# International Equity Fund

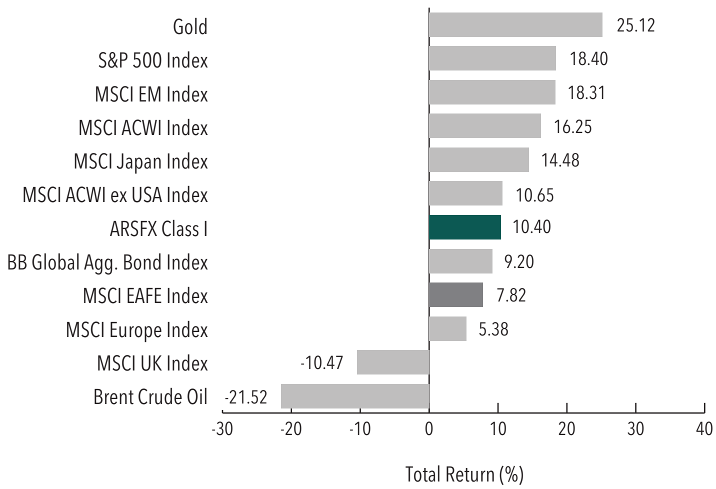
4Q 2020 Commentary

*(All MSCI index returns are shown net and in U.S. dollars unless otherwise noted.)*

## Markets Review

Global Markets (total return) performed as follows:

**Year to Date Returns**




*Sources: UMB Fund Services; Bloomberg*
*Past performance is not indicative of future results. Please see important disclosures at the end of this document.*

Global equity markets continued their strong rebound during the fourth quarter. Overall, the MSCI ACWI Index gained 14.68% during the period, which brings its full-year return to 16.25%. Concurrently, the Bloomberg Barclays Global Aggregate Bond Index gained 3.28%, which gives the Index a calendar-year return of 9.20%. In terms of style, the value indices outperformed their growth counterparts during the quarter, with the MSCI ACWI Value Index outperforming growth by 3.54%; however, growth still outperformed value for the year by 33.93%.

The MSCI EAFE Index increased 16.05%, while the MSCI ACWI ex USA Index climbed 17.01% for the quarter. Regionally, among developed markets, Asia and Europe & Middle East were the strongest performers, while the U.K., although also posting a double-digit gain, slightly trailed. On a sector basis, all eleven sectors within the MSCI EAFE Index posted gains, led by Energy, Financials and Consumer Discretionary. Meanwhile, Health Care, Consumer Staples and Utilities were the worst-performing sectors.

There were positive developments regarding the approval and distribution of vaccines to protect against COVID-19. Pfizer, the U.S.-based pharmaceutical company, received approval for its vaccine (developed in partnership with Germany-based BioNTech) in various areas, including the U.K., European Union and Singapore. Distribution of its vaccine and that of U.S.-based biopharmaceutical company Moderna has commenced across the globe. Furthermore, the Oxford-AstraZeneca vaccine was approved for use in the U.K.

Around the world, further rounds of stimulus were enacted by central banks and governments. For example, the Bank of England launched a $195 billion stimulus package, while the European Union resolved a standoff over a $909 billion pandemic relief fund as part of a $2.2 trillion budget to support struggling businesses and households. Additionally, Japan's government passed a $708 billion package aimed at containing COVID-19, promoting structural change and positive economic cycles for a post-COVID era, and securing safety and relief with respect to disaster management.

While optimism surrounding a vaccine and additional stimulus generated positive sentiment heading into the new year, the number of new daily cases and deaths related to COVID-19 spiked in Europe and increased in various parts of Asia. Currently, over 82 million total cases and 1.8 million deaths have been reported around the world. Furthermore, mutated strains of coronavirus that were first identified in the U.K and Nigeria have been reported in multiple countries, such as Sweden, Italy, Australia, South Korea and the U.S. In response to the spike in cases and new strains, European policymakers once again implemented strict lockdown measures to mitigate the spread of the virus. On the other hand, unlike their European peers, Asian health officials have kept businesses open and utilized other controls, such as tracing contacts of potentially infected individuals and mandating larger social distances in public.

