

# STRATEGIC CREDIT FUND

3Q 2017 Commentary

## Summary

Investor optimism continued to benefit fixed income markets, which exhibited low defaults, increased risk appetite and tightening spreads. High yield bonds, bank loans and investment grade corporates all posted gains in the third quarter. The Aristotle Strategic Credit Fund (ARSSX) returned 0.62% at NAV, underperforming the 1.33% return of the blended benchmark for the quarter.\*

*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 blended benchmark represents a blend of 1/3 Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index, 1/3 Bloomberg Barclays 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.*

## Market Environment

Better-than-expected corporate earnings, a benign interest rate environment and oil price strength led to solid support for corporate credit and other risk assets during the third quarter. Additionally, a broad-based improvement in global economic growth further contributes to the favorable backdrop for fixed income securities. Lastly, expectations for the long-awaited tax reform plan has further aided gains in risk assets, such as high yield bonds, as corporations may be the primary beneficiaries of any revisions to existing tax codes.

Global monetary policies continue to be the primary driver of the benign interest rate environment, led by easy policies among major central banks. We believe further bond purchases will continue to swell the world's central banks' balance sheets, likely suppressing any potential volatility associated with the Fed's gradual reduction in its own balance sheet. The combination of relatively flat interest rates and spread tightening led to positive returns for high yield bonds, bank loans and investment grade corporates.

### **The high yield bond, bank loan and investment grade corporate markets generated positive returns.**

The Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index returned 1.89% for the quarter. Gains in the high yield market were broad-based, with all but two industries and all credit quality tiers generating positive returns for the quarter. High yield bond returns were led by a rally in the Energy industry, after a flat August, but a strong performance in July. The Metals & Mining and the

Transportation industries also performed well. Telecommunications and Retailers & Restaurants were the only two industries in the benchmark to post a negative total return for the quarter.

The Credit Suisse Leveraged Loan Index gained 1.06% for the quarter. Issuer fundamentals remained solid, although technical conditions weakened, which contributed to the underperformance of bank loans relative to high yield bonds. U.S. collateralized loan obligation (CLO) volumes were down from their record highs in the second quarter. CLOs experienced outflows in August and September, marking the first time the market has seen back-to-back monthly outflows since March and April 2016. Furthermore, a relatively stable risk-free rate environment resulted in the reduction of demand for floating rates bank loans.

Investment grade credit, as measured by the Bloomberg Barclays Intermediate Corporate Index, returned 1.05% for the quarter, driven by yield carry and modest spread tightening. On an absolute basis, the Metals & Mining, Paper & Packaging and REITs & Real Estate Related industries were among the strongest performers in the investment grade market, while the Gaming, Lodging & Leisure, Cable-Satellite and Consumer Products industries lagged.

## Performance and Attribution Summary

The Aristotle Strategic Credit Fund (ARSSX) returned 0.62% at NAV, underperforming the 1.33% return of the blended benchmark for the quarter. Security selection and industry allocation detracted from relative performance while sector rotation added value.

Security selection in Telecommunications was, by far, the largest detractor from relative performance. The Energy and the REITs & Real Estate Related industries also detracted from relative performance, albeit more modestly. On the other hand, security selection in the Leisure, the Automotive & Captive Finance and the Brokerage industries positively contributed to results versus the benchmark.

## Outlook and Strategy

We see third quarter data as giving a clear indication that global economic growth is improving and broad-based. Economic metrics in Japan, China, Europe and Emerging Markets (such as global manufacturing and services surveys, gross domestic product and unemployment) point to these countries/regions as joining the United States in witnessing improving economic fundamentals. Strength in the U.S. economy is being led by strong employment gains, a de-levered consumer, improving corporate profits and increasing confidence. Long-awaited fiscal stimulus is already upon us in the form of deregulation, with tax reform possibly on the horizon. Furthermore, the continuing of ultra-easy monetary

policies abroad is raising asset prices and suppressing financial market volatility.

This environment is allowing the Fed to slowly normalize policy, both in regards to short-term rates as well as to the size of its balance sheet. The Fed will begin to slowly reduce its balance sheet, starting in October 2017, of as much as \$10 billion per month. While this is a relatively small amount, we believe that this gives the Fed significant flexibility to accelerate the unwind, as it perceives the markets to allow. Furthermore, we expect the Fed to follow through on its forward guidance for its target short-term interest rate and also maintain its commitment to slowly adjust monetary policy. As U.S. interest rates continue to rise relative to interest rates in key developed economies, we expect capital inflows into the country to continue, including into the higher yielding segments of fixed income markets. Importantly, the Trump administration's decision on the next Fed Chairperson may increase market anxiety and could likely be telegraphed in advance to gauge initial financial market reactions.

In the near term, we expect rising short-rates to continue the bearish flattener of the U.S. Treasury yield curve. Over the longer term, we expect the curve to shift modestly higher as inflation expectations creep higher and real interest rates (which have been significantly distorted by global central bank actions) slowly rise as the Fed and others begin to normalize monetary policies.

**The Fund remains overweight higher yielding credit sectors and underweight investment grade corporates. We continue to focus on U.S. credits.**

On September 30, 2017, the Fund was composed of 43.4% bank loans, 36.1% high yield bonds and 19.4% investment grade corporates, with the balance in cash. These allocations are consistent with our goal of positioning the Fund 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 are unlikely to reduce our exposure to investment grade corporates in the near term because we think any short-term increases in rates will likely be contained by the relatively low risk-free rates overseas and subdued inflationary forces.

We continue to emphasize domestic issuers based on our positive outlook for the U.S. economy, and we remain intensely focused on bottom-up opportunities given relatively full valuations in the credit markets. On September 30, 2017, the Fund's significant active exposures included overweights to Automotive & Captive Finance, Industrial Other and Consumer Products companies and underweights to Banking, Media Entertainment and Retailers & Restaurants companies. Our intermediate-term outlook is for risk-free rates to marginally rise, so we are maintaining a modest duration underweight.

## Aristotle Strategic Credit Fund (Class I)

Performance Update

September 30, 2017

Total Return	3Q17	1 Year	Annualized Since Inception (12/31/14)	Gross/Net Expense Ratio
ARSSX Class I	0.62%	4.58%	4.24%	3.18%/0.62%
Blended Benchmark*	1.33%	4.95%	4.72%	N/A
Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Cap Index	1.89%	7.69%	6.27%	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 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 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 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.
- Gross domestic product is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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 September 30, 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, 3.57%; Ineos US Finance LLC Loan, 3.985%, due 03-31-22, 2.71%; Ortho Clinical Diagnostics Inc. Loan, , 5.083%, due 06-30-21, 2.69%; Midas Intermediate Holdco II, 4.083%, due 08-18-21, 2.69%; Allied Universal Holdco Loan, 5.083%, due 07-28-22, 2.33%; Presidio LLC Loan, 4.549%, due 02-02-22, 2.19%; Royal Holdings Inc. Loan, 4.583%, due 06-20-22, 2.17%; Air Canada Loan, 3.568%, due 10-06-23, 2.06%; Dell Inc., 5.400%, due 09-10-40, 2.03%; DigitalGlobe Inc. Loan, 3.985%, due 12-22-23, 2.03%.

**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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