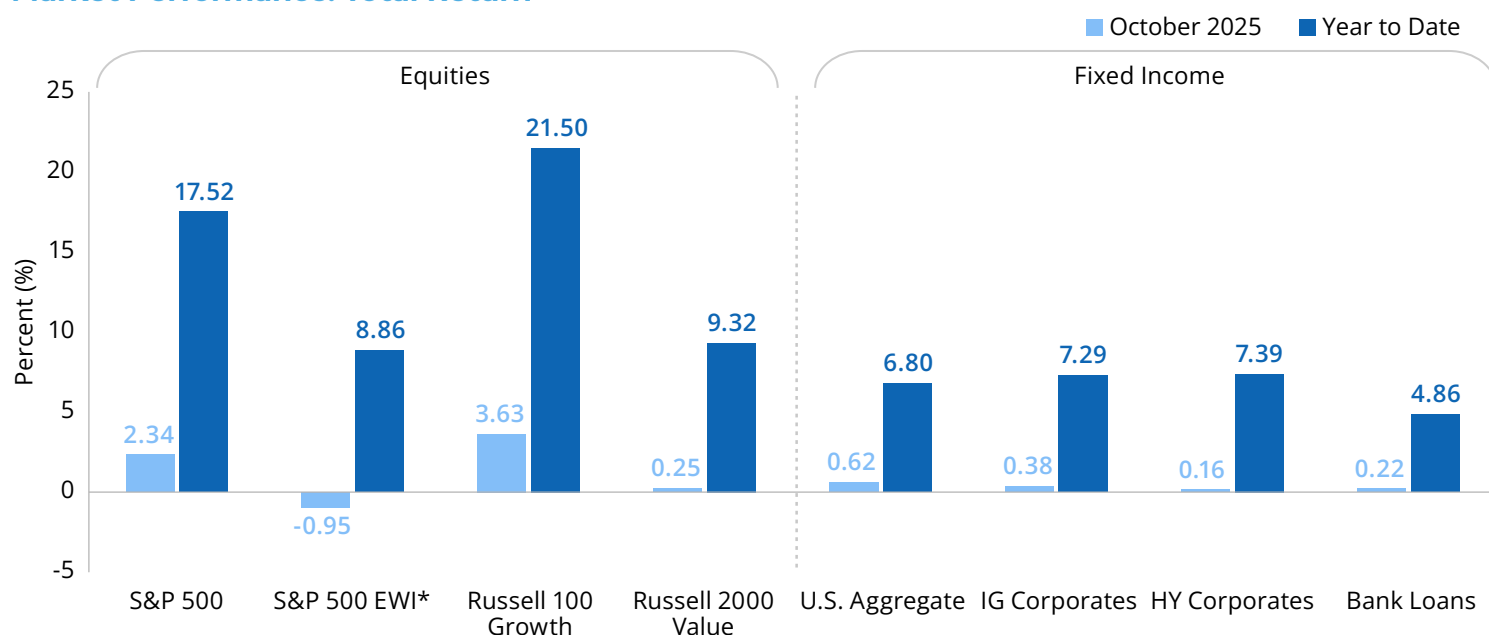


CREDIT CRACKS: SIGNALS BENEATH THE SURFACE

Plus, Aristotle Pacific CEO Dominic Nolan explores opportunities in fixed income, the outlook for the Fed, and the state of the economy.

We recently sat down with Dominic Nolan, CEO of Aristotle Pacific Capital, to get his analysis of credit markets, the likelihood of further rate cuts, and opportunities in fixed income. We conclude with a speed round of questions and answers, and a personal reflection.

Market Performance: Total Return



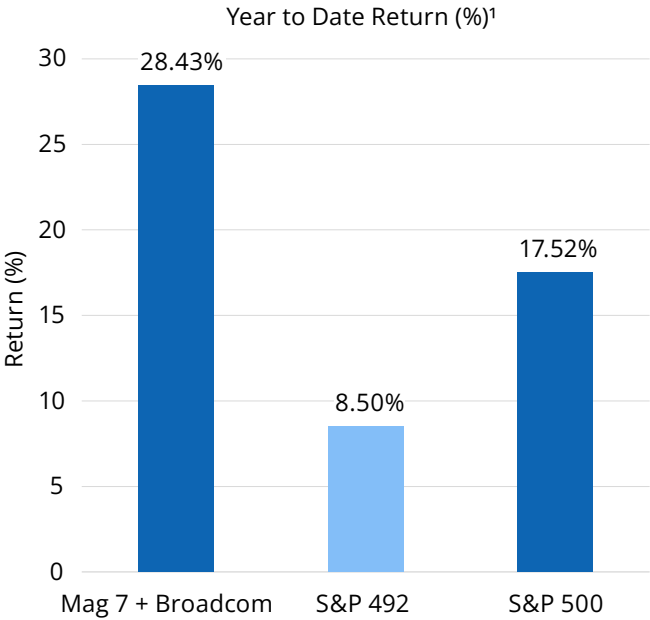
Past performance does not guarantee future results. Source: Morningstar as of 10/31/25. *Equal Weight Index HY Corporates represented by Bloomberg US Corporate High Yield Index, Bank Loans represented by J.P. Morgan Leveraged Loan Index, IG Corporates represented by Bloomberg US Corporate Index, U.S. Aggregate represented by Bloomberg US Aggregate Bond Index.

October was another strong month for stocks and bonds. What happened?

We are seeing a concentrated growth rally in equities. The S&P 500 Index rose 2.3% in October and 17.5% for the year, while the S&P 500 Equal Weight Index declined 1% last month and is up about half as much, 8.9%, for the year. The Russell 1000 Growth Index outperformed both, returning 3.6% in October and 21.5% for the year.

Meanwhile, bond market returns hovered around coupon rates. The Bloomberg US Aggregate Bond Index rose 0.6% in October and 6.8% for the year. Investment-grade corporates led credit sectors again in October, returning 0.4%, while high-yield corporates and bank loans both returned about 0.2%. For the year, those sectors are up 7.3%, 7.4%, and 4.9%, respectively.