On the political front, four and one-half years after the U.K.'s Brexit referendum, a post-Brexit trade deal with the European Union was reached. The bill will preserve Britain's tariff- and quota-free access to the European Union.

## Annual Markets Review

After posting its worst quarter since 2008 during the first quarter, the MSCI ACWI Index rebounded sharply, finishing with a 16.25% return. Unprecedented fiscal and monetary policy actions were enacted, a gradual reopening of the economy has begun, and positive vaccine developments have fueled optimism in society and markets.

While we are pleased to report a strong finish for the year, we would caution our readers about the volatile nature of short-term returns that may reflect fleeting sentiment and uncertain predictions. As we frequently say, "not every quarter, not every year." Instead, we believe focusing on the analyzable, long-term impacts of these events and identifying high-quality businesses with sustainable competitive advantages may help investors to weather short-term volatility and attractive risk-adjusted returns over the long run.

## Performance and Attribution Summary

For the fourth quarter of 2020, Aristotle International Equity Fund (ARSFX) posted a total U.S. dollar return of 19.52% at NAV, outperforming the MSCI EAFE Index, which returned 16.05%, and the MSCI ACWI ex USA Index, which returned 17.01%.

*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.*

From a sector perspective, the Fund's outperformance relative to the MSCI EAFE Index can be primarily attributed to security selection, while allocation effects also had a positive impact. Security selection in Industrials, Consumer Discretionary and Financials contributed the most to the Fund's relative performance. Conversely, security selection in Materials and Energy and an underweight in Materials detracted the most from relative return. Regionally, security selection was primarily responsible for the Fund's outperformance. Security selection in Emerging Markets and Developed Asia contributed the most to relative performance, while security selection in the U.K. and an underweight in the Developed Asia detracted.

## Contributors and Detractors for 4Q 2020

*(Fund Contribution to Return)*

| Largest Contributors | Largest Detractors |
|---|---|
| Samsung | Symrise |
| Magna International | Reckitt Benckiser |
| Nidec | Marui Group |
| Sony | BASF |
| Credicorp | Unilever |

***Magna International, a Canada-based global auto parts, systems and assembly company, was a top contributor for the quarter.*** Shares advanced as the company reported resilient results and an improved outlook. Although global light vehicle production declined by 4%, Magna experienced only a 2% decrease in sales during the same period. Furthermore, management increased its 2020 outlook to reflect higher sales and margin expectations. Magna also announced a joint venture with LG Electronics to manufacture various parts to support the growing global shift toward vehicle electrification, a catalyst we previously identified. Lastly, the company announced the retirement of longtime CEO Don Walker, who will be replaced by Seetarama Kotagiri. We believe Mr. Kotagiri's vast experience and long tenure at Magna will lead to a smooth transition.

***Sony, maker of the PlayStation videogame console, was also one of the quarter's top contributors.*** Shares rose as the company exhibited resilient results, with particular strength in its Gaming division. Seven years since Sony launched the PS4, the company released the long-awaited PS5. Record-breaking sales of the console and continued benefits of the stay-at-home environment drove double-digit growth in the business unit. However, weakness in other segments such as Pictures, which has experienced a significant decrease in theatrical releases due to the pandemic, more than offset the advances in Gaming. Nevertheless, Sony remained active in furthering its content-focused businesses. The company announced its acquisition of Crunchyroll, an anime business, from AT&T. This deal will give Sony access to over three million paying subscribers across more than 200 countries and regions, allowing the company to compete more globally with other streaming companies. Lastly, in line with the changes to Sony's organizational structure announced in May, the company officially announced that Kimio Maki will serve as President and CEO of the new Sony Corporation, formerly Sony Electronics Corporation. We believe Sony's commitment to creativity and technology across its divisions, as well as organizational changes will likely continue to drive market share gains, higher profitability and improved efficiency in the long run.

