# Global Equity Fund

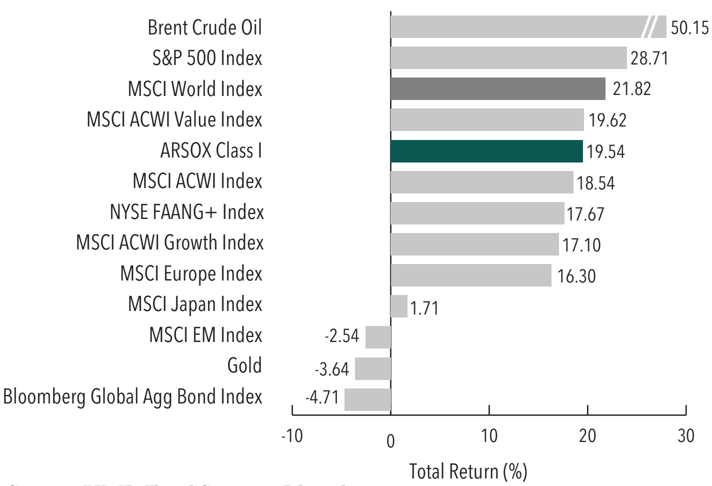
4Q 2021 Commentary

*(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.*

After declining in the third quarter of 2021, global equity markets rebounded during the fourth quarter. Overall, the MSCI ACWI Index climbed 6.68% during the period, which brings its full-year return to 18.54%. Concurrently, the Bloomberg Global Aggregate Bond Index pulled back 0.67%, which gives the Index a calendar-year return of -4.71%. In terms of style, value stocks underperformed their growth counterparts during the quarter, with the MSCI ACWI Value Index trailing the MSCI ACWI Growth Index by 0.67%. However, for the full year, the MSCI ACWI Value outperformed the MSCI ACWI Growth by 2.52%.

Regionally, North America and Europe were the strongest performers during the quarter. On the other hand, Latin America and Japan were the weakest. On a sector basis, ten of the eleven sectors within the MSCI ACWI Index posted gains, with Information Technology, Utilities and Real Estate as the best performers. The worst performers were Communication Services, the only sector to finish in the red, followed by Energy and Financials.

Similar to previous quarters, investors focused on the progress of the global recovery. Although corporate revenues and earnings continued to rebound during the period, the IMF announced a slight downward revision to its 2021 global real GDP growth projections due to continued supply disruptions and uncertain pandemic dynamics. These conditions have caused shortages of key inputs, lowered manufacturing activity and fueled inflation across the globe.

In addition to a global shipping crisis and semiconductor shortages, the energy sector also captured numerous headlines as robust demand outpaced supply, causing prices to surge. After a historic drop in energy consumption in 2020, the global economic recovery and a long and cold winter in the Northern Hemisphere have driven a strong rebound in demand, while the ongoing shift to renewables has impacted production and future investments in fossil fuels. Although OPEC and countries such as Russia have pledged to boost supply, the energy crunch has highlighted issues in long-term production. Furthermore, rising energy prices have contributed to an inflation loop as the prices of energy-intensive materials like nickel, steel and silicon have all risen.

Increased inflation, combined with an uncertain recovery, has created policy challenges for central banks. On one hand, the rhetoric on inflation being "transitory" softened as many central banks took a hawkish approach. During the quarter, the European Central Bank announced a gradual phaseout of its bond purchase program and the Federal Reserve started tapering its bond purchases, while countries like the U.K., Russia and Mexico raised interest rates. On the other hand, policy in Southeast Asia was largely unchanged, and China announced an easing of its monetary policy that will likely include further cuts to lending rates.

On the COVID front, the Omicron variant became the dominant strain in areas such as the U.K. and the U.S. The number of new daily cases reached as high as ~1,750,000, the highest reported figure during the pandemic, with Europe and the Americas reporting the greatest number of cases.

## Annual Markets Review

In a year filled with uncertainty, global economies proved largely resilient. Even in the face of supply-chain disruptions and multiple variants of the COVID-19 virus, global recovery continued throughout the period. Themes from 2020, such as central bank policy decisions and vaccine distribution, persisted.

Although we are happy to report another strong year, the constant twists, turns and pivots of this past year are a reminder of the fragility of the short term. Factors such as the possibility of new variants, the timing of a full recovery, fiscal and monetary policy decisions, and market sentiment are topics better left for reporters. We believe investment managers (and their clients) are best positioned to create lasting value by minimizing distractions and focusing on the long term.

## Performance and Attribution Summary

For the fourth quarter of 2021, the Aristotle/Saul Global Equity Fund returned 6.34% at NAV, underperforming the MSCI ACWI Index, which returned 6.68%, and underperforming the MSCI World Index, which returned 7.77%.