Mag 7 + 1: The Eighth Wonder – Broadcom



	Year-to-Date Average Weight (%)	October 2025 1-Month Return (%)	Year-to-Date Total Return (%)
Nvidia Corporation	6.91	8.53	50.82
Microsoft Corporation	6.58	-0.03	23.52
Apple Inc.	6.50	6.18	8.34
Amazon.Com, Inc.	3.93	11.23	11.32
Alphabet Inc.	3.91	15.69	48.78
Meta Platforms, Inc.	2.84	-11.71	10.99
Broadcom Inc.	2.30	12.04	60.58
Tesla, Inc.	1.83	2.66	13.05
Contribution to S&P 500 Index Year-to-Date 2025 Performance ¹			
Magnificent 7 + Broadcom			9.62%
Rest of the Companies in S&P 500 Index			7.90%

Past performance does not guarantee future results. Source: FactSet 1/1/25–10/31/25, MAG 7 Companies Sorted By Average Weight
¹Mag 7+1 and S&P 492 return reflects average return while the S&P 500 is the weighted average return. A full list of each fund's holdings can be found at www.aristotlefunds.com/resources/prospectuses-reports and are subject to change at anytime. Any discussion of individual companies in this presentation is not intended as a recommendation to buy, hold or sell securities issued by those companies.

Bottom line: Markets are continuing to experience a healthy year with a favorable economic backdrop. Corporate earnings reflect this, with per-share-profit growth trending above 10% for S&P 500 companies. In addition, the Federal Reserve (Fed) has resumed easing, and I think there's hope for trade progress with China.

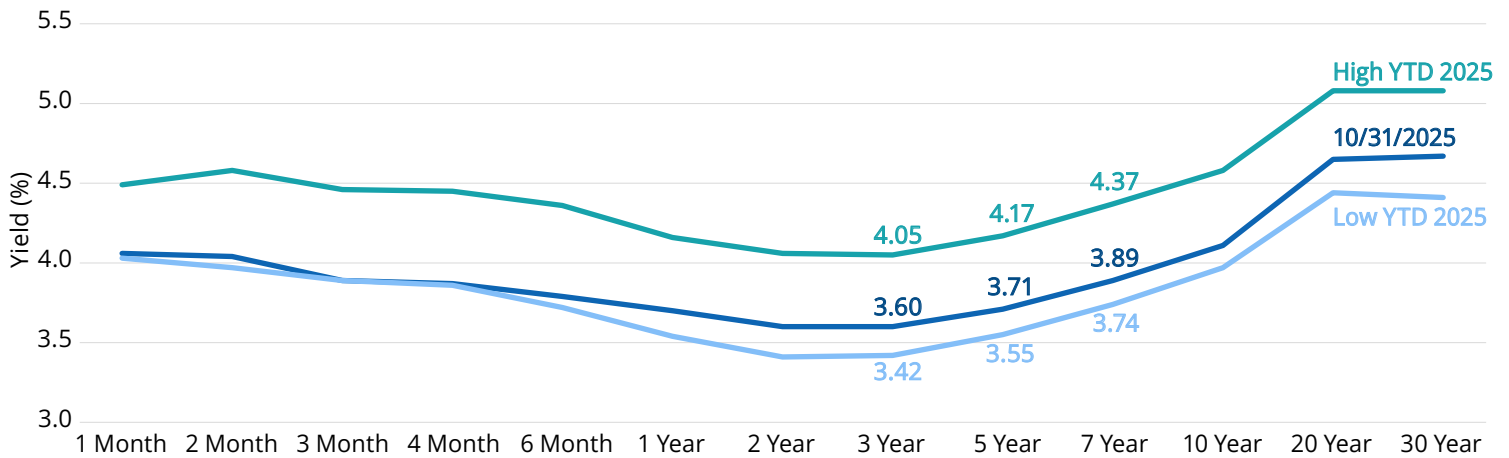
What was notable about the Magnificent 7?

Most of the Mag 7 — and Broadcom, which we are keeping an eye on — performed well in October, while Microsoft was essentially flat and Meta declined 11.7% for the month, though it's still up for the year. Investors are reacting to Meta's guidance that capital expenditures (capex) will be "notably

larger" in 2026 versus 2025. For context, the company recently sold \$30 billion of bonds, the largest high-grade US note sale since 2023, to help fund AI infrastructure development, and said its capex would be around \$72 billion this year. Meta's revenue was \$165 billion in 2024, and while it likely will be higher this year and next year, it's a monstrous commitment to have capex be in the ballpark of half a company's revenue.

One final observation is that Nvidia's stock has returned more than 50% this year, as of the end of October, and its market capitalization has approached \$5 trillion, which is even more incredible when one considers it was \$4 trillion just a few months ago.

U.S. Treasury Yield Curve: Monetary Policy and Market Response



Past performance does not guarantee future results. Source: U.S. Treasury Daily Par Yield Curve Rates, as of 10/31/25.