***Symrise, a Germany-headquartered global supplier of flavors, fragrances and food ingredients, was the largest detractor for the quarter.*** After being one of the top year-to-date performers through the third quarter, Symrise shares declined as the company announced weaker-than-expected organic sales growth and lowered guidance for the full year. Additionally, news outlets reported that Symrise had fallen victim to a ransomware attack that led to a temporary halt in production. The attack appears to have been random and production has since resumed. While the weak overall results and cybersecurity attack may have captured near-term headlines, we remain encouraged by the long-term prospects of the company. Symrise reported what we view as impressive growth in its Nutrition segment, particularly pet food. Furthermore, the company continued to bolster its market-leading position in the consolidating Scent & Care industry through the acquisition of Sensient's fragrances business. We believe that these events demonstrate Symrise's ability to navigate through, and capitalize on, a challenging environment, which should allow the company to unlock significant value in the long run.

***Reckitt Benckiser, a U.K.-based global provider of household, health and hygiene products, was also a major detractor.*** After benefiting from soaring demand during the first half of the year, shares pulled back during the quarter likely due to an improving near-term outlook in the fight against the pandemic. As various biopharmaceutical companies made significant progress toward a viable vaccine to combat the virus, concerns surrounding a corresponding weakening in demand for several of Reckitt's "powerbrands" (e.g., Lysol) impacted sentiment early in the quarter. Nevertheless, the company continued to demonstrate strong results, as its Hygiene and Health segments both experienced double-digit year-over-year growth. Rather than following short-term fluctuations in demand, we are more interested in the continued improvements to Reckitt's organizational structure and supply chain efficiency. These improvements, we believe, can lead to a higher sustained normalized cash flow and, ultimately, intrinsic value appreciation.

## Recent Fund Activity

| Buys | Sells |
|---|---|
| Credicorp | BASF |
| | ORIX |

During the quarter, we sold our investments in BASF and ORIX. We invested a portion of the proceeds in Credicorp.

We happened to have first invested in both BASF and ORIX during the fourth quarter of 2011 in our International strategy. During our nine-year holding period, the companies experienced meaningful change, some negative and some positive.

BASF's shift from a diversified chemical company toward a more pure-play business has been underway for several years, and while we applaud management's efforts to enhance profit margins organically and via strategic M&A, we prefer to observe the company's continued transformation from the sidelines. Tokyo-based financial services company ORIX has executed well on several catalysts we previously identified, including shifting its business mix, continuing accretive transactions and improving normalized profitability. Although we believe ORIX continues to possess Q-V-C characteristics and we continue to admire (and monitor) both ORIX and BASF, we believe Credicorp presents a more optimal investment opportunity at this time.

### *Credicorp Ltd.*

Founded in 1995, Credicorp is the leading financial services company in Peru, with a presence in other South American countries, such as Bolivia, Chile and Colombia. With over 11,000 points of contact, the company boasts one of the largest networks in the region. As of November 2020, Credicorp had a market capitalization greater than $12 billion, over S/ 230 billion (~$64 billion) in assets, S/ 135 billion (~$38 billion) in deposits and S/ 125 billion (~$35 billion) in loans.[1]

Credicorp offers a diverse range of services under four business lines, including banking (~70% of net income), insurance and pensions (~15%), microfinance (~10%), and investment banking and wealth management (~5%). Under the direction of an experienced and long-tenured management team, the company has been able to maintain a strong balance sheet while achieving consistent loan and deposit growth above the rate of GDP expansion in Peru.

#### *High-Quality Business*

Some of the quality characteristics we have identified for Credicorp include:

- Market-leading position with over 30% market share in Peru. This has resulted in a funding advantage (non-interest-bearing deposits near 30% of total);
- Fairly balanced revenues (~60% net interest income and ~40% fee income, which is also well diversified across various sources, such as credit cards, insurance products and microfinance);
- Robust profitability, as evidenced by its average operating ROA of nearly 4% since 2009 and consolidated efficiency ratio of less than 50% over the past decade; and
- History of prudent underwriting and consistent capital management balanced with increases in dividends.

#### *Attractive Valuation*

Using our estimates of normalized earnings, we believe Credicorp's current stock price is offered at a discount to our estimate of the company's intrinsic value. More specifically, we believe current NIM and credit costs are materially below and above normalized levels, respectively.