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From a sector perspective, the Fund's underperformance relative to the MSCI ACWI Index can be attributed to security selection, while allocation effects had a positive impact. Security selection in Communication Services, Information Technology, and Health Care detracted the most from the Fund's relative performance. Conversely, security selection in Materials and Consumer Staples and an underweight in Communication Services contributed to relative return.

Regionally, allocation effects were primarily responsible for the Fund's underperformance relative to the MSCI ACWI Index, while security selection had a positive, albeit significantly smaller, impact. Security selection in North America and an overweight in Japan detracted the most from relative performance, while security selection in Europe and an underweight in the Emerging Markets contributed.

## Contributors and Detractors for 4Q 2021

| Relative Contributors | Relative Detractors |
|---|---|
| Martin Marietta Materials | Twitter |
| Qualcomm | PayPal Holdings |
| Lennar | Pan Pacific International |
| Nemetschek | Medtronic |
| RPM International | FirstCash |

***Pan Pacific International, the Japanese discount and general merchandise retailer, was one of the quarter's largest detractors.*** Operating profits declined more than 30% year-over-year. This was in part due to lower foot traffic during a rainy season in Japan, coupled with a recently more difficult pandemic environment. Spending on technology investments, renovations and new store openings also compressed margins. However, we view these headwinds as temporary, and the investments, renovations and new openings as appropriate capital allocation, and continue to focus on the long-term strength of the business. Pan Pacific's Don Quixote stores create a sense of treasure hunt that elicits high entertainment value—a unique business model that we believe will allow for organic market share gains in Japan, as well expansion overseas. With the company's demonstrated ability to turn around competitors' stores, in our opinion, it also stands to benefit from the ongoing conversion of its acquired UNY locations.

***Medtronic, a U.S.-based global provider of medical devices, was one of the largest detractors for the period*** following slower reported revenue growth and reduced revenue guidance for the fiscal year. Medtronic (like other businesses) is still facing pandemic-related headwinds, as staffing shortages and patient decisions have, we believe, temporarily reduced demand for non-essential medical procedures. The share price decline was exacerbated by a warning letter issued by the FDA and related to a facility where Medtronic manufactures diabetes pumps (the Diabetes business is 10% of total revenue). While clearly a negative, warning letters are not uncommon, and this matter pertains to legacy issues that Medtronic is actively engaged with the FDA on resolving fully and as quickly as possible. We will be monitoring the situation and may have more to share in the future. Despite short-term setbacks, Medtronic's focus on innovation has allowed it to continue gaining share in the majority of its businesses while delivering on its goal to partner more closely with hospitals by offering a greater range of products (a shift in strategy that goes back to its merger with Covidien in 2016). We believe the combination of an emphasis on innovation and providing hospitals with value-added services bodes well, as the healthcare system starts placing more emphasis on outcomes rather than products.

***Aggregates producer Martin Marietta Materials was one of the top contributors for the period,*** as it delivered quarterly (and year-to-date) records for revenues and gross profit. A unique combination of higher organic volumes and price increases was able to offset significantly higher energy-related costs. The company also completed its acquisition of Lehigh Hanson's West Region business, the second-largest acquisition in its history, increasing the firm's presence in California and Arizona. Past acquisitions, including Texas Industries and Bluegrass Materials, have been, in our opinion, successfully integrated and have positioned the company with a coast-to-coast footprint and meaningful presence in states with high population inflows and what we think are solid underlying economies (i.e., Texas, Colorado, California, North Carolina, Georgia and Florida). Consistent with its acquisition practices, the company is committed to lowering its debt within the next 18 months. We believe the firm's prudent capital spending, value-enhancing acquisitions, FREE cash flow generation and "value over volume" pricing strategy position the company to continue to benefit from secular demand trends, including single-family housing and federal and state-level infrastructure investment, as well as non-residential construction (e.g., warehouse and data centers).

***Lennar, one of the nation's largest homebuilders, was a primary contributor for the quarter.*** Despite supply-chain challenges affecting everything from the ability to source garage doors, windows and paint, to labor shortages impacting numerous installations, Lennar was able to deliver 18,000 homes during the quarter, an 11% year-over-year growth in deliveries, while also achieving gross and net margin improvements. Such results highlight management's focus and ability to execute amidst challenging short-term conditions while continuing to deliver on its longer-term strategic plan. To that effect, the firm made progress toward its asset-light model, where currently it controls more than half of its land through the use of options (up from 39% in 2020). This has enhanced the company's FREE cash flow generation, allowing for the retirement of $850 million of debt and the repurchase of nearly $1 billion in stock in the most recent quarter. Furthermore, as part of its long-time efforts to incorporate technology into its business, Lennar announced commitments with Veev, a vertically integrated end-to-end panelized building technology company, and ICON, a 3D printing construction technology company, to build new communities utilizing their innovative technologies.

## Recent Fund Activity

| Buys | Sells |
|---|---|
| Rentokil Initial | Penske Automotive |

During the quarter, we sold our investment in Penske Automotive and made a new investment in Rentokil Initial.