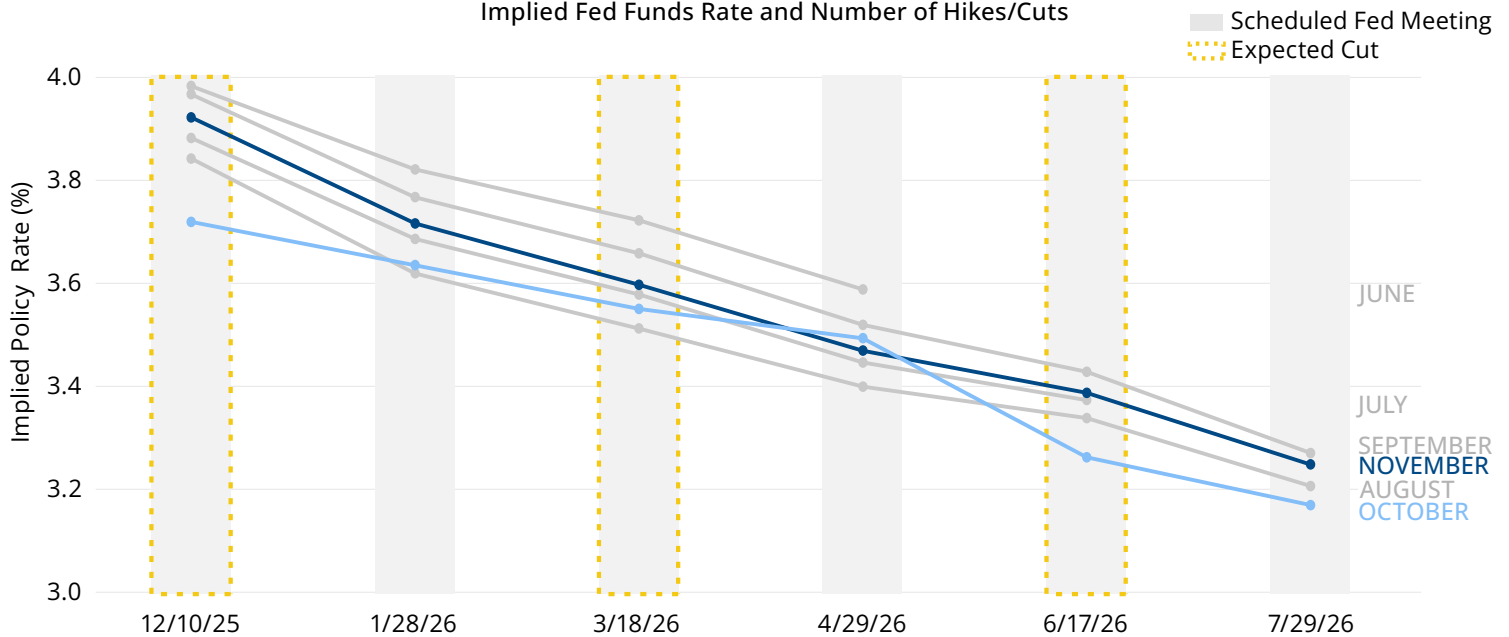
U.S. Treasury yields fell at the front and back end of the curve in October. What drove the move?

The Fed exerts direct control over the very front-end of the curve and only influences the long end. As of the end of October, the curve was downward slopping up to about two years to maturity, then flat, and then upward slopping from about three years to about 20 years, when it flattened again. The downward trajectory of the front end reflects investor anticipation of further rate cuts. In the

middle of the curve, where the Fed begins to influence more than control, bonds were yielding about 3.6% at the end of October and a bit further out at the 10-year maturity the yield was a little above 4%, where it has been for months. Indeed, overall rates were close to flat in October, and the belly of the curve is normalizing as the Fed cuts rates. There is greater uncertainty around the long end of the curve. On days the Fed has cut rates, long-term yields have risen. Still, overall yields remain range bound.

Fed Futures: One More Cut Expected in 2025 and More Coming

Implied Fed Funds Rate and Number of Hikes/Cuts



Source: Bloomberg, as of 11/3/25.

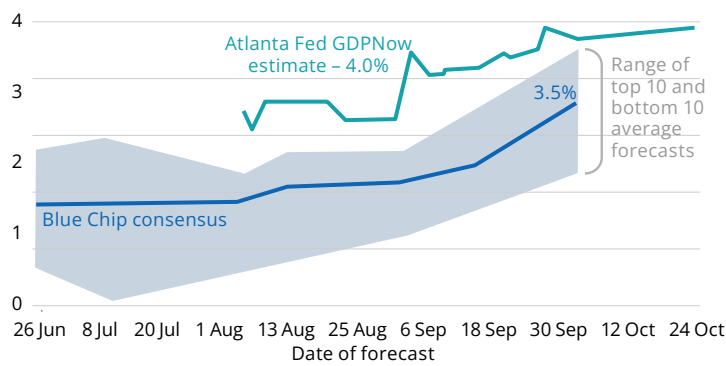
The Federal Open Market Committee (FOMC) cut the fed funds rate by 25 basis points in October and announced quantitative tightening (QT) will end on December 1st. Which of the two announcements is more impactful, and where do we go from here?

I think the QT shift has greater implications, since it's new and should help lower long-term rates. Of

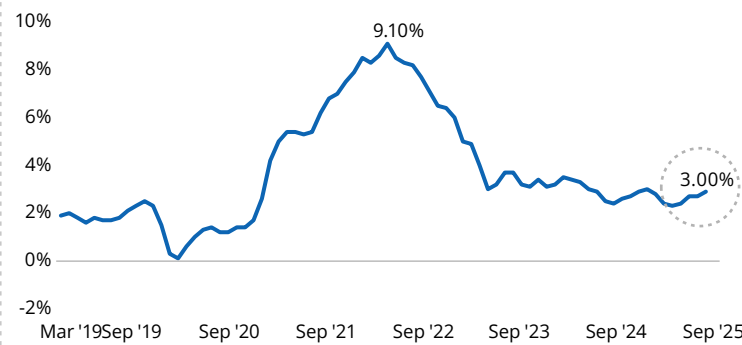
course, both policy moves matter. While the FOMC has been lowering rates since 2024, the federal funds rate remains elevated at the current 3.75% to 4.00% range. Investors expect the Fed to cut about three more times over the next eight months or so, bringing the target range to 3.00% to 3.25%, and thus short-term rates would normalize around 3%. Naturally, this could all change if inflation or unemployment shift unexpectedly.

Economic Dashboard: GDP, Inflation, Jobs, and Consumer Confidence

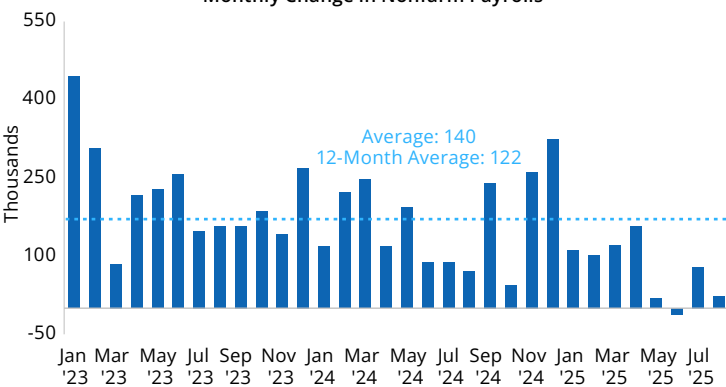
Evolution of Atlanta Fed's GDPNow Real GDP Estimate for 3Q 2025
Quarterly percent change (Seasonally Adjusted Annualized Rate)



