

# GLOBAL EQUITY FUND

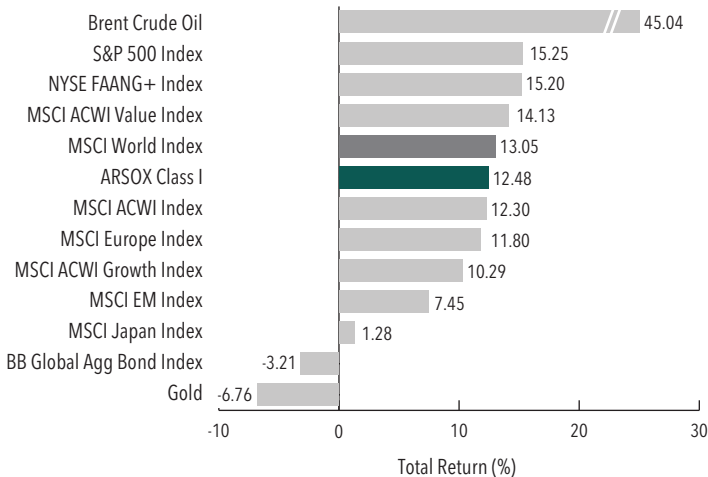
## 2Q 2021 Commentary

(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

Performance data quoted here represent 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 performance information current to the most recent month-end, please call (844) 274-7868.

Global equity markets continued to climb, with the MSCI ACWI Index gaining 7.39% during the period, its fifth straight quarter of positive performance. Concurrently, the Bloomberg Barclays Global Aggregate Bond Index increased 1.31%. In terms of style, value stocks underperformed their growth counterparts during the quarter, with the MSCI ACWI Value Index trailing growth by 5.14%.

Regionally, North America and Europe were the strongest performers, while Japan posted a slightly negative return. On a sector basis, ten of the eleven sectors within the MSCI ACWI Index posted gains, led by Information Technology, Energy and Health Care. Meanwhile, Utilities (the only sector in the red), Industrials and Consumer Staples were the worst-performing sectors.

By the end of the quarter, roughly three billion vaccine doses had been administered worldwide. The bulk of the vaccines administered were in developed countries, as many developing countries continued to struggle with supply issues, in addition to rising infection rates. However, as vaccination efforts progressed,

conditions improved by the end of June. In the U.S., various state governments have dropped travel restrictions, capacity limitations, curfews and mask requirements for fully vaccinated individuals, leading to increased economic activity, such as traveler throughput at U.S. airports, which as of June 2021 was approaching pre-COVID levels. Furthermore, the G7 (Group of Seven) leaders pledged to provide 870 million vaccine doses to COVAX, a worldwide initiative aimed at equitable access to COVID-19 vaccines, for distribution among low- and middle-income countries.

In line with the improving conditions in the second half of the quarter, economic data points were also strong, as U.S. unemployment continued to decline to 5.8%, eurozone economic sentiment hit a 21-year high and the World Bank upgraded its global growth forecast to 5.6% for 2021. Additionally, positive traction was made in various trade relationships as the U.S. and China continued their dialogue and the U.S. and the European Union agreed to suspend a 17-year trade dispute related to government subsidies to Boeing and Airbus.

Lastly, geopolitical conflicts captured numerous headlines as tensions between Israelis and Palestinians turned violent. Furthermore, relations between the U.S. and Russia continued to sour after Russian hackers shut down the Colonial Pipeline, though no evidence has been traced back to the Russian government.

### Performance and Attribution Summary

For the second quarter of 2021, the Aristotle/Saul Global Equity Fund returned 5.07% at NAV, underperforming both the MSCI ACWI Index, which returned 7.39%, and the MSCI World Index, which returned 7.74%.

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From a sector perspective, the Fund's underperformance relative to the MSCI ACWI Index can be primarily attributed to security selection, while allocation effects also had a negative, though smaller, impact. Security selection in Industrials, Consumer Discretionary and Health Care detracted the most from the Fund's relative performance. Conversely, security selection in Information Technology, a lack of exposure to Utilities and an overweight in Information Technology contributed to relative return.

