

2Q 2025 Commentary

Markets Review

The second quarter began with a continuation of the risk-off environment from the first quarter. Markets troughed on April 8th (Liberation Day), before staging a high beta, low quality rally for the remainder of the quarter. Elements that sustained the rally were administration delays in the tariff implementation date, hyperscale commitment to outsized AI capex plans among growth-oriented SaaS technology companies, and the resilience of broader consumer spending trends as both individuals and companies front-loaded imports ahead of tariffs. Solid labor market readings and stable-to-lower than expected inflation data kept the Federal Reserve (Fed) on the more hawkish course they took in December. Chairman Powell held rates steady at the June FOMC meeting and is not bowing to political pressure to cut rates sooner than the committee's analysis indicates. The Fed will continue to maintain a measured approach going forward, updating their economic projections and forecasts to two rate cuts in 2025. Deficit scrutiny increased as the One Big Beautiful Bill Act proceeded through Congress. This was highlighted by Moody's downgrading the U.S. credit rating from Aaa to Aa1 – the last of the major rating agencies to downgrade the U.S. over the past 14 years.

Stylistically, growth stocks outperformed their value counterparts during the quarter as the Russell 2500 Growth Index returned 11.31% compared to the 7.29% return of the Russell 2500 Value index. This continues the 2024 trend where growth significantly outperformed value.

From a factor perspective, lower quality companies outperformed higher quality companies. Factors that had the highest payoff were high beta, non-earners, high sales growth, momentum and cyclical stocks.

At the sector level, cyclical sectors outperformed defensive sectors. The best performing sectors were Information Technology (+18.82%), Industrials (+13.76%), and Consumer Discretionary (+10.39%) while the worst performing sectors were Real Estate (-2.06%), Energy (-1.18%), and Health Care (+2.36%).

2025 Q2 Returns



Sources: CAPS Composite Hub, Russell Investments

Past performance is not indicative of future results. Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses. Aristotle Small/Mid Cap Equity Composite returns are preliminary pending final account reconciliation. Please see important disclosures at the end of this document.



Performance Review

For the second quarter of 2025, the Aristotle Small/Mid Cap Equity Composite generated a total return of 4.64% net of fees (4.78% gross of fees), underperforming the 8.59% total return of the Russell 2500 Index. The largest detractor from relative performance was security selection in Financials, Consumer Discretionary and Information Technology. This was partially offset by strong security selection in Communication Services coupled with overweight allocations to Information Technology and Industrials and an underweight allocation to Real Estate.

Relative Contributors	Relative Detractors
Dycom Industries	ACI Worldwide
MACOM Technology Solutions	Chemed
Advanced Energy Industries	Robinhood Markets
Itron	Merit Medical Systems
Ciena	ASGN

CONTRIBUTORS

- **Dycom Industries (DY)**, a provider of engineering and construction services to the telecommunications and cable television industries, benefitted from continued growth in its core business, funding tailwinds, and expanding margins as demand for wireline services continues to grow. We maintain our position as we believe the company remains well positioned for longer-term growth alongside secular trends for expanding fiber deployments to support faster broadband connectivity speeds and opportunities to deploy fiber to rural or underserved areas across the country.
- **MACOM Technology Solutions (MTSI)**, a designer and manufacturer of high-performance semiconductor products, surpassed analyst expectations and raised forward guidance bolstering the stock. We maintain our position, as we believe the company's meaningful exposure to growing demand from Data Center and 5G end market applications along with the integration of recent acquisitions and domestic manufacturing footprint should drive additional shareholder value in periods to come.

DETRACTORS

- **ACI Worldwide (ACIW)**, is a provider of software solutions to facilitate payment transactions for financial institutions, retailers, and payment processors around the world. The company reported strong Q1 earnings and reaffirmed FY 2025 guidance, yet the stock price declined due to investor sentiment around macroeconomic concerns. We maintain our investment as we believe the company has a strong market position in the payments software niche segment. New revenues with higher incremental margins and effective cost controls should allow management to delever the balance sheet while continuing to deliver value to shareholders.
- **Chemed (CHE)**, engages in the provision of healthcare and maintenance services operating through two segments: VITAS and Roto-Rooter. The VITAS segment offers hospice and palliative care services to patients through a network of health care providers, social workers, clergy, and volunteers. The Roto-Rooter segment includes plumbing, drain cleaning, water restoration, and other related services to residential and commercial customers. The stock declined due to concerns surrounding the potential Medicare cap limits proposed in current legislation for its VITAS segment alongside weaker residential demand for its plumbing services segment. We continue to maintain our position, as we believe the slowing demand in the Roto-Rooter segment is transitory and the secular demand for hospice care remains strong.