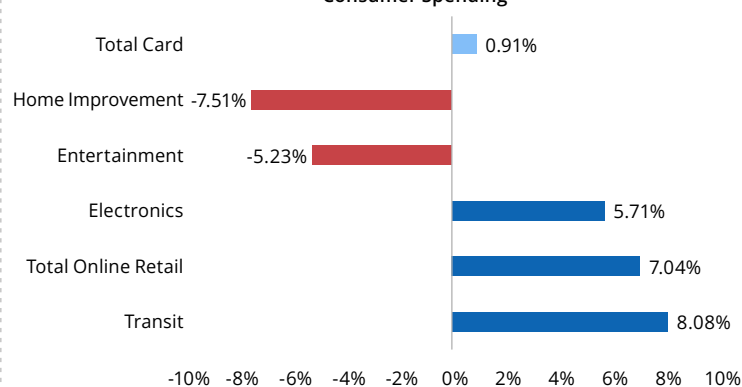
Consumer Price Index: 12-Month Percent Change
(Not Seasonally Adjusted)



Monthly Change in Nonfarm Payrolls



Consumer Spending



Sources: GDP – Blue Chip Economic Indicators and Blue Chip Financial Forecasts as of 11/3/25; CPI – U.S. Bureau of Labor Statistics as of 9/30/25; Payrolls – U.S. Bureau of Labor Statistics as of 8/31/25, most recent data available as of 11/3/25; Consumer Spending, Bank of American Consumer Spend as of 9/27/25–10/25/25.

What are your observations on the economy?

We see mixed signals in the data available. Signs of a strong economy include the Atlanta Fed's GDPNow model recently pegging third quarter growth at 4%. Also, as discussed here and in previous interviews, tech companies continue to aggressively build and power data centers, in part to avail themselves of generous tax depreciation. The robust capex acts as a near-term economic boost but is pulling investment forward. Meanwhile, the Consumer Price Index hit 3% in September on an annual basis and was close to that level in previous months, which is another sign of a healthy economy but a potential constraint on Fed cuts.

However, the employment data is signaling a softening economy. The Bureau of Labor Statistics recently said it had overestimated hiring for the 12 months ending in March by more than 900,000 jobs. Consumer spending, as measured by credit card data tracked by Bank of America, rose nearly 1% last month, though with big swings in categories. Consumers spent more on transit, electronics, and online retail purchases, while they decreased spending on home improvement and entertainment. I see those shifts as reflecting workers returning to the office and consumers making fewer discretionary purchases.

POLITICAL STANDOFF

- Democrats want to reverse the Medicaid cuts and an extension of Affordable Care Act
- Republicans want to pass a “clean” funding bill without health care changes



IMPACT FROM FAILURE

- Approximately 750,000 federal employees furloughed across agencies including TSA, FAA, BEA, and military personnel
- Delays in economic data reporting
- Flight delays and cancellations worsen as staffing shortages continue
- SNAP experienced first-ever shutdown, now resuming later than scheduled with benefits reduced by half

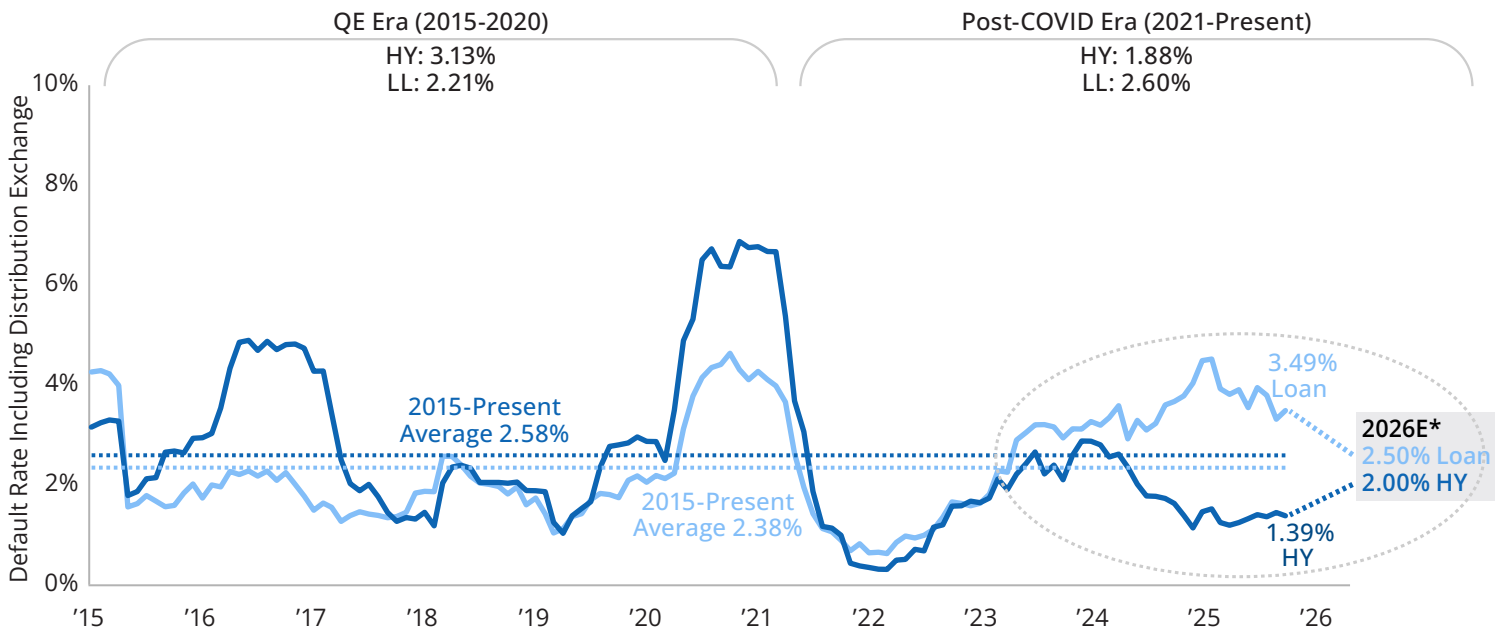
Source: As of 11/3/25, Reuters, NPR, USA TODAY.

Do you expect the government shutdown to have an economic impact?

