



July 2026

15 YEARS OF FLOATING-RATE DISCIPLINE

Portfolio Manager Michael Marzouk discusses the macro signals he is watching, the case for floating-rate income, and why credit selection remains critical after 15 years of managing through changing markets.

The U.S. economy has remained resilient despite elevated interest rates, persistent inflation concerns, and geopolitical disruptions. Meanwhile, the market continues to send mixed signals on how to digest those factors as well as the implications of artificial intelligence.

For income-oriented investors, that backdrop has renewed attention on floating-rate loans, which can offer attractive income potential while helping limit sensitivity to changes in interest rates.

As Aristotle Floating Rate Income Fund (PLFRX) marks its 15-year anniversary, since inception on June 30, 2011, Michael Marzouk, CFA, senior managing director and portfolio manager at Aristotle Pacific Capital shares his perspective on the macro indicators that matter most, how the investment team thinks about different rate environments, and why disciplined credit selection remains central to the fund's approach.

With inflation and interest-rate uncertainty still central to the outlook, which macro indicators are you watching closely?

The single biggest risk to leveraged loans is a spike in corporate defaults, which usually results from a deep recession. Although AI spending has recently become important in driving economic growth, the consumer has historically been – and will likely continue to be – a primary driver of the economy. The best macro indicator we monitor for the health of the consumer is jobs data, specifically jobs growth. Jobs data is key; everything else is just noise. If jobs roll over, it likely means equities are significantly lower and credit spreads are significantly wider.

Do you think markets are pricing the path of interest rates appropriately?

Markets rarely price future interest rates correctly. Just look at 2022. Currently, given continued geopolitical uncertainty, higher oil prices, and fiscal

deficit spending, it certainly feels like rates are going to stay higher for longer.

How are you positioning the portfolio for a range of interest rate scenarios?

Simply put, we focus on investing in good businesses, regardless of which way interest rates go. That said, we tend to focus on non-cyclical credits, which are less susceptible to adverse changes in interest rates, and we avoid cyclical credits that tend to do poorly when interest rates increase, such as autos or building products.

In today's market, what role can a floating-rate income strategy play within a diversified portfolio?

Loans generate an attractive coupon today of around 7%, among the highest for an asset class available to investors. This provides a good buffer and a margin of error in the event of economic turbulence. In addition, in periods of rising rates, floating-rate loans historically have outperformed other fixed income asset classes.

As the fund marks its 15-year anniversary, what has changed most in the floating-rate loan market – and what has stayed the same?

Credit selection is as important today as it was when the fund launched 15 years ago. Perhaps the biggest difference is that active management is even more critical today than a decade ago. Given

the lack of financial covenants and rise of creditor-on-creditor violence via liability management exercises (LMEs), exiting poorly performing credits before significant price erosion occurs is key to success. All this means is that downside risk mitigation will continue to be important and will differentiate strong loan managers from weaker ones.



For more information about
Aristotle Floating Rate Income Fund,
visit **AristotleFunds.com**

Definitions:

Liability Management Exercises (LMEs) are debt restructuring transactions used by issuers to manage liabilities, extend maturities, improve liquidity, or reduce borrowing costs.

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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.

The Floating Rate Income 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.

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AFST-947130-2026-06-03