ARISTOTLE FUNDS

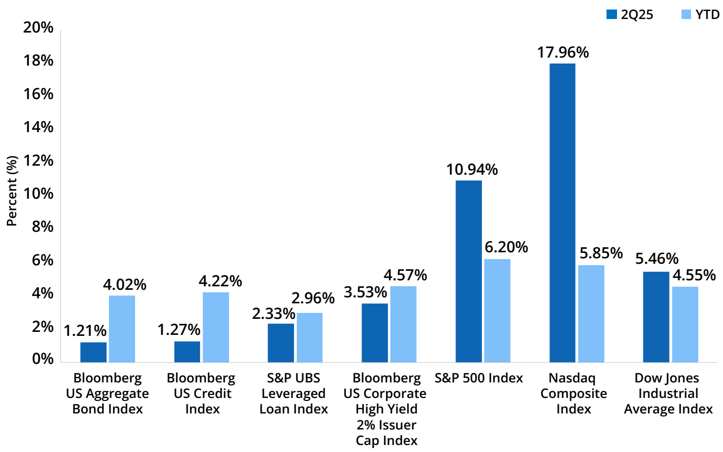
# ARISTOTLE CORE INCOME FUND COMMENTARY

JUNE 30, 2025

**SUB-ADVISED BY ARISTOTLE PACIFIC CAPITAL, LLC**

| Class A | Class C | Class I-2 |
|---|---|---|
| **PLIAX** | **PLNCX** | **PLIDX** |

**2Q25 Index Total Returns**




| Index | 2Q25 | YTD |
|---|---|---|
| Bloomberg US Aggregate Bond Index | 1.21% | 4.02% |
| Bloomberg US Credit Index | 1.27% | 4.22% |
| S&P UBS Leveraged Loan Index | 2.33% | 2.96% |
| Bloomberg US Corporate High Yield 2% Issuer Cap Index | 3.53% | 4.57% |
| S&P 500 Index | 10.94% | 6.20% |
| Nasdaq Composite Index | 17.96% | 5.85% |
| Dow Jones Industrial Average Index | 5.46% | 4.55% |

Source: Bloomberg as of 6/30/25.

## Market Review

U.S. equity and fixed-income markets ended the second quarter higher despite bookended macro events, beginning with tariffs and ending with the war between Israel and Iran. Domestic equity indices ended the quarter higher, while performance favored intermediate maturities and lower-quality parts of the bond market.

- Markets were caught in a downdraft in early April as more hawkish-than-expected tariffs caught investors off guard. While the sell-off was sharp for equities and credit, positive risk sentiment returned following the low on April 9 as the administration temporarily paused higher reciprocal tariffs for countries aside from China and announced an agreement with the United Kingdom. A second bout of macro volatility erupted in mid-June as Israel conducted preemptive bombings on Iran's nuclear program followed by U.S. strikes. The impact from the 12-day war was short-lived, however, as the oil market declined 8.9% during the quarter (as measured by the West Texas Intermediate or WTI benchmark).
- The Federal Reserve refrained from cutting interest rates in the second quarter, leaving the fed funds rate between 4.25% to 4.50%, but the central bank highlighted further uncertainty in their outlook. Fed messaging projected two cuts in 2025, a continuation of their wait-and-see approach as the knock-on effects of the trade war on economic growth, inflation, and employment remain to be seen.
- Bonds rallied during the quarter with spread compression the primary driver of performance while the contribution from interest-rate exposure was mixed. The U.S. Treasury curve steepened, as yields for intermediate maturities declined and the yield on the 30-year note rose 19 basis points (bps). The yield on the 30-year note briefly crested 5% in May, before drifting lower to 4.86% to end the quarter.

Credit markets generated positive total returns in the second quarter, with below investment-grade securities leading the rally back from the tariff-induced lows seen in early April. Credit spreads for high-yield corporates and loans materially tightened during the period, while investment-grade performance was positive as spread tightening was partially offset by rate exposure.

One theme of note during the second quarter was the resilience of the U.S. economy and consumer. Non-farm payrolls surprised to the upside in May and June, beating consensus expectations with growth of 144,000 and 147,000, respectively, while the unemployment rate fell a tenth of a percent in June to 4.1%. The personal-savings rate as a percentage of disposable income jumped in April to 4.9% in light of economic uncertainty but eased down to 4.5% as positive risk sentiment returned in May. Further supporting the resilience theme was forward-looking data such as inflation expectations and consumer sentiment, which improved in the second quarter. The University of Michigan Consumer Sentiment Survey, which measures confidence and future expectations, sharply rebounded in June from recent lows in April and May. One factor driving the improvement was the decline in consumer inflation expectations for the year ahead, which fell from 6.6% in May to 5.0% in June as concerns about tariff induced inflation abated.