Mostly, I believe it is non-political nonsense, and as taxpayers it should bother us. However, there are some ramifications. While one might expect the shutdown to be a drag on economic growth that motivates the Fed to cut rates, the opposite appears to be true for the Fed in the near term. Fed Chair

Jerome Powell has said if the shutdown delays the release of economic data, the central bank might have to delay action on rates rather than guess at the state of the economy. Also, in addition to federal employees furloughed or working without pay, the shutdown is directly affecting air travel. If it continues into the holidays, many more people are likely to see travel disruptions.

Credit Cracks: Loan Defaults Now Outpace Bond Defaults



Source: J.P. Morgan and Aristotle Pacific Capital as of 9/30/25. *2026E are as of 12/31/24.

Let's turn to our special topic. The sudden demise of First Brands and Tricolor in September has sparked debate about whether those bankruptcies were one-off events or are indicative of broader credit cracks. To begin our analysis, what is occurring with defaults, and what does it mean?

A comparison of defaults on high yield bonds and leveraged loans can be a useful starting point. From 2015 to 2020, mostly before the pandemic became a serious concern in the U.S., high yield bond defaults averaged 3.1%, while loan defaults averaged 2.2%. Post COVID, the relationship has flipped, with

leveraged loan defaults averaging 2.6% since 2021, and high yield bonds 1.9%. Also, we have seen high yield bonds trending up in credit quality, while leverage loans have been trending down.

So, what's driving all this? In private credit, which has been booming, most of the lending is done via leveraged loans, also known as bank loans or floating-rate loans due to their variable interest rates. With the insatiable demand to lend via private credit, loan covenants have been diluted. Also, since the Fed has not cut rates as much as anticipated, front-end costs are elevated. Together these factors have pushed leveraged loan defaults above high yield bond defaults, which is a sign of a weakening credit cycle, in our view.

Credit Cracks: Ten Largest Defaults/Distressed Transactions Year to Date

Date	Company	Bonds (\$mn)	Loans (\$mn)	Total (\$mn)	Industry	Action
25 Jun '25	Radiate Holdings	1,900.0	3,309.0	5,209.0	Cable and Satellite	Distressed exch.
29 Sep '25	First Brands	—	4,402.4	4,402.4	Automotive	Payment default
23 Jun '25	Quest Software	—	3,497.7	3,497.7	Technology	Distressed exch.
18 Aug '25	Saks Global Enterprises	2,148.8	—	2,148.8	Retail	Distressed exch.
22 Apr '25	Naked Juice (Tropicana)	—	1,742.2	1,742.2	Food and Beverages	Distressed exch.
17 Apr '25	Cision	294.0	1,435.2	1,729.2	Technology	Distressed exch.
15 May '25	At Home	1,021.7	579.0	1,600.7	Retail	Payment default
6 May '25	Weight Watchers Internat'l	500.0	945.0	1,445.0	Food and Beverages	Payment default
15 Jan '25	Exela Intermediate LLC	1,211.1	—	1,211.1	Technology	Payment default
31 Jan '25	Aimbridge Hospitality	—	1,143.5	1,143.5	Gaming and Leisure	Payment default
Total		7,075.6	17,054.0	24,129.6		
As a percent of total activity		66%	54%	57%		

Source: JPMorgan; PitchBook Data, Inc; Bloomberg Finance; S&P/IHS Markit.

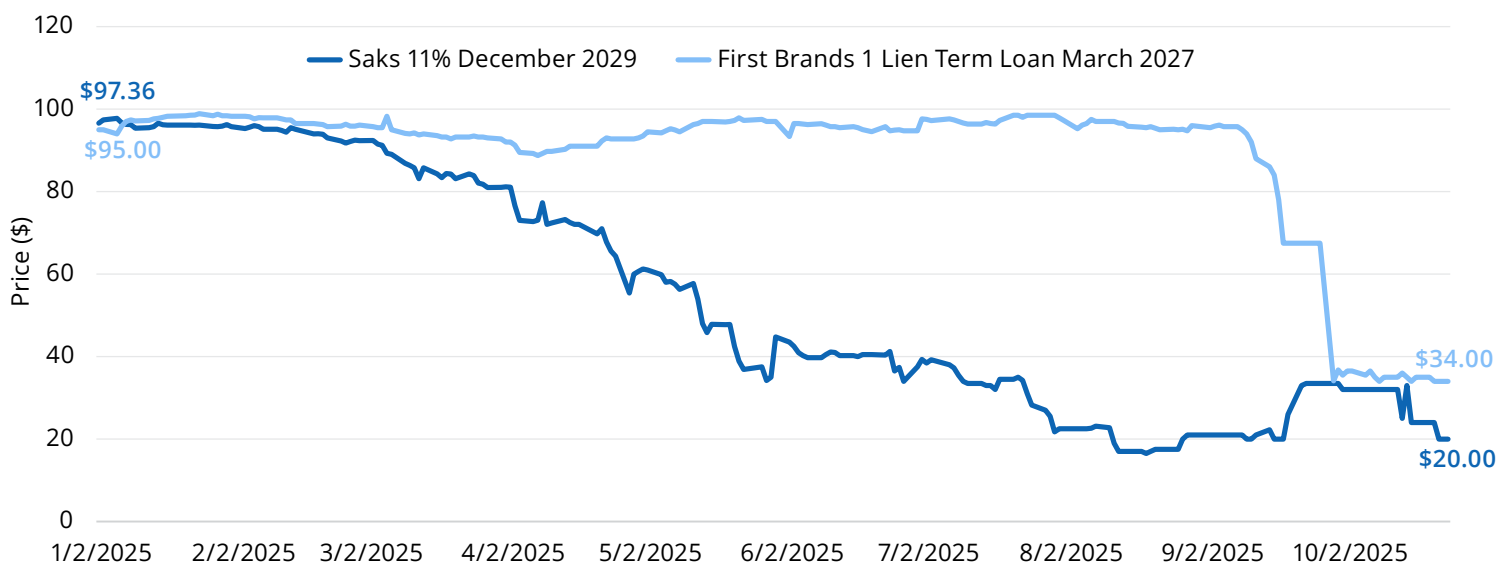
How do distressed exchanges fit into this picture, and how are they different from payment defaults?

