yellen during the first quarter of 2018. From a policy perspective, Mr. Powell is expected to continue Ms. Yellen’s dovish approach to rate increases, as well as reduce the size of the Fed’s balance sheet, which has grown to \$4.4 trillion under its bond-buying campaign known as quantitative easing.

Commodities also participated in the rally, rising 4.71% during the quarter. Oil was a driver, as West Texas Intermediate crude futures finished the year at \$60.42, the highest level since June 2015. Precious metals also rose, with gold closing the year at over \$1,309 an ounce. While the U.S. dollar posted gains early in the quarter, the

greenback later retreated to a three-month low and remains weak relative to a basket of foreign currencies.

Annual Markets Review

Global securities markets and the economy had a remarkably strong year. All 45 of the world’s major economies tracked by the Organization for Economic Cooperation and Development (OECD) are exhibiting synchronized economic expansion for the first time in a decade. In its latest Interim Economic Outlook¹, the OECD pointed out that, in 2017, the global economy was set to grow at its fastest clip since 2011, and global growth will likely continue in 2018 with all economies contributing. This global synchronization of expanding economies, among other reasons, has resulted in a rise across the board of global asset prices of most types.

For the first time ever, the S&P 500 Index delivered positive returns in each month of the calendar year, closing 2017 up 21.83%. A preference for growth stocks throughout much of the year boosted the technology-heavy NASDAQ, which returned 29.64%, and the Dow Jones Industrial Average pushed ahead, adding 28.11%. In a change from 2016, larger market capitalization companies led the smaller, and growth considerably outperformed value. The clear winners not only for the quarter but also the year were large cap growth stocks, as the Russell 1000 Growth Index returned 30.21%, while small cap value stocks, as measured by the Russell 2000 Value Index, added “just” 7.84%. Notably absent from the rally was volatility. The CBOE Volatility Index (VIX), sometimes referred to as the “fear index,” registered 9 of the 10 lowest levels in its history during the year. While the long-term average for the VIX is approximately 20, it closed the year at 11.04.

Performance Review

For the fourth quarter of 2017, the Aristotle Value Equity Fund (ARSQX) posted a total return of 6.00% at NAV, outperforming the Russell 1000 Value Index, which increased 5.33%, but underperforming the S&P 500 Index, which rose 6.64%.

Performance data quoted here represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate, so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current performance information to the most recent month-end, please call (844) 274-7868.

At the aggregate level, the Fund’s outperformance relative to the Russell 1000 Value Index for the quarter was the result of both sector allocation and security selection. Security selection was strongest in Consumer Discretionary and Information Technology.

An overweight in Consumer Discretionary—the result of bottom-up security selection decisions—also helped returns, since the Consumer Discretionary sector was the best performer in the period. By contrast, relative performance was hurt by security selection in Health Care and Materials. An underweight in the Financials sector also detracted from relative results.

Relative Contributors	Relative Detractors
Kroger	Acadia Healthcare
Adobe Systems	EQT Corporation
Lennar	BBVA
Home Depot	Unilever
ANSYS	Walgreens Boot Alliance

Kroger in Consumer Staples and Adobe Systems in Information Technology were top contributors to relative return during the quarter. After reporting strong quarterly results, Kroger's shares reversed much of the losses they experienced earlier in the year. The supermarket operator saw an increase in store traffic, market share gains and gross margin expansion, despite the competitive environment. Kroger also announced its "Restock Kroger" plan, which includes initiatives to redefine the customer experience with data use and personalization, space optimization within its stores, and improvement of the digital experience. Management expects these initiatives to result in \$400 million in incremental operating income by 2020, as well as more than \$4 billion of free cash flow over the same period. "Our goal is to continue generating shareholder value even as we make strategic investments to grow our business," said Mike Schlotman, Kroger's Executive Vice President and CFO.²

Computer software company Adobe also saw its shares advance. Adobe reported record annual and quarterly revenues with strength in its Creative Cloud, Document Cloud and Experience Cloud offerings. In addition, the company is planning to engage in price optimization that will likely result in price increases for the first time in five years. We believe Adobe's products and innovation in digital marketing allow its customers to deliver an appealing digital experience. These results are in line with our long-term catalysts for the company, which include the continued shift to a subscription model that has the potential to drive more engaged users, less piracy and improved profitability.

