

# STRATEGIC CREDIT FUND

4Q 2017 Commentary

## Summary

Corporate credit markets continued to advance in the fourth quarter as the drivers of performance remained in place, led by the strong corporate earnings environment. High yield bonds, bank loans and investment grade corporates all posted gains in the fourth quarter. The Aristotle Strategic Credit Fund (ARSSX) returned 0.85% at NAV, outperforming the 0.58% return of the Fund's custom benchmark for the quarter. The blended benchmark represents a blend of 1/3 Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index, 1/3 Bloomberg Barclays U.S. Intermediate Corporate Index and 1/3 Credit Suisse Leveraged Loan Index.

Since its January 1, 2015 inception, the Fund has outperformed the blended benchmark, reporting an annualized total return of 4.17% at NAV, compared to 4.52% for the blended benchmark. It is also worth noting that the Fund has significantly outperformed the Bloomberg Barclays U.S. Aggregate Bond Index, which reported an annualized total return of 2.24% over the same time period. Furthermore, the Fund's returns have been less volatile than the returns of the high-quality high yield market, as measured by the annualized standard deviation of monthly returns of the Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index.

*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.*

## Market Environment

**Corporate credit performed relatively well in the fourth quarter, as yield carry and spread tightening offset higher risk-free rates.**

The global synchronized economic upturn, strong corporate earnings and positive market technicals have remained key drivers of corporate credit performance. In the fourth quarter, favorable corporate tax reform further boosted market sentiment, despite an increase in intra-period volatility.

The U.S. Treasury yield curve flattened considerably during the quarter, with shorter-term rates rising on expectations that the Federal Reserve (Fed) would continue to increase its benchmark federal funds rate, which is forecast to rise another 50-75 basis points in 2018. The long end of the curve, on the other hand, has been supported by its yield pickup versus other global risk-free benchmarks, as significant quantitative easing by the European Central Bank and Bank of Japan has continued to restrain global

financial market volatility and risk-free rates, despite the Fed's gradual steps to scale back quantitative easing in the United States.

**All three major sectors of the corporate credit market (high yield bonds, bank loans and investment grade corporates) generated positive returns, led by the solid performance of bank loans during the quarter.**

The Credit Suisse Leveraged Loan Index gained 1.17% for the quarter. Issuer fundamentals remained solid, although we believe the key driver of bank loans' outperformance relative to high yield bonds was resurfacing interest rate concerns. While net new issuance increased from the third quarter, CLO volume remained strong, helping to balance the supply/demand backdrop for loans.

The Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index returned 0.40% for the quarter, as the combination of yield carry and spread tightening offset the negative impact of rising interest rates. Gains in the high yield market were broad-based, with all major credit tiers and most industries advancing. As the price of oil rallied during the quarter, the Energy, Metals & Mining and Pipelines industries all outperformed. The relatively small number of industries that generated losses included Telecommunications, Cable-Satellite and Pharmaceuticals.

Investment grade credit, as measured by the Bloomberg Barclays U.S. Intermediate Corporate Index, gained 0.17% for the quarter, driven by yield carry and modest spread tightening. On a relative basis, commodity-oriented industries were among the strongest performers in the investment grade market, while notable laggards included Gaming, Lodging & Leisure; Consumer Products; and Pharmaceuticals.

## Performance and Attribution Summary

The Aristotle Strategic Credit Fund (ARSSX) returned 0.85% at NAV, outperforming the 0.58% return of its blended benchmark on the strength of security selection and sector allocation.

The Fund, which is designed to perform well in flat-to-rising interest rate environments, benefited from an overweight in bank loans and an underweight in investment grade corporates relative to the benchmark. Favorable security selection, especially in the bank loan market, also added a considerable amount to relative performance, boosted by holdings in the Telecommunications and Real Estate industries. Security selection within the Pharmaceuticals industry added value as well. These positive effects were partly offset by industry allocations, which detracted from results versus the benchmark. Overweights in Consumer Products and Pharmaceuticals, along with an underweight in Metals & Mining, were particularly unfavorable.

