



SMALL CAP EQUITY FUND

4Q 2018 Commentary

Markets Review

The small cap segment of the equity market, as measured by the Russell 2000 Index, had one of its worst quarters on record (sixth worst quarter over the last 30 years), declining 20.20% in the last three months of the year. Volatility picked up significantly as investors had to contend with a wide array of geopolitical concerns, from Brexit to ongoing trade tensions between the U.S. and China, a rising U.S. interest rate environment and economic growth concerns in various international markets. These factors led to a risk-off environment that extended to equity markets across the globe in the fourth quarter.

For U.S. small cap companies in particular, this risk-off trade overshadowed what we believe continues to be a strong corporate earnings environment and generally favorable fundamental backdrop, so much so that the Russell 2000 Index's YTD gain of 14.23% through the end of August was completely wiped out in the months that followed, with the Index finishing the full calendar year down 11.01%. December was especially painful, as the Russell 2000 Index fell 11.88%, its worst December on record. However, despite the significant decline in the fourth quarter (and even since the Russell 2000 Index reached its high on August 31), we remain optimistic in our outlook for small cap companies. This outlook will be addressed in more detail in the last section of the commentary.

At the sector level, performance was negative across the board, with all eleven economic sectors in the Russell 2000 Index declining during the quarter. Energy (-41.23%), driven by falling oil prices, was the worst performing sector during the quarter, followed by Materials (-26.64%), Health Care (-25.68%) and Industrials (-21.39%).

Conversely, Utilities (-1.99%), Consumer Staples (-13.25%), Real Estate (-14.10%) and Financials (-16.46%) were the best performing sectors during the fourth quarter. From a fundamental standpoint, companies with lower betas, higher market caps, higher dividend yields and positive earnings generally outperformed during the quarter.

After underperforming through the first nine months of the year, the Russell 2000 Value Index (-18.67%) held up modestly better than the Russell 2000 Growth Index (-21.65%) in the most recent three-month period. Although the quarter granted a slight reprieve from value's relative underperformance vs. growth over the past several years, growth still outperformed for the full calendar year, as the Russell 2000 Growth Index returned -9.31% in 2018 compared to the -12.86% return of the Russell 2000 Value Index.

Performance Review

For the quarter ended December 31, 2018, the Aristotle Small Cap Equity Fund (ARSBX) generated a total return of -20.98% at NAV, underperforming the -20.20% total return of the Russell

2000 Index. On a relative basis, the Fund's holdings within the Health Care, Consumer Discretionary, Consumer Staples and Energy sectors added the most value. Holdings within the Industrials, Information Technology, Financials and Materials sectors detracted from relative performance.

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.

CONTRIBUTORS

- **Herbalife Nutrition Ltd. (HLF)**, a multi-level marketer of nutritional and personal care products, benefited from strong operating results driven by positive business trends, as well as the announcement of a sizeable new buyback program. We maintain a position, as we believe recent operational changes implemented by the firm will enhance member and customer retention rates, which should create additional value for shareholders.
- **1-800-FLOWERS.COM (FLWS)**, an e-commerce provider of floral and gift products, benefited from successful investment spend to capture market share against one of its largest competitors, which has been under recent financial pressure. We maintain our investment, as we believe the company's efforts to integrate all of its brands into a single website should drive several operational and marketing improvements that will enhance the firm's profitability and free cash flow generation.
- **CAI International, Inc. (CAI)**, a freight container leasing and management company, benefited from continued strong container demand and solid performance in its logistics segment. We maintain our investment, as we believe the company is well positioned to capitalize on the long-term trend of shipping companies outsourcing container ownership to independent third parties.
- **Huron Consulting Group (HURN)**, a global consulting services firm that provides strategic, operational, technology and advisory services to non-profit healthcare systems and educational institutions, appreciated due to strong organic growth in both its healthcare and education segments, both of which benefited from positive underlying demand trends. We maintain a position, as we believe the company will benefit from the rebound in demand from its healthcare customers as well as continued execution in its education and advisory businesses.
- **Envision Healthcare Corp. (EVHC)**, an owner and operator of ambulatory surgery centers and provider of physician practice

management services, benefited from its pending acquisition by a private equity firm. We no longer hold a position in the company as the deal closed early in the fourth quarter.