Regionally, both security selection and allocation effects were responsible for the Fund's underperformance relative to the MSCI ACWI Index. Security selection in the U.S. and an overweight in Japan detracted the most from relative performance, while security selection in Europe & Middle East and an underweight in Emerging Markets contributed.

## Contributors and Detractors for 2Q 2021

| Relative Contributors | Relative Detractors  |
|-----------------------|----------------------|
| Adobe                 | Sony                 |
| Danaher               | Kubota               |
| LVMH                  | Microchip Technology |
| PayPal Holdings       | Lennar               |
| Nemetschek            | Nidec                |

**Diversified healthcare-oriented company Danaher was one of the main contributors for the period.** Shares rose as the company reported robust revenue, earnings and cash flow growth. The strength was broad-based, although COVID-related tailwinds continued to benefit its Life Sciences (vaccines) and Diagnostics (testing) segments. The company also announced a \$9.6 billion agreement to acquire Aldevron, a high-quality plasmid DNA, mRNA and proteins manufacturer serving biotechnology and pharmaceutical customers. This acquisition is in line with Danaher's efforts over the past years to broaden its Life Sciences portfolio. We believe the company has demonstrated an ability to identify attractive acquisition targets, successfully integrate them into the Danaher Business System and bring them to new heights.

**Japan-based agricultural and construction equipment manufacturer, Kubota, was one of the largest detractors for the period.** Shares fell, likely in response to management's cautious guidance citing ongoing logistical issues impacting product delivery into the U.S., cost headwinds and supply issues in North America. Delays in shipments from Japan, given a shortage of containerships and bottlenecks at U.S. ports, prevented the firm from properly restocking its U.S. dealers. So far, the low levels of inventory appear to have had little negative impact on Kubota's market share. We see this as a short-term situation and instead are focused on the company's brand recognition and technological leadership, which have, in our opinion, allowed it to continue gaining share outside of Japan. Furthermore, Kubota's reported results were strong, as revenues increased by double digits, driven by robust sales in Thailand and China. According to the Association of Equipment Manufacturers, retail sales of small-size tractors increased 64% year-over-year during the first quarter of 2021. We are confident in Kubota's ability to weather short-term volatility, continue winning market share and improve profitability.

## Recent Fund Activity

| Buys                      | Sells     |
|---------------------------|-----------|
| Rational                  | Hoshizaki |
| Pan Pacific International | Novartis  |
| Honeywell                 |           |

During the quarter, we sold our investments in Hoshizaki and Novartis. We invested the proceeds in three new positions: Rational, Pan Pacific International and Honeywell.

We originally invested in Hoshizaki, the largest manufacturer of commercial kitchen equipment in Japan, in the third quarter of 2017. At the time, we believed the company was well positioned

to capitalize on catalysts such as furthering its presence in Europe, Asia and South America, expanding its product lineup through innovation, and improving its margins by shifting its product mix toward "hot" appliances. Although we still view Hoshizaki as a high-quality business, our confidence in the company's ability to improve margin and gain share in the "hot" appliance market has diminished. As such, we decided to sell our position in favor of what we view as a more optimal investment in Rational.

Our investment in Novartis dates back to the first quarter of 2015. Novartis went through much change during our more than six-year holding period. Vasant ("Vas") Narasimhan was promoted to CEO in early 2018 and we believe has positively influenced the company's culture. Vas also helped shift the business more toward innovative medicines. Examples include the sale of Novartis's consumer (over-the-counter) joint venture with GlaxoSmithKline and the spinoff of Alcon, a global leader in the treatment of eye diseases and eye conditions. Coincidentally, both GlaxoSmithKline and Alcon are current Global Equity holdings. While we continue to believe Novartis possesses Q-V-C characteristics, we decided to exit our investment in favor of what we view to be more optimal opportunities in Pan Pacific International and Honeywell.

