Value Equity Fund

2Q 2018 Commentary

ARISTOTLE FUNDS

Markets Review

While an escalation in trade tensions unsettled markets, the positive momentum set by earnings and U.S. economic data proved strong enough to offset such concerns for now, as the S&P 500 Index posted a return of 3.43% during the quarter. According to FactSet, first quarter S&P 500 earnings per share grew 24% year over year, the highest growth since 2010. Strong quarterly profits were boosted in roughly equal parts by improving business fundamentals and the newly lowered corporate tax rate. Meanwhile, economic indicators pointed to continued growth in the second quarter. The June composite PMI (Purchasing Managers' Index), which covers both manufacturing and services, while down slightly from its 37-month peak in May, remains firmly in expansion territory. In addition, U.S. retail and new home sales, two major drivers of economic activity, increased 5.9% and 6.7% year over year, respectively, in May.

Though the S&P 500 Index advanced during the quarter, performance varied widely by sector. Of the seven sectors that gained, Energy, which improved more than 13% and recorded its best quarter since 2011, was the best performer, boosted by a rise in oil prices amid lower output. Consumer Discretionary and Information Technology, which are both up over 10% for the year, also rose significantly. Conversely, mounting trade fears hit the Industrials sector hardest. Financials also dropped more than 2%. With respect to style, growth stocks generally outpaced their value counterparts.

The Russell 1000 Growth Index gained 5.76%, putting growth out front by more than 450 basis points for the quarter and nearly 900 basis points year to date. The performance gap was more muted for the Russell Midcap style indices, while value outperformed growth among small caps. In terms of capitalization, small caps, which when compared to larger cap companies have less international exposure and therefore are viewed as less vulnerable to trade tensions, outperformed, with the Russell 2000 Index beating both the Russell Midcap and Russell 1000 indexes.

As expected, on June 13, the Federal Open Market Committee raised its target rate by 25 basis points to a range of 1.75% to 2.00%, its seventh increase since it began raising rates at the end of 2015. Federal Reserve Chairman Jerome Powell reiterated that the pace of hikes will continue to be gradual. Officials also expect to increase rates at a slightly steeper path in 2019, having increased in June the median federal funds rate projection to 3.10% from 2.90%. Job growth was a key consideration for the rate hike and updated forecast. Continuing its downward trend, unemployment fell below 4.0% to 3.8%, equaling its lowest level since 2000. The economy has added over 200,000 jobs a month on average in 2018. A separate report from the Labor Department showed filings for first-time unemployment benefits fell to 218,000, also pointing to a tight job market. In addition, continuing claims, the number of those receiving ongoing unemployment benefits, dropped to 1.7 million, the lowest level since December 1973. Further proof of just how strong the labor market is: For the first time since the government began tracking job openings in 2000, there are more job openings than unemployed workers to fill them. Job openings now stand at 6.7 million, with only 6.4 million workers available to fill those jobs, according to the Bureau of Labor Statistics.

Despite the increase in the benchmark borrowing rate, the yield on the 10-year Treasury note edged only modestly higher to 2.85%, while yields on the two-year note rose more sharply, closing at 2.52%. As a result, the yield curve continued to flatten, with the spread between 2-year and 10-year notes at their narrowest since 2007, below 35 basis points, or 0.35%. Meanwhile, the U.S. Dollar Index (DXY), which reflects the strength of the U.S. dollar against a half-dozen foreign currencies, gained 5.8%, breaking a five quarter stretch of declines, and is now up approximately 3.6% for the year after falling nearly 2% during the first quarter. Major commodities were mixed. Gold prices fell, while oil and gas prices rose. WTI crude oil reached its highest level since November 2014, settling above $74 by the end of the quarter.

Performance and Attribution Summary

For the second quarter of 2018, Aristotle Value Equity Fund (ARSQX) posted a total return of 1.04% at NAV, underperforming the Russell 1000 Value Index at 1.18% and the S&P 500 Index at 3.43%.

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.

The entirety of the Fund's underperformance relative to the Russell 1000 Value Index for the quarter was the result of security selection decisions. Stock selection was strongest in Information Technology, Consumer Staples and Utilities. An underweight in Financials, the result of our bottom-up stock selection process and not a tactical decision, also contributed to relative return. On the other hand, stock selection in Industrials, Energy and Financials detracted. An underweight in Energy, the best-performing sector, also hurt relative performance.