With no rate cuts in the first half of 2025, the Federal Reserve maintained a wait-and-see posture toward future easing. At the Fed's June Federal Open Market Committee (FOMC) meeting, participants unanimously voted to keep the target rate unchanged between 4.25% to 4.50%, with two cuts still the most likely trajectory for 2025. While news from the Fed was fairly muted in the second quarter, the same could not be said regarding the institution's independence and the credit worthiness of the U.S. Viewing rates as too high, President Trump floated the idea of firing Chairman Powell and fueled speculation of a replacement selection as early as this summer (Powell's term runs until May 2026). The nation's credit outlook is less sanguine as well, as Moody's stripped the U.S. of its last triple A rating, downgrading the country to Aa1 due to increased government debt and interest payments that are higher than similarly rated sovereigns. A potential casualty of the downgrade and trade war volatility was the U.S. dollar, which declined 7% in the second quarter and over 10% since the start of the year.

## Asset Class Overview

Investment-grade intermediate bonds had a mixed quarter due to interest-rate movements but ended the period higher, as performance favored intermediate maturities and lower-quality parts of the bond market. Despite the tariff-induced market volatility, investment-grade corporate bonds remained on solid footing, supported by positive fundamentals and technicals. The overall credit quality remained strong, with few downgrades and a stable default rate. While spreads appear tight on a historical basis, this is countered by high yields relative to the past 10 years. The yield-to-worst of the Bloomberg US Aggregate Bond Index (Agg) tightened over the quarter by 8 basis points to end at 4.51%, whereas spreads tightened 3 basis point, ending with an option-adjusted spread (OAS) of 32 basis points. The total return for investment-grade bonds (represented by the Bloomberg US Aggregate Bond Index) in the second quarter was 1.21%, while the average price was $92.71, up from $92.30 at the end of March.

| | 2Q25 Return | OAS | OAS to Start Year | YTW | YTW to Start Year | Duration | Duration to Start Year |
|---|---|---|---|---|---|---|---|
| US Aggregate Index | 1.21% | 32 | 33.4 | 4.51% | 4.91% | 6.06 | 6.14 |
| AAA | 1.62% | 33 | 33.6 | 4.23% | 4.73% | 4.23 | 4.26 |
| AA | 0.97% | 14 | 16.7 | 4.36% | 4.76% | 5.92 | 6.01 |
| A | 1.80% | 72 | 69.9 | 4.87% | 5.23% | 6.80 | 6.83 |
| BBB | 2.00% | 105 | 100.1 | 5.21% | 5.54% | 6.73 | 6.79 |

Source: Bloomberg as of 6/30/25.

High-yield bond markets had a remarkable second quarter as trade threats and recessions concerns were quickly overshadowed by the return of investor enthusiasm. The Bloomberg U.S. High Yield 2% Issuer Capped Bond Index returned 3.53% in the second quarter as risk appetite returned in May and June. Option-adjusted spreads (OAS) compressed 57 basis points and largely retraced the move higher from the first quarter. Yields ended the quarter at 7.06%, down 67 basis points from the end of March. Yet, the asset class remained well supported from a corporate-fundamental perspective, and default activity remained low. According to J.P. Morgan, the 12-month par-weighted U.S. high-yield bond default rate (including distressed exchanges) ended the quarter at 1.41%. Despite the new-issue market freezing for the first 15 business days of April due to trade war volatility, high-yield companies were still able to issue $74.6 billion in new bonds during the second quarter across 85 tranches.

| | 2Q25 Return | OAS | OAS to Start Year | YTW | YTW to Start Year | Duration | Duration to Start Year |
|---|---|---|---|---|---|---|---|
| US HY 2% Issuer Cap Index | 3.52% | 289 | 281 | 7.05% | 7.43% | 2.81 | 3.11 |
| BB | 3.44% | 171 | 174 | 5.88% | 6.35% | 3.05 | 3.32 |
| B | 3.62% | 280 | 271 | 6.99% | 7.37% | 2.55 | 2.86 |
| CCC | 4.01% | 677 | 548 | 10.89% | 10.06% | 2.56 | 2.94 |
| BBB | 2.00% | 105 | 100.1 | 5.21% | 5.54% | 6.73 | 6.79 |

Source: Bloomberg as of 6/30/25.