Primary detractors from relative performance included EQT Corporation in Energy and recently purchased Acadia Healthcare in Health Care. Shares of EQT, a natural gas producer and midstream operator, declined following the close of the previously announced acquisition of Rice Energy. Activist investors campaigned against the deal and ultimately were in the minority following the shareholder vote on November 9, 2017. It seems short-term market participants were disappointed with the results and exited, as more than 22 million shares traded hands on November 10, nearly 10% of shares outstanding. Later in the quarter, EQT issued encouraging production and capital expenditure forecasts for 2018. We remain excited about EQT's unique, low-cost natural gas reserves and

extensive, growing midstream business, both of which we believe are enhanced following the Rice Energy acquisition.

Quarterly earnings rarely, if ever, impact our long-term view of company fundamentals, which we believe are the ultimate driver of stock prices. That being said, quarterly earnings and guidance for health care facility operator Acadia were slightly behind consensus expectations, causing a negative price reaction. The market seemed disappointed with slower-than-expected same-facility growth in the United States, a slowing of volumes and higher-than-expected wages in the United Kingdom. The U.K. wage issue represents what we view as one of the rare, tangible negative side effects of Brexit-related uncertainty, as slowing immigration has created a shortage of nurses. While the results were disappointing, we believe these disappointments will prove transitory in nature. We continue to view Acadia as a high-quality company with multiple catalysts available to close the now-larger discount to intrinsic value.

Recent Fund Activity

During the quarter, we sold our investment in Baxter International and invested the proceeds in Johnson Controls. We invested in Baxter in 2015 after the company announced it was splitting into two companies: Baxalta and Baxter. As an independent unit, we believe Baxter has done remarkably well. Many of the catalysts we identified have been realized and recognized by the market. As such, we sold our investment in Baxter and have returned to monitoring the company from the sidelines.

Johnson Controls

Johnson Controls is a global, diversified multi-industrial company serving a wide range of customers in more than 150 countries. The company competes in HVAC, fire & security products and services, and automotive batteries. Its product portfolio underwent significant change in 2016 after merging with Tyco International, bringing Tyco's fire & security products and services into the Johnson Controls family.

While the company's functional headquarters are in Milwaukee, the merger with Tyco was an inversion, which allowed Johnson Controls' tax jurisdiction to be moved to Ireland. Following the merger with Tyco, and as part of Johnson Controls' strategy to focus on its core growth platforms around buildings and energy, the company spun off Adient, which focuses on automotive seating.

High-Quality Business

Our process starts by identifying companies that meet our quality criteria. Johnson Controls possesses several characteristics we deem to be high quality, such as:

- Leading shares in many of its businesses, including commercial building controls, commercial HVAC, automotive batteries (both "traditional" lead-acid and "new" absorbent glass mat lead-acid (AGM) used for start-stop engines) and commercial fire & security;

- Strong partnerships with auto parts retailers, battery intellectual property and more than 50 manufacturing and distribution centers around the world can provide high barriers to entry in the battery segment; and
- The HVAC and fire & security businesses generate product and installation revenue, as well as higher-margin service revenue on its installed base, making the company less cyclical.

Attractive Valuation

Once the necessary, though not sufficient, criterion of quality is met, we analyze the company's valuation. Johnson Controls' current valuation is reminiscent of what we would consider to be a "struggling" company, not one of a leader. We believe the current share price is not giving enough credit to the company's transition from primarily an auto supplier to a multi-industry organization.

Compelling Catalysts

Catalysts that we believe have the potential to close Johnson Controls' valuation gap over our three- to five-year time horizon include:

- Margin improvement resulting from the merger with Tyco and productivity initiatives;
- Growth in absorbent glass mat batteries for start-stop engines; these batteries have higher profits than conventional lead-acid batteries and Johnson Controls currently has a dominant share;
- New CEO, George Oliver, comes from Tyco and, in our view, will be a more capable leader; and
- FCF growth as capital expenditures in the Power Solutions segment (batteries) slow down and one-time charges abate.