## Rational AG

Founded in 1973, Germany-based Rational is the global leader in thermal food preparation equipment for commercial and industrial kitchens (e.g., restaurants, schools and supermarkets). The company's key products are powered by proprietary software that is capable of detecting the weight and consistency of the food inside, allowing for an optimal cooking process while reducing waste, energy consumption and cooking times, thus providing a compelling value proposition to businesses. We maintain that this unique combination of quality manufacturing and technology has allowed the business to achieve a more software-like financial profile, with gross margins and return on invested capital averaging 60% and 32%, respectively, over the past ten years.

The company generates roughly 70% of its revenue (2020 revenue of €650 million, down from €844 million in 2019 due to COVID-19) from the sale of combi ovens and cooking centers, with the balance from accessories, cleaning materials, and servicing and parts. Combi ovens are typically found in professional kitchens (20-2,000 meals) and use a combination of heat (aka convection) and steam (aka wet heat). The combi and iVario products can perform ~90% of all cooking processes in professional kitchens (i.e., they can bake, blanch, fry, grill, roast, smoke, sous vide, steam, etc.) and perform the processes in a faster and more energy, space and cost-effective way, delivering a unique value proposition to customers.

Rational's founders (the founding family remains the controlling shareholder, a positive in our view) and management have fostered a unique company culture. By encouraging entrepreneurship among employees and obsessing over the customer's benefit, Rational has earned an enviable reputation for quality products and brand value. We believe this has allowed the company to command a dominant market share in its niche market, which in turn allows the company to invest more in its employees and R&D, perpetuating a cycle of continuous innovation and customer benefit.

### *High-Quality Business*

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

- Scale (within a niche market) and dominant global market share (~50% and ~5x nearest competitor);
- Strong brand recognition, high customer satisfaction and quality reputation have led to a large and growing installed base;
- History of continuous innovation, as evidenced by over 46 years of cooking research that has produced more than 600 patents, patent applications and utility models; and
- Decades of strong financial performance (e.g., nearly uninterrupted annual sales growth, robust profit margins and FREE cash flow generation).

### *Attractive Valuation*

Given our estimates of normalized cash earnings, we believe Rational's current stock price is offered at a discount to our estimate of the company's intrinsic value. We believe normalized earnings power is underappreciated given the continued market share gains and improvements in margins we see.

### *Compelling Catalysts*

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

- Market share gains, particularly in North America and Asia, as well as further penetration of combi ovens into existing kitchens that use traditional appliances;
- Improvements in (already high) gross margins, as new generations of ovens are more efficient to produce;
- Further adoption of newly launched iVario (cooking center) product line;
- Continued innovation can result in expanded use cases for combi ovens; and
- Resolution of COVID-19-induced short-term disruptions as management intentionally focused on the long-term health of the value chain and sought to strengthen customer relationships.

### *Pan Pacific International Holdings Corporation*

Founded in 1980, Pan Pacific International is a Japanese discount and general merchandise retailer. The company operates ~640 stores (~580 of those located in Japan) through formats that include Don Quijote, Donki and Mega Donki. Pan Pacific has a history of taking space from struggling retailers and turning them around (e.g., 2018's acquisition of UNY, Japan's third-largest general merchandise retailer by sales).

Pan Pacific uses an unconventional approach to sales, aiming to get consumers lost inside its stores by creating a sense of treasure hunting that elicits high entertainment value and enables the company to

generate higher revenue per square foot than similar competitors. It also opens its stores an average of 17 hours per day, which is much longer than most of its competitors.

We believe its unique business model and decentralized culture have allowed the company to adapt to consumer needs, gain share and generate higher returns than many of its peers in a challenging Japanese retail environment.

### *High-Quality Business*

Some of the quality characteristics we have identified for Pan Pacific include:

- Unique discount business model that leverages the company's purchasing power, procurement advantages and specialized skills in selling items to outcompete traditional retailers on price and other discounters on breadth of inventory;
- While other retailers may have struggled with a shrinking population and e-commerce competition, Pan Pacific has grown sales and profits for more than 30 consecutive years;
- Strong reputation with the local population and foreign tourists, driven by consistently low prices and focus on customer engagement by making shopping an experience and a form of entertainment;
- High barriers to entry due to difficulty in replicating the business model at a large scale and decentralized, incentive-based employee management structure; and
- Robust track record in successfully acquiring and turning around stores to expand its presence and outreach.