The floating-rate loan market initially struggled in the April risk-off environment but recovered as market sentiment improved as the quarter progressed. The S&P UBS Leveraged Loan Index returned 2.33% during the quarter, as loans were able to recoup the tariff induced 2-point drop in prices in early

April. The 4-year discounted spread for the index fell 24 basis points to end at 207 basis points, while the effective yield declined 8 basis points to 7.81%. Loan repricings ground to a halt in April but rebounded with risk appetite, representing 43% of activity in June but well below the recent high of 79% in December 2024. The swing in risk sentiment can also be seen in the number of loans that traded above par, with single B loans climbing from 9% above par at the end of the first quarter to 43% at June month-end. Retail loan mutual fund flows were -$9.4 billion in the second quarter due to large outflows in April, but CLOs remained an important buyer with $51.3 billion of new issuance during the period.

| | 2Q25 Return | 3Yr DM | 3Yr DM to Start Year | 3Yr Life Yield | 3Yr Life Yield to Start Year |
|---|---|---|---|---|---|
| S&P UBS Leveraged Loan Index | 2.33% | 459 | 475 | 7.98% | 8.79% |
| BB | 2.15% | 260 | 261 | 6.00% | 6.65% |
| B | 2.45% | 432 | 432 | 7.71% | 8.36% |
| CCC | 2.64% | 1298 | 1406 | 16.25% | 18.04% |

Source: Bloomberg as of 6/30/25.

## Fund Performance

For the quarter, the Aristotle Core Income Fund (Class I-2) returned 1.62% versus the Bloomberg US Aggregate Bond Index return of 1.21%.

## Portfolio Review

During the quarter, the fund held to its defensively tilted approach overall as continued uncertainty remained at the forefront of the team's mind. Over the quarter, markets experienced continued rate volatility, the impact of U.S. implementation of tariffs worldwide and heightened Middle East instability—to name a few issues. Risk markets for the most part have been able to move past the fact that the domestic and global stage remains unsteady. However, while we believe cautious positioning remains prudent, the fund maintains spread in excess of its index along with a yield advantage. This is achieved via tactical positioning and seeking to identify and capture relative value across the credit spectrum. Specific exposures within the floating-rate bank loan, non-agency mortgage, asset-backed securities (ABS), and investment-grade corporate bonds have been instrumental in allowing us to achieve our result. We continue to find value in higher-quality investment-grade-rated corporate bonds, higher-rated CLO debt offerings, and bank loans (which we reduced over the quarter, but the carry factor is notable). Within the securitized sectors, we believe our focus on deep and comprehensive underwriting and intentional allocation toward high-quality top-tier issuers gives us confidence in our exposures amid some concern over increased pressures on certain consumer demographics. We continue to seek and find value in the agency and non-agency securitized asset classes for not only offering spread and yield advantages over traditional credit, but as a diversifier to traditional credit. We remain in favor of industries such as U.S. global systemically important banks (G-SIBs), utilities and certain REITs. Additionally, we are holding a cautious tone toward metals and mining, retail, and office REITS, as well as specific consumer cyclical sectors due to unknown downstream effects of recent and soon-to-be-implemented tariffs. The ending portfolio duration for the quarter was 6.04, a slight increase from the previous quarter end mark of 5.93 years and now essentially in-line with benchmark duration.

## Fund Allocation

At quarter-end, the fund's allocation was as follows: investment-grade corporate bonds (38.7%), bank loans (8.88%), high-yield bonds (2.5%), government bonds (23.9%), ABS (9.2%) and agency/non-agency MBS (15.7%). The fund's exposure to government bonds, agency mortgages, and asset-backed securities decreased by approximately 1%, respectively. The fund materially reduced its bank-loan exposure by over 3% while increasing its investment-grade corporates exposure by 5%. Additionally, the fund increased its non-agency mortgage exposure by slightly over 1%. The fund remained well invested with cash at quarter-end of 0.95%.