DETRACTORS

- **Bottomline Technologies (EPAY)**, a financial technology business that provides cloud-based settlement networks on a software-as-a-service basis, declined due to lower-than-expected revenue growth in the company's SaaS business. We maintain our investment, as we believe the company's differentiated products and services, along with management's efforts to increase subscription growth, will create additional value for shareholders.
- **Kraton Corporation (KRA)**, a chemical company that manufactures and sells polymers to various end markets, declined due to one-off manufacturing issues and inflationary cost pressures. We maintain a position, as we expect the company to continue to benefit from strong fundamental execution going forward.
- **AerCap Holdings NV (AER)**, one of the world's largest aircraft leasing firms, declined due to negative sentiment regarding a seasonally-weak winter period, despite the company posting better-than-expected operating results. We maintain our investment in the company, as we believe it is well positioned within the space given its large pipeline of new aircraft orders and strong airline end-market demand for new fuel-efficient fleets.
- **CalAmp Corp. (CAMP)**, a provider of technologies used in embedded computing, asset tracking, public safety and the Internet of Things, declined due to temporary supply chain issues caused by the company's efforts to move a portion of its device production out of China to better combat the impact of tariffs. We maintain our investment, as we believe the company is well positioned to benefit from trends such as usage-based monitoring, automated systems and emerging automobile technologies, all of which could help drive earnings higher and create shareholder value.
- **InnerWorkings, Inc. (INWK)**, a provider of print procurement services to global corporations, declined due to softness in its small business segment as the company continues to shift resources toward supporting larger enterprise customers. We maintain a position, as we believe a strong backlog of new opportunities and management's focus on extracting value from previous investments in the business can create value for shareholders.

BUYS

- **Huron Consulting Group (HURN)**, a global consulting services firm that provides strategic, operational, technology and advisory services to non-profit healthcare systems and educational institutions, was added to the portfolio. We believe the company's ability to consistently generate free cash flow, its positive execution efforts in its education and advisory

businesses and the potential to capitalize on an expected rebound in demand from its healthcare customers should allow the company to create value for shareholders over the next several years.

- **MACOM Technology Solutions (MTSI)**, a designer and manufacturer of high-performance semiconductors, was added to the portfolio. Due to previous investments in new product R&D, we believe the company is well positioned to benefit from significant secular growth opportunities within the data center, telecommunications and industrial & defense markets, which have the potential to drive shareholder value creation as well as offer significant upside potential for the company's shares.

LIQUIDATIONS

- **Envision Healthcare Corp. (EVHC)**, an owner and operator of ambulatory surgery centers and provider of physician practice management services, was removed from the portfolio after being acquired by a private equity firm for cash.

SALES

- **Pier 1 Imports, Inc (PIR)**, a retailer of decorative home furnishings, was removed from the portfolio due to our belief that the challenging retail environment would continue to be a headwind and overshadow the company-specific operating improvements put in place by senior management.

Outlook and Positioning

The intense sell-off to end 2018 was driven by a combination of factors, including nervousness over the pace of U.S. interest rate increases, the ongoing trade dispute with China and slowing economic growth in Europe, China and Japan. For many U.S. investors, this combination of factors seemed to manifest into a real concern that our economy was on the verge of a significant slowdown or recession. This concern led to the risk-off environment that we experienced in the fourth quarter.