Diversified energy company Phillips 66 was a main contributor during the quarter. Often thought of as "just a refiner," we believe the company has an important presence in other businesses, such as midstream and chemicals. The chemicals business, which was impacted by Hurricane Harvey in 2017, fully recovered and contributed to the company's strong results this year. In addition, Phillips 66 started up its new cracker at Cedar Bayou, one of the largest and most energy-efficient ethane crackers in the world.

(Ethane crackers take ethane, a component of natural gas, and process it into ethylene.) The company also completed the modernization of two refineries at Bayway and Wood River, while finishing successful turnarounds at multiple refineries. Phillips 66 has a record of rewarding shareholders through dividends and share repurchases. Since its formation in 2012, the company has likely returned over $20 billion to shareholders. We believe this trend will continue, and even increase, given recently completed projects as well as projects scheduled for completion in the coming quarters.

Home improvement retailer Home Depot was also a main contributor to return. We view the company as one of the few businesses in retail that has not been materially disrupted by online competition (mainly from Amazon), partially because many of the products the company sells can be difficult to ship and/or needed in a short window of time. Home Depot has focused efforts on meeting the needs of its professional customer (Pro), which represents about 45% of the company's revenues. During the quarter, the retailer announced it will add 170 distribution facilities across the United States to speed up delivery of goods to homes and job sites, with the goal of reaching 90% of its customers in one day or less as Home Depot realigns its supply chain to a changing retail landscape and integrates its growing online business with its physical stores (more than 2,200).

General Dynamics, the global aerospace and defense company, was the main detractor during the quarter. General Dynamics' stock price declined after reporting quarterly results and later stating at a conference that Gulfstream's margins would be slightly lower than anticipated for a limited timeframe as production of the new G500 and G600 aircraft ramps up. During the quarter, the board of directors increased the company's quarterly dividend, representing the 21st consecutive annual dividend increase. General Dynamics also closed its acquisition of CSRA, which now makes General Dynamics one of the largest IT contractors for the U.S. government. General Dynamics' backlog remains strong at roughly $62 billion, with orders across Gulfstream's portfolio as well as in the Defense segment. Its Aerospace segment has a leading position in the high end of business jets, where Gulfstream has a fleet of more than 2,000 aircrafts, which provides recurring services revenue. In addition, the company's Marine Systems unit operates in a duopoly for large U.S. Navy ships and submarines.

Lennar, the nation's largest homebuilder, was a primary detractor during the quarter. Shares declined despite two positive earnings reports, as the second quarter was a rare instance in which Lennar reported both first and second quarter earnings, the former in early April and the latter in late June. The market seems to have allowed concerns of rising interest rates and construction costs to overshadow robust fundamentals at Lennar. We remain encouraged by Lennar's execution, with home deliveries, new orders and backlog all advancing over 50% year-over-year following the company's February acquisition of CalAtlantic. The CalAtlantic integration is ahead of expectations, with management increasing synergy estimates for 2018 and 2019. Also during the quarter, the board of directors announced new executive positions. After 21 years as CEO, Stuart Miller is moving to the executive chairman role. He will continue to be actively involved in all aspects of the company's operations and set the strategic direction for Lennar. Rick Beckwitt has served as president of Lennar since 2011 and will take over as CEO. We have long admired the deep bench of management talent at Lennar and look forward to monitoring the progress of this veteran team.

Relative Contributors	Relative Detractors
Adobe Systems	General Dynamics
Phillips 66	Lennar
Kroger	Oshkosh
Home Depot	Mitsubishi
Microsoft	BBVA

Recent Fund Activity

During the quarter, we sold our position in DowDuPont and invested the proceeds in Sony. We originally invested in Dow Chemical (Dow) during the first quarter of 2010. Over our holding period, Dow transformed its portfolio by shifting its focus toward high-margin products and technologies and divesting low-margin, cyclical, commodity products. In 2017, Dow and DuPont merged, creating DowDuPont, with the intention of forming three separate companies: Corteva, which will include agricultural-oriented businesses, such as seeds and crop protection; New Dow, focused on materials science, such as basic materials for packaging, infrastructure and consumer care; and New DuPont, which will be focused on specialty products for segments that include construction, electronics, industrial bioscience, transportation and nutrition. As we continue to await the three-way split of the company, we decided to sell the company and invest in what we consider to be a more attractive investment opportunity.