## Outlook and Strategy

**We believe that the corporate credit market will continue to be well supported by solid credit fundamentals and an improving global economic backdrop. Higher interest rates and valuation levels remain the chief concerns as we move throughout the year and contribute to our expectations of a coupon-like return environment in 2018 (although bank loans should provide greater protection from interest rate increases relative to bonds with more rate sensitivity).**

Economic data released in the fourth quarter continued to give indications that global economic growth is improving and broad-based. Strength in the U.S. economy is being led by improving corporate profits, a strong labor market and increasing consumer and business confidence. Overall, domestic economic growth enjoyed a solid 2017 and appears poised to continue its momentum in 2018. Likewise, global GDP growth showed positive signs in 2017 and forward expectations for 2018 have generally been revised upward, most notably in the eurozone and select emerging economies. Although we are in the early stages of a shift toward tighter monetary policy across the globe, overall financial conditions remain stimulative and generally supportive of further economic growth and additional gains in risk assets.

At the micro level, credit fundamentals remained on solid footing as 2017 came to a close, and we expect this to be the case as we move through 2018. We believe corporate earnings to continue their strong growth and solid cash flow generation to positively impact credits moving forward, contributing to the favorable backdrop for corporate credit. From a technical standpoint, the low interest rate environment around the globe, in our opinion, will continue to support demand for assets with attractive yields, including corporate credit. Additionally, we expect net new issuance in the high yield market to remain low and refinancing activity to continue, which would provide a further technical boost to below investment grade issues.

While the overall backdrop for corporate credit remains supportive, rising interest rates, which went from a potential concern to more of a reality as 2017 progressed, should be top of mind for investors

going forward. While nearly all indications suggest the Federal Reserve (Fed) will be deliberate in its efforts to scale back quantitative easing, the pacing and magnitude of interest rate increases could lead to intermittent volatility in 2018. If the economy continues to gain momentum and inflationary pressures increase, this could raise more concerns that the Fed will become more aggressive in tightening, which could further impact asset prices. However, it is our belief that the Fed will remain patient in order to minimize any disruption to capital markets. In the near term, we expect short-term rates to continue to rise, and longer-term rates to rise more modestly. Over the longer term, we expect the curve to shift modestly higher as inflation expectations increase and real interest rates (which have been significantly distorted by global central bank actions) slowly rise as monetary policies around the globe move further down the path of normalization. We believe that, in this environment, credit risk has superior risk/reward characteristics relative to interest rate risk.

**The portfolio remains overweight higher yielding credit sectors, with a greater emphasis on floating rate loans, and underweight investment grade corporates. We continue to emphasize U.S. credits and remain focused on bottom-up opportunities given the market's overall valuation levels.**

As of December 31, 2017 the fund was composed of 44.0% bank loans, 33.8% high yield bonds and 19.4% investment grade corporates, with the balance in cash. These allocations are consistent with our goal of positioning the portfolio with less interest rate sensitivity and more credit risk than the benchmark. We continue to favor high yield bonds and bank loans, but will likely continue to be more conservatively positioned within these two sectors. We continue to emphasize domestic issuers, since we believe the U.S. economy is on the most solid footing; however, stronger economic growth offshore has led us to slightly increase our allocation to issuers with overseas revenue exposure. Additionally, we remain intensely focused on bottom-up opportunities given relatively full valuations in the credit markets. The strategy's significant active exposures at year-end included overweights in the Transportation, Gaming & Lodging, Automotive & Captive Finance and Real Estate industries and underweights in the Banking, Utilities, Media Entertainment and Food, Beverage & Tobacco industries.