Moving into 2019, the market appears to be priced for the extreme scenario of our economy slipping into a recession. Based on our bottom-up fundamental research and numerous conversations with company management teams, we have not seen any widespread evidence of a slowdown that would explain the significant price declines that were experienced at the end of last year. While certain economic indicators are off from peak levels, most remain in positive, healthy territory. Corporate earnings also remained strong throughout last year and into the fourth quarter sell-off, and the positive expectations for 2019 do not indicate that a recession is on the horizon. Additionally, our economy and financial system appear to be significantly healthier than they were during the 2008 downturn, and therefore, if a recession were to occur, we believe it would be minor in comparison. Given all of these factors, we believe the current state of the market, both in terms of its volatility and in recent performance, does not reflect the true fundamentals of the corporate and economic backdrops, which remain healthy even if growth is expected to slow (but importantly, not contract)

in 2019. In the event that these recessionary fears are overblown, we believe significant upside potential exists for small cap equities going forward.

As always, we remain focused on long-term business fundamentals, even in the face of elevated short-term volatility. Our current positioning is a function of our bottom-up security selection process and our ability to identify what we view as attractive investment candidates, regardless of economic sector definitions. While we do not position our portfolio for macroeconomic issues or events, we will attempt to incorporate these factors into our bottom-up fundamental analysis whenever possible. In this regard, recent purchases have been spread across industries and are idiosyncratic in nature, as opposed to being tied to an outlook for a particular sector. Given our focus on long-term business fundamentals, patient investment approach and low portfolio turnover, the Fund's sector positioning does not change significantly from quarter to quarter. Overweights in Industrials and Information Technology are mostly a function of the performance of our holdings in these sectors over the past few years. Conversely, we continue to be underweight in the

Real Estate sector due to a lack of attractively valued opportunities, but we maintain exposure to certain companies in the space that we feel offer attractive upside potential with limited downside risk. The Fund remains underweight in Consumer Discretionary, as we have been unable to identify compelling opportunities that fit our discipline given the rising risk profiles associated with many businesses due to the "Amazon effect."

Given the elevated levels of volatility and the apparent short-term disconnect between the market and business fundamentals, we believe it is important to remain patient in identifying investment opportunities to ensure they offer a compelling risk-reward trade-off and what may be perceived as a sufficient margin of safety. Furthermore, we remain focused on trying to understand the risks associated with each investment position within the context of our fundamentally oriented research process and managing those risks through a disciplined approach to portfolio construction and management. Overall, with a reasonably favorable fundamental backdrop for small cap companies, we continue to identify what we believe to be attractively valued, long-term investment opportunities.

Aristotle Small Cap Equity Fund (Class I)

Performance Update

December 31, 2018

Total Return	4Q18	1 Year	3 Years	Annualized Since Inception (10/30/15)	Gross/Net Expense Ratio
ARSBX Class I	-20.98%	-12.29%	6.94%	5.39%	4.97%/0.97%
Russell 2000 Index	-20.20%	-11.01%	7.36%	6.30%	N/A

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The Fund's advisor has contractually agreed to waive certain fees and/or absorb expenses, through April 30, 2028, to the extent that the total annual operating expenses do not exceed 0.90% 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. 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 Boston 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 Boston 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 made in the last 12 months 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 small-capitalization companies and ETFs.

The securities of small-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. In addition, such companies typically are more likely to be adversely affected than large capitalization companies by changes in earning results, business prospects, investor expectations or poor economic or market conditions. The use of ETFs may cause the Fund to have higher expenses than those of other equity funds.

Definitions:

- 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 2000® Value Index measures the performance of those Russell 2000 companies with lower price/book ratios and lower predicted and historical growth rates.
- The Russell 2000® Growth Index measures the performance of those Russell 2000 companies with higher price/book ratios and higher predicted and historical growth rates.

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, 2018, the ten largest holdings in the Fund and their weights as a percent of total net assets were: Euronet Worldwide, 2.17%; National Bank Holdings, 2.10%; ALLETE, 2.02%; Merit Medical Systems, 1.89%; QTS Realty Trust, 1.88%; Mercury Systems, 1.84%; HMS Holdings, 1.71%; Monro, 1.71%; Bottomline Technologies, 1.63%; and 1-800-FLOWERS.COM, 1.59%.

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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