Outlook

The goal of our investment team is to understand and uncover what we believe to be high-quality businesses by emphasizing detailed research on individual companies, while maintaining a long-term focus. While broad economic factors are taken into consideration as part of our analysis, we spend the majority of our efforts trying to identify what we believe to be unique companies that possess a combination of qualities that are both sustainable and difficult to reproduce.

¹<http://www.oecd.org/economy/outlook/economic-outlook/>

²<https://www.prnewswire.com/news-releases/kroger-outlines-plan-to-redefine-the-way-america-eats-and-to-deliver-value-for-customers--shareholders-300534819.html>

Aristotle Value Equity Fund (Class I)

Performance Update

December 31, 2017

Total Return	4Q17	1 Year	Since Inception (8/31/16)	Gross/Net Expense Ratio
ARSQX Class I	6.00%	22.12%	20.29%	10.12%/0.78%
Russell 1000 Value Index	5.33%	13.66%	15.36%	N/A
S&P 500 Index	6.64%	21.83%	19.28%	N/A

Performance results for periods greater than one year have been annualized.

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The Fund's advisor has contractually agreed to waive certain fees and/or absorb expenses, through April 30, 2019, to the extent that the total annual operating expenses do not exceed 0.78% of average daily net assets of the Fund. The Fund's advisor may seek reimbursement from the Fund for waived fees and/or expenses paid for three years from the date of the waiver or payment. Without these reductions, the Fund's performance would have been lower. A redemption fee of 1.00% will be imposed on redemptions of shares within 30 days of purchase.

Important Information:

There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including potential loss of principal.

The views in this letter were as of the date stated and may not necessarily reflect the same views on the date this letter is first published or any time thereafter. These views are intended to help shareholders in understanding the Fund's investment methodology and do not constitute investment advice.

Past performance is not indicative of future results. 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 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 the Fund. The opinions expressed are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. 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. Holdings since the Fund's inception date are available upon request.

An investment in the Fund is subject to risks, and you could lose money on your investment in the Fund. The principal risks of investing in the Fund include, but are not limited to, investing in foreign securities, ETFs, small-capitalization, mid-capitalization and large-capitalization companies and value stocks.

Foreign securities have additional risks, including currency rate changes, political and economic instability, lack of comprehensive company information, less market liquidity, less-efficient trading markets, and differing auditing controls and legal standards. The use of ETFs may cause the Fund to have higher expenses than those of other equity funds. Investments in emerging markets involve even greater risks. The securities of small-capitalization and mid-capitalization companies may be subject to more abrupt or erratic market movements and may have lower trading volumes or more erratic trading than securities of larger, more established companies or market averages in general. On the other hand, larger, more established companies may be unable to attain the high growth rates of successful, smaller companies during periods of economic expansion. Value stocks are those that are believed to be undervalued in comparison to their peers due to adverse business developments or other factors. Value investing is subject to the risk that the market will not recognize a security's inherent value for a long time or at all, or that a stock judged to be undervalued may actually be appropriately priced or overvalued.

Definitions:

- 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.

The volatility (beta) of the Fund may be greater or less than that of the benchmarks. An investor cannot invest directly in these indices.

Portfolio composition will change due to ongoing management of the Fund. References to specific securities or sectors should not be construed as recommendations by the Fund, its Advisor or Distributor.

As of December 31, 2017, the ten largest holdings in the Fund and their weights as a percent of total net assets were: Adobe Systems, 4.09%; Bank of America, 3.38%; Microsoft, 3.30%; Home Depot, 3.25%; Microchip Technology, 3.15%; Oshkosh, 3.01%; Ameriprise Financial, 2.98%; General Dynamics, 2.91%; Danaher, 2.87%; Martin Marietta Materials, 2.76%;

Please consider the Fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus or summary prospectus that contains this and other information about the Fund is available by calling (844) 274-7868, or by visiting www.aristotlefunds.com, and should be read carefully prior to investing.

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