We have been seeing substantial activity in distressed exchanges this year and understanding them is worthwhile. A payment default is straightforward: A borrower misses payment and is in default. Several things can happen in that event, including the creditor assuming ownership, working out a payment plan, or liquidating assets. However, prior to missing payment a borrower could approach a lender and request a distressed exchange, such as reducing the debt in exchange for

equity, or the borrower might receive relief via a lower interest rate or extended maturity.

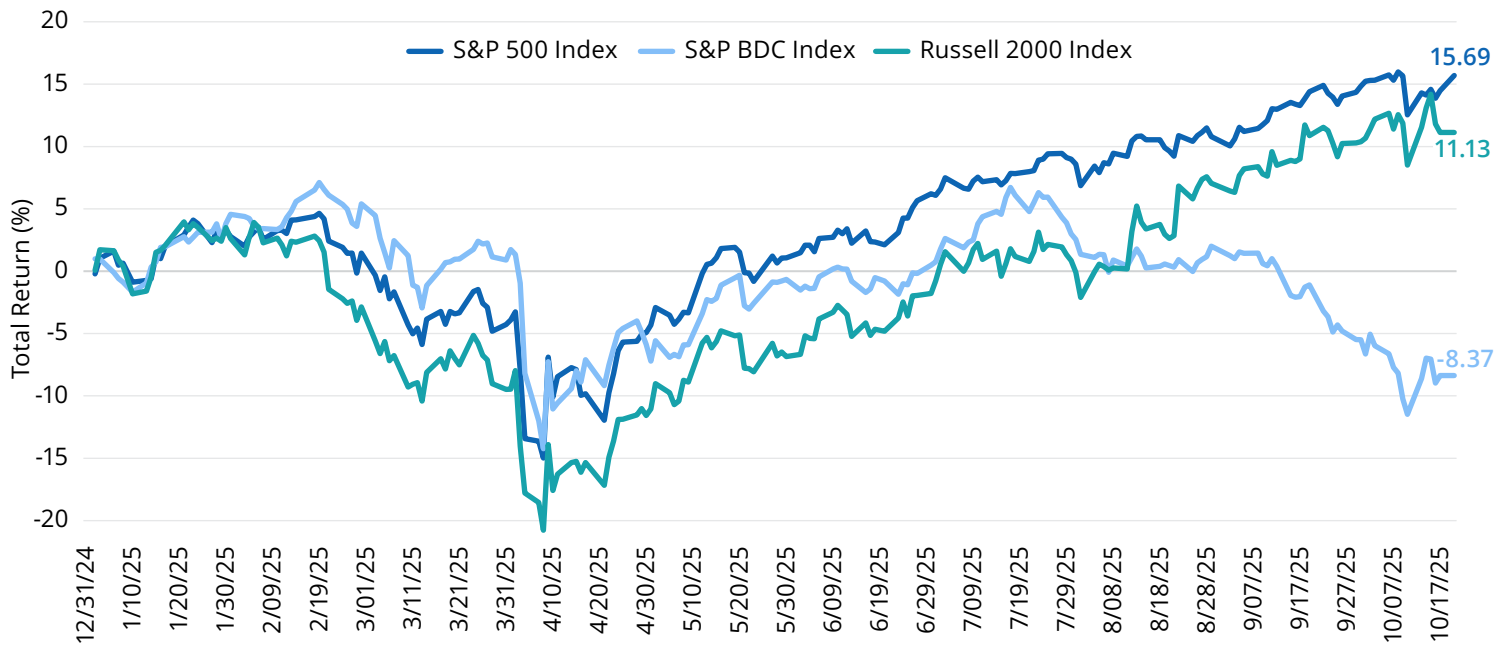
Saks Global Enterprises, parent of Saks Fifth Avenue and Neiman Marcus, is a case study of gradual forbearance. Taken private a few years ago, Saks is in a secularly declining business and has worked out refinancing deals in recent months with holders of its nearly \$2.2 billion in bonds, in one of the largest distressed exchanges this year. Compare that to the sudden bankruptcy of auto-parts company First Brands. Press reports have cited billions of dollars of off-balance-sheet debt that were not flagged by its auditor. It also raises questions about the amount of diligence done by lenders to First Brands.

Credit Cracks: Same Outcome — Two Different Paths



Source: FactSet, Bloomberg, Price History 12/31/24–10/24/25.

Credit Cracks: Business Development Companies are Signaling Credit Challenges



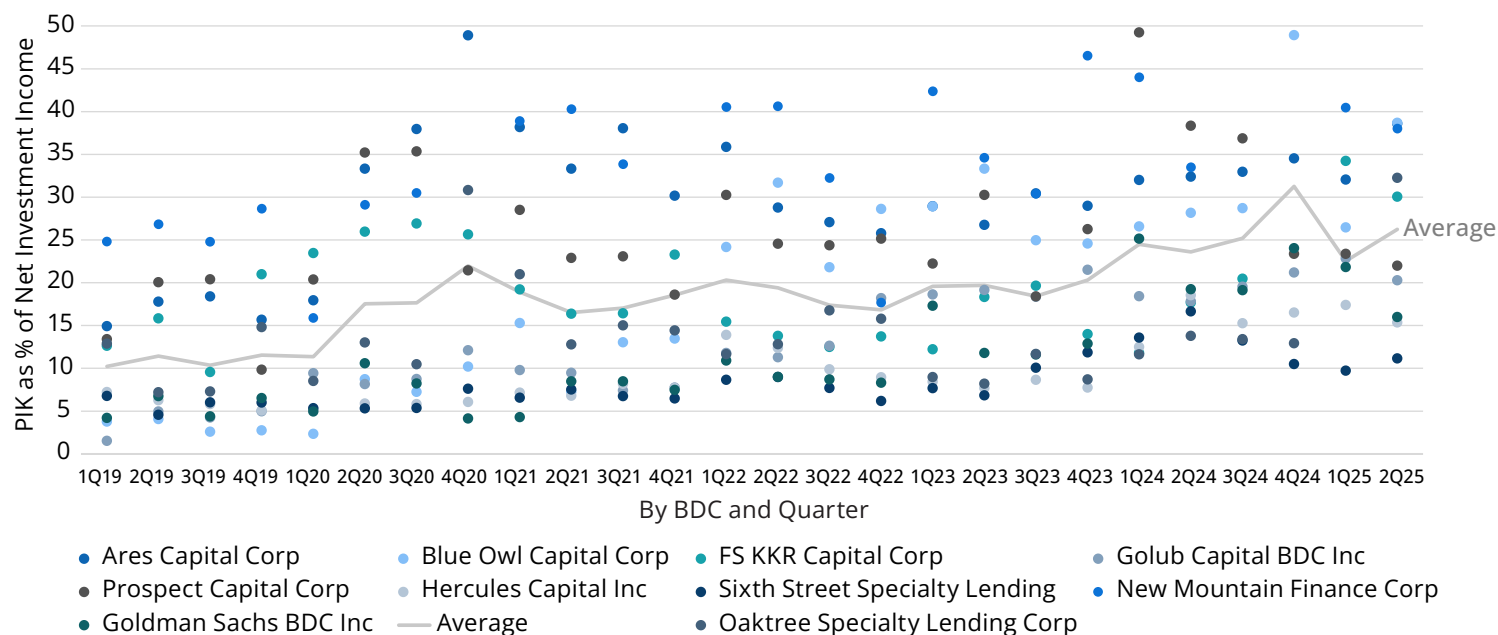
Source: FactSet, S&P 500 Index, Russell 2000 Index, S&P BDC Index, 12/31/24-10/20/25 Cumulative Total Return, Kevin Muir.