## Aristotle Strategic Credit Fund (Class I)

Performance Update

December 31, 2017

Total Return	4Q17	1 Year	Annualized Since Inception (12/31/14)	Gross/Net Expense Ratio
ARSSX Class I	0.85%	4.35%	4.17%	3.18%/0.62%
Blended Benchmark*	0.58%	5.02%	4.52%	N/A
Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index	0.40%	6.92%	5.87%	N/A

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*The Fund's advisor has contractually agreed to waive certain fees and/or absorb expenses, through April 30, 2018, to the extent that the total annual operating expenses do not exceed 0.62% 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.*

*\*The blended benchmark represents a blend of 1/3 Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index, 1/3 Bloomberg Barclays U.S. Intermediate Corporate Index and 1/3 Credit Suisse Leveraged Loan Index. The Bloomberg Barclays U.S. High Yield Loans Index was retired on September 30, 2016 and was replaced with the Credit Suisse Leveraged Loan Index effective October 1, 2016.*

## 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 commentary 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 Credit 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. Fund 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. 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 Credit 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 are available within the last 12 months.

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 fixed income securities, high yield bonds, bank loans, foreign securities and emerging markets.

The prices of fixed income securities respond to economic developments, particularly interest rate changes, as well as to changes in an issuer's credit rating or market perceptions about the creditworthiness of an issuer. High yield bonds are debt securities rated below investment grade (often called "junk bonds"). Junk bonds are speculative, involve greater risks of default, downgrade, or price declines and are more volatile and tend to be less liquid than investment-grade securities. The Strategic Credit Fund's investments in assignments of bank loans may create substantial risk. Although the Strategic Credit Fund expects it will invest in senior and secured bank loans, the Fund may invest in unsecured or subordinated loans. In addition, the Fund may invest in secured and unsecured participations in bank loans. These bank loans will generally be rated below investment grade. 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. Investments in emerging markets involve even greater risks.

## Definitions:

- The Fund is benchmarked to a blend of three indices: 1/3 Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index, 1/3 Bloomberg Barclays U.S. Intermediate Corporate Index and 1/3 Credit Suisse Leveraged Loan Index. The Bloomberg Barclays U.S. High Yield Loans Index was retired on September 30, 2016 and was replaced with the Credit Suisse Leveraged Loan Index effective October 1, 2016.
- The Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index is an issuer-constrained version of the U.S. Corporate High-Yield Index that measures the market of U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bonds rated Ba/B. The Index limits the maximum exposure to any one issuer to 2%.
- The Bloomberg Barclays U.S. Intermediate Corporate Index is designed to measure the performance of U.S. corporate bonds that have a maturity of greater than or equal to 1 year and less than 10 years. The Index includes investment grade, fixed-rate, taxable, U.S. dollar denominated debt with \$250 million or more par amount outstanding, issued by U.S. and non-U.S. industrial, utility and financial institutions.
- The Credit Suisse Leveraged Loan Index is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market.
- Treasuries are negotiable debt obligations of the U.S. government secured by its full faith and credit and issued at various schedules and maturities.
- The Federal Funds rate is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The Federal Funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market.

The volatility (beta) of the Fund may be greater or less than the benchmarks. It is not possible to invest directly in these indices.

Fund 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 Fund's top 10 holdings and their weight as a percent of total net assets were: NVA Holdings Inc. Loan, 4.833%, due 08-14-21, 4.47%; Ortho Clinical Diagnostics Inc. Loan, 5.443%, due 06-30-21, 3.33%; Midas Intermediate Holdco II, 4.443%, due 08-18-21, 3.32%; Allied Universal Holdco Loan, 5.443%, due 07-28-22, 2.87%; Presidio LLC Loan, 4.600%, due 02-02-22, 2.57%; Air Canada Loan, 3.745%, due 10-06-23, 2.55%; Communications Sales & Leasing Loan, 4.569%, due 10-22-24, 2.16%; Dynacast International LLC Loan, 4.943%, due 01-28-22, 1.95%; Univar USA Inc. Loan, 4.069%, due 07-01-24, 1.91%; Resolute Investment Managers Inc. Loan, 4.943%, due 04-30-22, 1.77%.

**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](http://www.aristotlefunds.com), and should be read carefully prior to investing.**

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