Sony Corporation

Sony is a global conglomerate with over $70 billion in annual sales. The company's operations span electronics, image sensors, gaming, music, film, television, banking and insurance. By region, nearly 70% of Sony's revenues are generated outside of Japan, with North America being the largest international market.

The company began in 1946 as an electronics store in Tokyo and surged to popularity in the 1950s with the release of the TR-63 transistor radio. The Sony brand has retained its household name with additional innovations, such as the Walkman, Handycam and the PlayStation line of gaming consoles, to name just a few. After pruning business lines and refocusing various segments, Sony's main earnings drivers today are the Game & Network Services, Financial Services, Semiconductors and Music segments.

Led by CEO Kenichiro Yoshida, Sony is undergoing a transformation from a slow-moving, and at times, loss-making entity to a product-focused, cost-conscious and, in our view, more consistently profitable global enterprise.

High-Quality Business

Sony possesses numerous characteristics we deem to be high quality, including:

- Globally recognized and highly valuable Sony brand;
- Large (>75 million) and growing installed base of loyal gaming customers in a consolidated industry;
- Significant recurring revenue within the Financials segment (the company's second largest division);
- Leading market share and technology in image sensors (used in smartphones, cameras, cars and other 3D sensing applications);
- World's largest music publisher and second-largest record label operating in an advantageous portion of the industry's value chain; and
- Experienced management team with improving capital allocation track record.

Attractive Valuation

We believe Sony's current stock price is offered at a material discount to the company's intrinsic value given our estimates for higher and more stable normalized earnings.

Compelling Catalysts

Among the many catalysts we have identified for Sony, which we believe will cause its stock price to appreciate toward our estimate of intrinsic value within our three to five-year investment horizon, are:

- Improvements in profitability, including operating margins and return on equity as management continues to focus its efforts on product development, cost controls and strengthening the Sony brand;
- A shift from physical to digital formats, coupled with conversion of the PlayStation installed base to subscription services, results in increased stability and profitability for the Gaming business;
- Expanding addressable market for image sensors, particularly higher megapixel sensors, as dual-camera smartphone penetration increases and demand for automobile advanced driver-assistance systems (ADAS) creates higher earnings power for the Semiconductors segment;
- Higher margins for the Music segment as the business mix shifts toward more profitable distribution channels, including streaming services; and
- Improvements in profitability for the Pictures segment as new leadership reels in expenses and shines a spotlight on execution.

Outlook

We have been receiving more and more questions about our thoughts on what some are calling an "imminent global trade war." While we don't consider it prudent to ignore the current headlines, we think it's an equally unwise strategy to react to them. Decades of investment experience have demonstrated to us that short-term events are unlikely to impact the long-term fundamentals and intrinsic values of the companies that meet our quality criteria. Rather than attempting to forecast an outcome that is completely outside of our control, such as current trade winds, we choose to spend our time studying businesses that we believe can navigate uncertainty and improve their prospects regardless of the current environment.

Aristotle Value Equity Fund (Class I)

Performance Update June 30, 2018

Total Return	2Q18	1 Year	Since Inception (8/31/16)	Gross/Net Expense Ratio
ARSQX Class I	1.04%	10.56%	14.56%	4.53%/0.78%
Russell 1000 Value Index	1.18%	6.77%	9.95%	N/A
S&P 500 Index	3.43%	14.37%	15.35%	N/A

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

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.

The Fund's advisor has contractually agreed to waive certain fees and/or absorb expenses, through April 30, 2020, 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.

These indices have been selected as the benchmarks and are used for comparison purposes only.

- The Russell 1000® Index measures the performance of the large cap segment of the U.S. equity universe.
- 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 2000 of the smallest securities based on a combination of their market cap and current index membership.
- The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index.
- The U.S. Dollar Index (DXY) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the United States' most significant trading partners.

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 June 30, 2018, the Fund's holdings and their weights as a percent of total net assets were: Adobe Systems, 4.52%; Microsoft, 3.49%; Microchip Technology, 3.32%; Bank of America, 3.24%; Home Depot, 3.17%; Danaher, 3.00%; Phillips 66, 2.88%; ANSYS, 2.71%; Amgen, 2.71%; PayPal Holdings, 2.69%.

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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