How do business development companies (BDC) relate to the credit cracks you are seeing?

BDCs are closed-end funds that invest in small- to medium-sized companies, but unlike venture capital firms, BDCs are publicly traded and distribute 90% of

their income to shareholders. For much of this year, the S&P 500 Index and the S&P BDC Index were highly correlated. But starting around July they started to diverge, and the BDC Index was down more than 8% for the year up to October 20. This is a signal of potential credit weakness among smaller firms.

Credit Cracks: PIK Usage Dispersion Growing



Source: Citi Research, Bloomberg ©2025 Citigroup Inc.

One more acronym: What's up with PIKs?

Admittedly, we are covering a lot of credit terms, but together they hint at a bigger picture. Payment in kind (PIK) occurs when a borrower doesn't make an interest payment and that unpaid amount is added to the loan balance, essentially creating a negatively amortizing loan. The borrow gets near-term relief in exchange for a bigger bill in the future. We reviewed the amount of PIK as a percentage of net investment income for several of the largest business development companies and found that ratio has ballooned from an average of about 10% in 2019 to more than 25% this year. While PIKs can be a useful tool in certain cases, the increased usage is likely signally either lack of

liquidity or fundamental issues among smaller, leveraged borrowers. This is not small potatoes; we are talking about billions of dollars in financing.

How do you see this playing out?

There is some warranted caution regarding BDCs, vehicles that are traded frequently, and vehicles that lend to lower-quality companies. Such vehicles could become forced sellers, which is a cardinal sin in leveraged finance.

An optimist would say First Brands and Saks are idiosyncratic situations. But the pessimist could point to these signs of credit cracks and note they are occurring amid a strong economy and when the S&P 500 is up 17.5%. So, what happens if the economy stalls?

Credit Cracks: How Did We Get Here and Where Will We Go?

- COVID-19 liquidity elongated business cycle
- Cov-lite resulting in lower defaults and lower recoveries
- Downgrades continue to outnumber upgrades, indicating a weakening credit cycle