#### *Compelling Catalysts*

Catalysts we have identified for Credicorp, which we believe will likely cause its stock price to appreciate over our three- to five-year investment horizon, include:

- Capitalize on scale efficiencies, resulting in enhanced profitability;
- Continued product differentiation and cross-sell opportunities as penetration of banking and financial services in the region increases from current low levels;
- Further diversification in revenues, specifically, an increase in fee income;
- Benefits of restructuring initiatives (e.g., consolidation of the wealth management model under one business unit); and
- Deployment of capital in shareholder-friendly manners (e.g., increasing dividend payout ratio that is currently above 50%).

## Conclusion

At the end of the year, we reflect on the flurry of news that, to some extent, may have had an impact on short-term stock price movements. Each year, there are events that may seem more significant than others (e.g., political, natural disasters, trade disputes, national security threats). However, 2020 was different. The global pandemic took most of the world by surprise and affected all regions, all countries and, to some extent, each one of us.

While we don't consider it prudent to ignore 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 rarely impact the long-term fundamentals of businesses. When they do, such changes usually take a long time to evolve. Rather than attempting to forecast an outcome that is completely outside of our control, such as the impact of a new administration in the U.S. or the efficacy of vaccines against the pandemic, we choose to spend our time studying businesses that we believe can navigate uncertainty and improve their prospects regardless of the current environment. While we do that, we also monitor whether changes are cyclical and short term or are turning into secular and more permanent changes.

[1]S/ = Peruvian Soles, the currency of Peru
Q-V-C = Quality, Valuation, Catalysts; GDP = Gross Domestic Product; ROA = Return on Assets; NIM = Net Interest Margin.

## Aristotle International Equity Fund (Class I)

Performance Update December 31, 2020

| Total Return | 4Q20 | YTD | 1 Year | 3 Years | 5 Years | Since Inception (3/31/14) | Gross/Net Expense Ratio |
|---|---|---|---|---|---|---|---|
| ARSFX Class I | 19.52% | 10.40% | 10.40% | 7.24% | 8.37% | 4.93% | 1.17%/0.80% |
| MSCI EAFE Index (Net) | 16.05% | 7.82% | 7.82% | 4.28% | 7.44% | 4.45% | N/A |
| MSCI ACWI ex USA Index (Net) | 17.01% | 10.65% | 10.65% | 4.88% | 8.91% | 4.92% | N/A |

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***The Fund's advisor has contractually agreed to waive certain fees and/or absorb expenses, through April 30, 2021, to the extent that the total annual operating expenses do not exceed 0.80% 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 from 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, market risk, equity risk, foreign investment risk, currency risk, small-cap, mid-cap and large-cap company risk, value-oriented investment strategies risk, emerging markets risk, management and strategy risk and cybersecurity risk. **Market Turbulence Resulting from COVID-19** – The outbreak of COVID-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the Fund. To learn more about the Principal Risks of Investing in the Fund, please reference the prospectus.

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. 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.

Definitions:

- The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

- The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 developed markets countries (excluding the United States) and 27 emerging markets countries. With over 2,300 constituents, the Index covers approximately 85% of the global equity opportunity set outside the United States.
- The MSCI ACWI Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 developed markets countries and 27 emerging markets countries. With approximately 3,000 constituents, the Index covers approximately 85% of the global investable equity opportunity set.
- The MSCI Emerging Markets Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 24 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, the Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.
- 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 Brent Crude Oil Index is a major trading classification of sweet light crude oil that serves as a major benchmark price for purchases of oil worldwide.
- The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
- The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With nearly 100 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.
- The MSCI Europe Index captures large and mid cap representation across 15 developed markets countries in Europe. With over 430 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe.
- The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With over 300 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in Japan.

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, 2020, the 10 largest holdings in the Fund and their weights as a percent of total net assets were: Sony Corp., 4.50%; Accenture plc, 4.19%; Samsung Electronics Co Ltd, 4.06%; Nidec Corp., 3.85%; Brookfield Asset Management, Inc., 3.61%; Ashtead Group Plc., 3.56%; LVMH Moet Hennessy Louis Vuitton, Inc., 3.40%; Dassault Systemes SE, 3.36%; FANUC Corp., 3.29%; Credicorp, Ltd, 3.18%.

**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 aristotlefunds.com, and should be read carefully prior to investing.**

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