## Contributors/Detractors

Rate volatility continued over the quarter (though largely range bound), and credit spreads rebounded after seeing initial

***Past Performance is not indicative of future results****. Returns reflect reinvestment of dividends/distribution. 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 quoted. Performance current to the most recent month end may be found at www.AristotleFunds.com/performance or by calling 1-844-274-7885. The investment advisor has contractually agreed to limit certain expenses through 7/31/25. Please see the current prospectus for detailed information.*

widening in the quarter. On an asset-class basis, investment-grade corporates, bank loans, and agency mortgages were material contributors to the fund's total return and outperformed the benchmark. As in previous quarters, the fund's allocation to bank loans and CLOs provided a buffer amid continued rate volatility. The fund's government exposure was also additive to the overall return. The fund's exposure to longer-dated U.S. government bonds was a detractor from performance. The fund's barbell approach in duration management aided in its outperformance over the quarter as well.

## Manager Outlook

Rising concerns around the economy and credit fundamentals were priced into markets at the beginning of the quarter as large tariff announcements hit the tape. As these fears subsided, risk markets improved over the course of the quarter. Corporate fundamentals remain in good shape for many, but swings in economic expectations have strained some lower-quality corporate borrowers. As tariff uncertainty subsides, we expect management teams to improve outlooks or at the least become more confident in their fundamental visibility. The consumer fundamentals across all income cohorts continues to soften, and the consumer has become more dependent on borrowing to maintain spending. Higher costs, slightly higher jobless numbers, and higher uses of leverage have begun to result in more delinquencies and defaults in asset-backed structures. These have not risen to super concerning levels though. Watching all of this is the Fed, as it tries to determine which path to take policy. The central bank is looking to determine which is the bigger threat to stability: lower growth and potentially rising unemployment or higher inflation (hopefully not both!).

While we have had robust issuance in many fixed-income markets already this year, higher all-in yields have been supportive to the demand side of this issuance. Institutional and retail investors have been attracted to fixed-income markets, especially in credit products like corporates, asset-backed securities (ABS) and mortgage-backed securities (MBS). With the market rebounding and spread levels back to historically tight levels, we may see corporate-bond issuance pick up. Use of proceeds could be to pull forward refinancings or for less debt-friendly activities such as dividends, share buybacks or leveraging transactions. These pressures usually grow as lower growth outlooks meet cheaper financing.

As of quarter-end, the option-adjusted spread on the investment-grade corporate index sat at 83 basis points (just 3 basis points wider this year). We did see spreads move close to 120 basis in April post-tariff announcements, a level that we believed was adequately compensating investors for a small potential for recession. Spreads have moved lower since and once again sit at levels that leave the asset class at risk for fundamental outlook corrections. Corporate yields at quarter-end were 4.99%, which is lower by over 30 basis points since year-end. The move lower in yields has been a positive for total returns, as the corporate index is up 4.17% year-to-end at quarter-end. Solid total-return potential exists if the if the Fed can return to its rate-cutting bias.

The fund's flexibility to invest across the credit spectrum allows it to seek value in the most attractive areas of the liquid-credit market. While we believe corporate management teams are able to navigate through tariff noise, we are finding relative value in other parts of the credit markets where spreads look slightly more attractive. We feel we are positioned more defensively, while at the same time offering attractive yields through a higher allocation to high-quality areas of the securitized market. These areas include top-of-the-cap structure in CLOs, ABS, and some MBS. We also have a higher allocation to Treasuries. On an industry basis, we still like the large U.S. banks (including lower in the capital structure of bank paper), select Yankee banks and utilities. We continue to see stress in media/telco, drug retail, and chemical names. While volatility has subsided, we feel well-positioned should we see a pick-up in fundamental concerns being priced into the market. The fund's flexibility continues to enable us to navigate the evolving environment and capitalize on new opportunities.

## Performance as of 6/30/25

| | Total Returns (%) | | Annualized Total Returns (%) | | | | |
|---|---|---|---|---|---|---|---|
| | 3-Month | YTD | 1-Year | 3-Year | 5-Year | 10-Year | Since Fund Inception |
| Class A-NAV | 1.55 | 3.66 | 5.82 | 4.28 | 0.83 | 2.46 | 3.30 |
| Class A-MOP | -2.79 | -0.71 | 1.37 | 2.78 | -0.04 | 2.01 | 2.99 |
| Class I-2 | 1.62 | 3.80 | 6.12 | 4.61 | 1.13 | 2.76 | 3.58 |
| Bloomberg US Aggregate Bond Index | 1.21 | 4.02 | 6.08 | 2.55 | -0.73 | 1.76 | 2.29 |

| Top 10 Issuers | Weight (%) |
|---|---|
| Government Of The United States Of America | 23.93 |
| FNMA | 6.64 |
| JPMorgan Chase & Co. | 1.89 |
| FHLMC | 1.74 |
| GNMA | 1.41 |
| SLM Corp | 1.40 |
| Bank Of America Corp | 1.31 |
| Goldman Sachs Group, Inc. | 1.21 |
| Gallant Capital Partners, LLC | 1.14 |
| Wells Fargo & Company | 1.05 |
| **Total** | **41.70** |