Recent Portfolio Activity

Buys/Acquisitions	Sells/Liquidations
Alight	Berkshire Hills Bancorp
Dolby Laboratories	Columbus McKinnon
FTAI Aviation	JBG SMITH Properties
Interparfums	Monro
Perrigo	Tronox
ScottsMiracle-Gro	
Verra Mobility	

BUYS/ ACQUISITIONS

- **Alight (ALIT)**, operates a cloud-based platform that provides human capital management and benefits administration solutions to mostly Fortune 500 companies. We believe the company has the opportunity to grow its business through the expansion of existing client relationships along with attracting new clients to their platform. Self-help initiatives implemented by the new CEO coupled with technological enhancements to the platform are expected to streamline operational costs and improve margins on a go-forward basis.
- **Dolby Laboratories (DLB)**, designs and manufactures audio and imaging technologies for the cinema, television, automotive, broadcast, and entertainment industries. We believe the company is in the beginning stages of harvesting investments in their Atmos (spatial audio) and Vision (High Dynamic Range video) technologies in their traditional markets. They are also experiencing adoption of these technologies by automotive manufactures, providing enhanced margin potential.
- **FTAI Aviation (FTAI)**, owns and leases aircraft engines, and operates a maintenance, repair and exchange (MRE) business that provides parts and services for older jet engines. Growing global demand for air travel combined with an aging fleet of aircraft and engines are driving demand for replacement engines and third-party maintenance and repair services. The company recently embarked on a strategy of partnering with private equity firms to provide capital to grow the leasing business. The business model evolution should result in a less capital-intensive leasing business for FTAI and may provide a captive source of demand for the MRE business, enhancing margins and shareholder value.
- **Interparfums (IPAR)**, is a global manufacturer, marketer and distributor of fragrance products in the United States and Europe. The company focuses on the prestige fragrance market and has licensing deals with brands such as Jimmy Choo, Coach, Lacoste, Guess and DKNY, to name a few. We believe the company is well positioned to capitalize on the increased demand for fragrances in the US, China and amongst younger consumers. This secular trend coupled with continued new product innovation and the potential for additional licensing partnerships are expected to enhance shareholder value over the next several years.
- **Perrigo (PRGO)**, is a consumer health company focused on self-care products and over-the-counter health and wellness solutions for the prevention or treatment of self-managed conditions. Following a multi-year period of poor fundamental performance, we believe the company is in the early stages of improved performance driven by self-help initiatives implemented by a new management team. These initiatives include rationalizing the product portfolio, enhanced operational execution, supply chain efficiency initiatives and an enhanced focus on new product development. A successful execution of the strategy is expected to drive enhanced profitability and above average earnings growth.
- **ScottsMiracle-Gro (SMG)**, is a leading manufacturer of branded consumer lawn and garden products in North America. After benefitting from increased demand during the COVID lockdown years, the company experienced several years of below normal growth. As demand has begun to normalize to pre-COVID levels and the company unwinds a poorly



executed diversification strategy, shareholder value is expected to be enhanced through margin expansion, balance sheet deleveraging.

- **Verra Mobility (VRRM)**, is a provider of automated enforcement, tolling, and parking technologies and solutions. We believe the company is well positioned to benefit from accelerating automated enforcement tailwinds as legislative support and expanding use cases drive adoption by municipalities seeking safer more efficient roadways. We also view the combination of highly recurring long-term contracted revenues, high margins, and high renewal rates as attractive qualities of the company's business model.