### *Attractive Valuation*

Given our estimates of normalized earnings, we believe Pan Pacific's current stock price is offered at a discount to our estimate of the company's intrinsic value. Specifically, we believe Pan Pacific is in a strong position to continue to win market share and execute on initiatives to improve the profitability of its business.

### *Compelling Catalysts*

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

- Continued market share advances in Japan through organic growth and opportunistic acquisitions;
- Improvements to profitability and FREE cash flow generation from the successful format conversion of previously acquired UNY stores;
- More efficient-cost management through initiatives such as the development of in-house digital systems and the incorporation of credit card capabilities; and
- Further expansion overseas in the U.S. and in Asia ex-Japan in areas such as Singapore, Thailand, Hong Kong and Taiwan.

### *Honeywell International, Inc.*

With origins dating back to 1885 as a heating company, Charlotte, North Carolina-based Honeywell has evolved into a multinational industrial conglomerate with over \$30 billion in annual revenue. The company provides aerospace (~35% of revenue), performance materials and technologies (~30%), safety and productivity (~20%), and building technologies (~15%) solutions to a wide range of customers, such as airlines, building owners and the U.S. government.

Over the past 100+ years, Honeywell has accumulated more than 35,000 patents and is responsible for leading-edge technological breakthroughs, such as automatic heating, autopilot and biodegradable detergents.

Honeywell has a long history of mergers and acquisitions; perhaps most impactful was the merger with AlliedSignal in 1999. Following the merger of two companies with distinctively different cultures, the business was beset by a myriad of issues. In 2002, David Cote took over as CEO and began a long and what we consider to be a successful turnaround from an over-leveraged, old-line industrial company to a modern-day business focused on energy efficiency, productivity and connectivity (aka Industrial Internet of Things) paired with high-margin software businesses. In 2017, Mr. Cote retired and the current CEO, Darius Adamczyk, took over. In our view, the prior operational and reputational improvements have provided Mr. Adamczyk and team the ability to accelerate Honeywell's transformation.

### *High-Quality Business*

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

- Extensive history of innovation and market-leading positions in attractive industries;
- Diverse product offering across various geographies, end markets and customer types;
- High barriers to entry due to needed scale, resources and technical expertise; and
- Disciplined management team that has maintained a strong balance sheet and developed, what we consider to be, an enviable capital allocation track record.

### *Attractive Valuation*

Given our estimates of normalized earnings, we believe Honeywell's current stock price is offered at a discount to our estimate of the company's intrinsic value. We feel the current valuation does not reflect the improved organic revenue profile and FREE cash flow generation power.

### *Compelling Catalysts*

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

- Heightened organic growth from new product launches, integration of acquired higher-growth businesses and the divestiture of declining business units;
- Further improvements to profitability from product portfolio shift to software, supply chain optimization and digital transformation; and
- Continued shareholder-friendly capital deployment, particularly opportunistic and accretive acquisitions and share repurchases.

### **Conclusion**

As the world continues to slowly inch forward in its battle against the pandemic, various headlines such as trade relations, central bank decisions and geopolitical conflicts have shared the spotlight. Although broad economic factors are taken into consideration as part of our analysis, we spend the vast majority of our efforts focusing on individual companies that, in our opinion, possess a combination of qualities which are both sustainable and difficult to reproduce. We will persist in our quest of identifying what we perceive to be high-quality businesses, trading at discounts to our estimate of their intrinsic value, that possess catalysts for appreciation which are within management's control. It is our belief that a diversified portfolio of investments in these companies will hold up best regardless of the environment and can optimize risk-adjusted performance for our clients.