We first became owners in Penske, one of the world's largest automotive dealership groups, during the second quarter of 2016. During our holding period, the company executed on many of the catalysts we initially identified, including benefiting from industry consolidation, as well as its high-margin parts and service business capitalizing on increased car complexity. Though we will continue to admire Penske's growing global presence and efforts to enhance the customer experience at its predominately luxury-focused dealerships, we decided to exit our position to fund what we believe is a more optimal investment in Rentokil.

### *Rentokil Initial plc*

Founded in 1925, Rentokil Initial is a U.K.-based global provider of pest control, commercial hygiene and property care services. The company primarily operates in Europe and North America and recorded over £2.8 billion ($3.7 billion USD) of revenue in 2020.

In 2008, when current CEO Andy Ransom joined Rentokil, the company began a significant transformation. Less-attractive segments were shed, and proceeds were focused into the higher-margin Pest Control business. Most recently, Rentokil announced a $6.7 billion acquisition of Terminix, a leading residential and commercial pest control services provider in the U.S. The merger is expected to close in the second half of 2022, and we believe the financial and strategic rationales to be sound. The proforma entity will be the largest pest control company in North America, the world's largest pest control market, and establishes the company as the leading global pest control company.

As a result, Rentokil will derive the vast majority of revenue from its Pest Control (~75% of sales) and Hygiene (~20%) segments. Pest Control provides services that protect customers from pest infestations (e.g., bedbugs, roaches, mice, termites), while the Hygiene segment, through its Initial brand, is one of the largest providers of commercial bathroom products and services in the industry. These businesses provide critical services that protect the health and well-being of people, as well as the reputation of customers' brands.

### *High-Quality Business*

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

- Global scale, with operations in more than 80 countries and well-recognized global (and local) brands. Rentokil is one of the largest companies in the pest control industry, with number one or two positions in many of the geographies where it competes;
- Significant exposure to stable, consistent businesses that can provide high recurring revenues (e.g., ~85% retention rates); and
- Strong profitability profile coupled with low capital intensity, which has resulted in a consistently high ROIC (Return on Invested Capital).

### *Attractive Valuation*

Given the company's stability, return profile and future opportunities, we believe Rentokil's current stock price is offered at a discount to our estimate of the company's intrinsic value. In addition, we believe Rentokil's normalized operating margins are several hundred basis points higher than current levels, and that margins can be increased in part due to the catalysts noted below.

### *Compelling Catalysts*

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

- Margin improvements, particularly in the large and growing North American Pest Control business, as scale is increased, acquisitions such as that of Terminix are integrated, further in-market densification is achieved and cost-reducing technology is increasingly leveraged;
- Share gains through organic efforts and opportunistic acquisitions as the pest control industry continues to consolidate; and
- Continued paring of non-core businesses and increased focus on its core Pest Control and Hygiene businesses can result in a higher-returning and more optimal FREE cash flow-generating business model.

## Conclusion

As we turn the page on another year, we are reminded of the fleeting nature of headline news. Our focus is not on factors that will change in the coming months, but rather on the fundamentals of businesses that may persist for years.

Rather than attempting the impossible task of predicting the unpredictable, we remain steadfast in abiding by our investment philosophy and process that have been in place for nearly 25 years. By utilizing a long-term approach and identifying what we perceive to be high-quality businesses, trading at discounts to our estimates of their intrinsic value, that possess catalysts within management's control, we believe we can withstand short-term swings and add lasting value for our clients.

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

Performance Update December 31, 2021

| Total Return | 4Q21 | YTD | 1 Year | 3 Years | 5 Years | 7 Years | Since Inception (3/30/12) | Gross/Net Expense Ratio |
|---|---|---|---|---|---|---|---|---|
| ARSOX Class I | 6.34% | 19.54% | 19.54% | 21.17% | 13.16% | 10.93% | 8.99% | 1.07%/0.80% |
| MSCI ACWI Index (Net) | 6.68% | 18.54% | 18.54% | 20.36% | 14.39% | 10.89% | 10.88% | N/A |
| MSCI World Index (Net) | 7.77% | 21.82% | 21.82% | 21.68% | 15.02% | 11.52% | 11.77% | 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 25 emerging markets countries. With approximately 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 25 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 25 emerging markets countries.
- 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 Emerging Markets Index captures large and mid cap representation across 25 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 250 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 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.

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 December 31, 2021, the 10 largest holdings in the Fund and their weights as a percent of total net assets were: Microsoft Corp., 4.46%; Martin Marietta Materials, Inc., 4.08%; Danaher Corp., 3.93%; Lennar Corp., 3.67%; Sony Group Corp., 3.35%; Microchip Technology, Inc., 3.35%; Adobe, Inc., 3.11%; Nemetschek, SE, 3.04%; Samsung Electronics, 2.92%; Qualcomm, Inc., 2.71%.

**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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