***Past Performance is not indicative of future results.*** *Returns reflect reinvestment of dividends/distribution. 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 quoted. Performance current to the most recent month end may be found at www.AristotleFunds.com/performance or by calling 1-844-274-7885. The investment advisor has contractually agreed to limit certain expenses through 7/31/25. Please see the current prospectus for detailed information.*

*Class A shares at maximum offering price (MOP) reflect the deduction of the up-front 4.25% sales load. Performance reflects any applicable fee waivers and expense reimbursements. If a sales charge had been deducted, the results would have been lower.*

*Gross/Net annual operating expenses for Class A are 0.86%/0.85%, inception date 12/31/10. Gross/Net annual operating expenses for Class I-2 are 0.56%/0.55%, inception date 6/29/12.*

Indexes are unmanaged and cannot be invested in directly. Further, they hold no cash and incur no expenses. All share classes may not be available at all firms and not all investors may be eligible for all share classes.

## Definitions

One **basis point** equals 0.01%.

The **Bloomberg 1–3 Year US Government/Credit Bond Index** is a performance benchmark of U.S. investment-grade government and corporate bonds with maturities of one to three years.

The **Bloomberg Asset-Backed Securities (ABS) Index** is the ABS component of the Bloomberg Barclays U.S. Aggregate Index that measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

The **Bloomberg Short Treasury Total Return Index** is a performance benchmark of all U.S. Treasuries that have a remaining maturity between one and twelve months.

The **Bloomberg US Aggregate Bond Index** is composed of investment-grade U.S. government bonds, investment-grade corporate bonds, mortgage pass-through securities, and asset-backed securities, and is commonly used to track the performance of U.S. investment-grade bonds.

The **Bloomberg US Corporate Bond Index** includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements.

The **Bloomberg US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market.

The **Bloomberg US Credit Index** measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes non-US agencies, sovereigns, supranationals and local authorities.

The **Bloomberg US High-Yield 2% Issuer Capped Bond Index** measures the performance of high-yield bonds with a 2% maximum allocation to any one issuer.

The **Dow Jones Industrial Average index (DJIA)** tracks the share price of the top 30 large, publicly owned U.S. companies which is often used as an indicator of the overall condition of the U.S. stock market.

**Duration** is often used to measure a bond's or fund's sensitivity to interest rates. The longer a fund's duration, the more sensitive it is to interest-rate risk. The shorter a fund's duration, the less sensitive it is to interest-rate risk.

The **Nasdaq Composite** is a stock market index that consists of the stocks that are listed on the Nasdaq stock exchange.

**Option adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return.

The **S&P 500 index** is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the U.S. stock market.

The **S&P UBS Leveraged Loan Index** is designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market.

**Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting.

Investing involves risk. Principal loss is possible. The Fund is subject to liquidity risk (the risk that an investment may be difficult to purchase, value, and sell particularly during adverse market conditions, because there is a limited market for the investment, or there are restrictions on resale) and credit risk (the risk an issuer may be unable or unwilling to meet its financial obligations, risking default). High-yield/high-risk bonds ("junk bonds") and floating-rate loans (usually rated below investment grade) have greater risk of default than higher-rated securities/higher-quality bonds that may have a lower yield. The Fund is also subject to foreign-markets risk.

This commentary represents the views of the portfolio managers at Aristotle Pacific Capital, LLC as of the publication date and are presented for informational purposes only. These views should not be construed as investment advice, an endorsement of any security, mutual fund, sector or index, or to predict performance of any investment. Any forward-looking statements are not guaranteed. All material is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. The opinions expressed herein are subject to change without notice as market and other conditions warrant. Sector names in this commentary are provided by the Fund's portfolio managers and could be different if provided by a third party.

***Investors should consider a fund's investment goal, risk, charges, and expenses carefully before investing. The prospectus contains this and other information about the fund and can be obtained at www.AristotleFunds.com. It should be read carefully before investing.***

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**Diversification does not assure a profit, nor does it protect against a loss in a declining market.**





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