## Aristotle/Saul Global Equity Fund (Class I)

Performance Update

June 30, 2021

| Total Return              | 2Q21  | YTD    | 1 Year | 3 Years | 5 Years | 7 Years | Since Inception<br>(3/30/12) | Gross/Net<br>Expense Ratio |
|---------------------------|-------|--------|--------|---------|---------|---------|------------------------------|----------------------------|
| ARSOX Class I             | 5.07% | 12.48% | 42.98% | 14.61%  | 12.57%  | 8.14%   | 8.78%                        | 1.07%/0.80%                |
| MSCI ACWI<br>Index (Net)  | 7.39% | 12.30% | 39.27% | 14.55%  | 14.61%  | 9.74%   | 10.86%                       | N/A                        |
| MSCI World<br>Index (Net) | 7.74% | 13.05% | 39.04% | 14.98%  | 14.82%  | 10.15%  | 11.55%                       | N/A                        |

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

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*The Fund's advisor has contractually agreed to waive certain fees and/or absorb expenses, through April 30, 2022, 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.*

*On May 1, 2020, the Fund's name changed from Aristotle/Saul Global Opportunities Fund to Aristotle/Saul Global Equity Fund. Also, on May 1, 2020, the Fund's Principal Investment Strategies changed and performance prior to May 1, 2020 represents a different fund strategy.*

## 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 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, market risk, equity risk, foreign investment risk, currency risk, emerging market risk, small-cap, mid-cap and large-cap company risk, exchange-traded funds (ETFs) risk, liquidity 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 use of short sales and ETFs may cause the Fund to have higher expenses than those of other equity funds. Short sales are speculative transactions and involve special risks, including a greater reliance on the investment team's ability to accurately anticipate the future value of a security. The Fund's losses are potentially unlimited in a short sale transaction. The Fund's use of short sales and futures contracts leverages the Fund's portfolio. The Fund's use of leverage can make the Fund more volatile and magnify the effect of any losses. There is no assurance that a leveraging strategy will be successful.

The Fund may invest in derivatives, which can be highly volatile, illiquid and difficult to value, and changes in the value of a derivative may not correlate with the underlying securities or other securities held directly by the Fund. Such risks include gains or losses that, as a result of leverage, can be substantially greater than the derivatives' original cost. There is also a possibility that derivatives may not perform as intended, which can reduce opportunity for gain or result in losses by offsetting positive returns in other securities the Fund owns.

#### Definitions:

- The MSCI All Country World Index (ACWI) captures large and mid capitalization representation across 23 developed markets and 26 emerging markets countries. With over 3,000 constituents, the Index covers approximately 85% of the global investable equity opportunity set.
- The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of 23 developed market country indices.
- The MSCI ACWI Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 developed markets countries and 26 emerging markets countries.
- The MSCI ACWI Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 developed markets countries and 26 emerging markets countries.
- The MSCI Europe Index captures large and mid cap representation across 15 developed markets countries in Europe. With more than 400 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe.
- The MSCI Emerging Markets Index captures large and mid cap representation across 26 emerging markets countries. With approximately 1,400 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in each country.
- 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 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 NYSE FAANG+ Index is an equal-dollar-weighted index designed to represent a segment of the Information Technology and Consumer Discretionary sectors consisting of highly traded growth stocks of technology and tech-enabled companies such as Facebook, Apple, Amazon, Netflix and Alphabet's Google.
- 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 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.
- Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.
- Alpha is the excess return of an investment relative to the return of a benchmark index.
- FREE cash flow is generally calculated as cash flow from operations less capital expenditures.
- Intrinsic value is our measurement of the true worth of a business.

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.

The companies identified herein are examples of holdings and are subject to change without notice. The companies have been selected to help illustrate the investment process described herein. A complete list of holdings is available upon request. It should not be assumed that any of the holdings listed have been or will be profitable, or that investment decisions made in the future will be profitable.

As of June 30, 2021, the 10 largest holdings in the Fund and their weights as a percent of total net assets were: Microsoft Corp., 4.03%; Martin Marietta Materials, Inc., 3.41%; Adobe, Inc., 3.38%; Danaher Corp., 3.36%; Samsung Electronics, 3.28%; Lennar Corp., 3.27%; Dassault Systemes, SE, 3.10%; LVMH Moet Hennessy Louis Vuitton, Inc., 3.03%; Microchip Technology, Inc., 2.98%; PayPal Holdings, Inc., 2.76%.

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

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