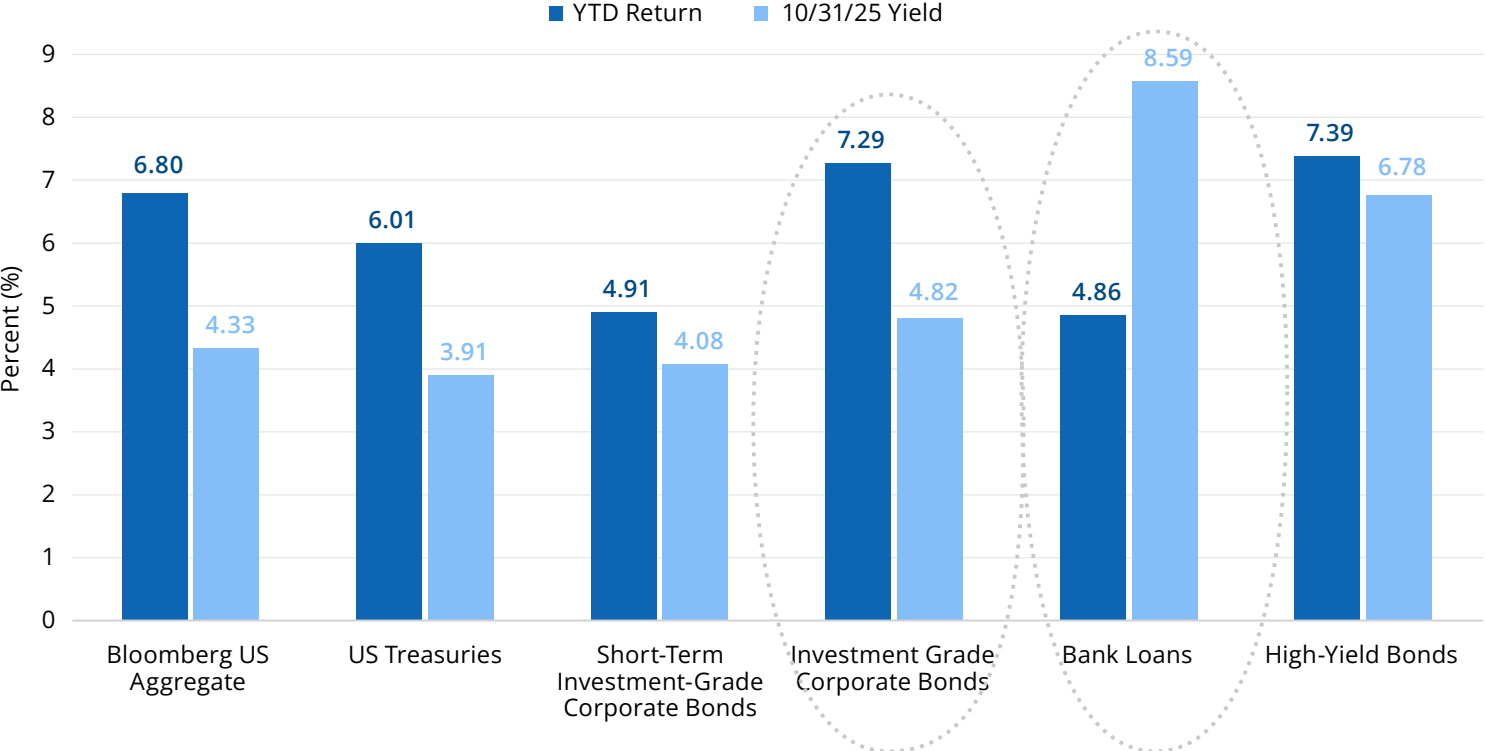
OPTIMIST

Default cycle is manageable and idiosyncratic in nature.

PESSIMIST

Credit is weakening in a decent economy — what happens in a bad economy?

Fixed Income Yields and Year-to-Date Returns



Past performance does not guarantee future results. Source: Bloomberg and J.P. Morgan, as of 10/31/25. Yield quoted is yield-to-worst, except for Bank Loans which represents 4-year effective yield. US Treasury represented by the Bloomberg US Treasury Index. Investment-grade corporate bonds are represented by the Bloomberg US Corporate Index. Short term investment grade corporate bonds are the 1-3 year component of the Bloomberg US Credit Index. Bank loans are represented by the J.P. Morgan Leveraged Loan Index. High yield is represented by the Bloomberg US Corporate High Yield Index.

Ok, let's turn to more positive observations. Where are you seeing opportunities in fixed income?

In the past few months we have leaned a little more into duration. I feel as long as the 10-year Treasury yield remains above 4% there is room for it to

decline. I continue to favor investment grade corporate bonds amid a resilient economy. Also, the yields on floating rate loans are attractive, though potentially trending down. To be sure, investors should take extra care with due diligence for floating rate loans, for all the reasons we have discussed.

Time for the random round. I'll give you a word or phrase, and you tell me the first thing that comes to your mind. First: Gold rally.

Probably over.

Layoffs.

The consumer's weakening. Looking at layoffs at consumer driven companies like UPS and Amazon supports that view.

US sanctions on Russian oil companies.

Sanctions are today. That could change any moment.

Lululemon trademarking "Lululemon dupe."

Don't know much about it. I think it's meant to crackdown on copycats, but there's usually a workaround. Seems ineffectual.

Too soon to decorate for Christmas?

Our neighbor did it October 30th. So, there are Christmas lights in the neighborhood as of now. Maybe too soon, but let's call it festive.

Let's close with a personal reflection.

I ran across a quote that kind of made me chuckle: "Silent gratitude isn't much use to anyone," which has been attributed to Gertrude Stein. It seems apt for the Thanksgiving season. So, let's all reach out and give thanks for the things and to the people that we are thankful for.

Definitions:

The **10-year Treasury note** is a debt obligation issued by the U.S. government with a maturity of 10 years upon initial issuance. It pays interest at a fixed rate every six months and pays the face value to the holder at maturity.

The **10-year Treasury yield** is the interest rate the U.S. government pays to borrow money for a decade.

The **Atlanta Fed's GDPNow** is a forecasting model that provides a "nowcast" of GDP growth.

Bank loans (or **floating-rate loans**) are financial instruments that pay a variable or floating interest rate. A floating rate fund invests in bonds and debt instruments whose interest payments fluctuate with an underlying interest rate level.

Basis points, otherwise known as bps or bips, are a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

The **Bloomberg US Aggregate Bond Index (Agg)** 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.

A **bond** is a fixed-income instrument and investment product where individuals lend money to a government or company at a certain interest rate for an amount of time. The entity repays individuals with interest in addition to the original face value of the bond.

The **Consumer Confidence Index (CCI)** is a monthly report that measures how optimistic consumers are about the economy, labor market, and their finances.

The **Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

Consumer Sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion.

A **coupon** or **coupon payment** is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity. **Clipping coupons** refers to the practice of earning income through interest payments from bonds.

The **Department of Government Efficiency (DOGE)** is an initiative by the second Trump administration in the United States. Its stated objective is to modernize information technology, maximize productivity, and cut excess regulations and spending within the federal government.

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.

Effective tariff rate measures the actual protection afforded to domestic producers, considering tariffs on both the final product and imported inputs.

Fed funds futures is a tool used by traders and institutions to hedge or bet on changes in the federal funds rate, which is key to U.S. monetary policy.

The **federal funds rate** is the target interest rate set by the Fed at which commercial banks borrow and lend their extra reserves to one another overnight.

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve System that determines the direction of monetary policy and is responsible for raising or lowering interest rates.

Fixed income refers to assets and securities that pay a set level of income to investors, typically in the form of fixed interest or dividends.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. The **nominal GDP growth rate** compares the year-over-year (or quarterly) change in a country's economic output to measure how fast an economy is growing. **Real GDP** is GDP adjusted for inflation.

Definitions (continued):

High-yield bonds are debt securities, also known as junk bonds, that are issued by corporations.

Investment grade refers to the quality of a company's credit. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's.

The **Personal Consumption Expenditures Index (PCE)** is a measure of consumer spending and includes all goods and services bought by U.S. households. **Core PCE** excludes the prices of food and energy.

Risk is defined in financial terms as the chance that an outcome or investment's actual gains will differ from an expected outcome or return.

Spread is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, represented by treasury bonds. Spread income refers to the additional income from this difference.

Treasury yield is the annual return, shown as a percentage, that the U.S. government offers to investors who hold its debt, such as bonds or bills.

Volatility is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security.

Yield is the income returned on an investment, such as the interest received from holding a security.

A **yield curve** plots the interest rates of bonds that have equal credit quality but different maturity dates.

For more insights from Aristotle Funds,
visit **AristotleFunds.com**

Any performance data quoted represent past performance, which does not guarantee future results. Index performance is not indicative of any fund's performance. Indexes are unmanaged and it is not possible to invest directly in an index. For current standardized performance of the funds, please visit www.AristotleFunds.com.

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