SELLS/LIQUIDATIONS

- **Berkshire Hills Bancorp (BHLB)**, is a regional bank primarily serving the NY and New England area. The company announced a merger of equals with Brookline Bancorp. After re-underwriting the combined organization, we chose to exit our position as we were not comfortable with the new management team, nor with the significantly increased loan to deposit ratio.
- **Columbus McKinnon (CMCO)**, engages in the design, manufacture, and marketing of material handling products and systems. After carefully assessing the company's announced acquisition of Kito-Crosby, and choice of convertible preferred equity to finance the deal, we felt the dramatic shift away from a long-standing strategy of smaller, technology forward acquisitions combined in a meaningfully increased financial leverage profile justified selling the position.
- **JBG SMITH Properties (JBGS)**, a Washington, DC-focused real estate investment trust that develops, owns and operates a portfolio of mixed-use properties (multifamily, commercial, development and land assets). Concerns related to the company's capital allocation plans along with deteriorating fundamentals in their core operating market prompted our decision to exit the position.
- **Monro (MNRO)**, operates a chain of approximately 1,200 automotive repair and tire retail stores. Ongoing weak demand had weighed on the company's profitability for longer than anticipated and with expectations for continued economic pressures for their core low-income customers, we decided to exit the position.
- **Tronox (TROX)**, a leading global manufacturer of titanium dioxide (TiO₂) pigment, a key ingredient in paint, plastics and a variety of other industrial applications. We believe the company is well positioned to benefit from increased production volumes and product pricing driven by improving global economic conditions. However, an increasingly uncertain economic outlook as a result of the threat of increased global tariffs pushed out the expected demand recovery combined with a cyclically driven stressed balance sheet caused us to exit the position.



Outlook

We remain optimistic about the long-term potential for the SMID-cap segment of the U.S. market. Valuations remain compelling relative to large caps, with the Russell 2500 Index trading near the lower end of its historical range. Potential tailwinds, including deregulation, lower corporate tax rates, increased M&A activity, continued reshoring of U.S. manufacturing, and infrastructure-related spending, could provide additional support for SMID-cap stocks. We have experienced some short-term volatility related to the current administration's policies and legislation. We also remain mindful of risks such as inflation reaccelerating, increased geopolitical tensions, and potential U.S. economic weakness.

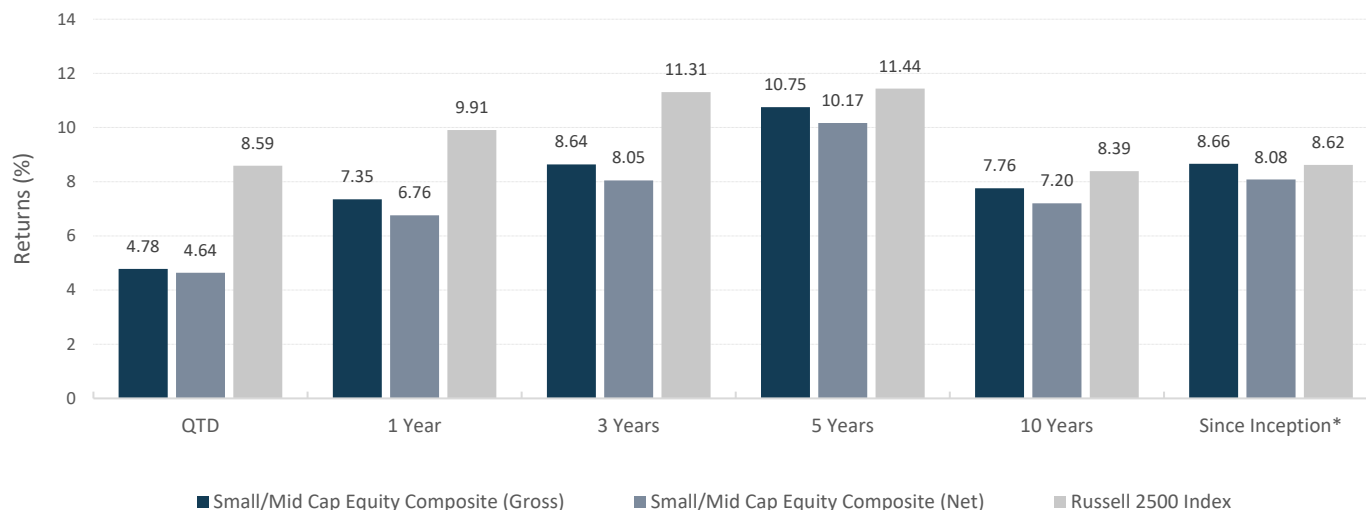
Positioning

Our current positioning is a function of our bottom-up security selection process and our ability to identify what we view as attractive investment candidates, regardless of economic sector definitions. Overweights in Information Technology and Industrials are mostly a function of our underlying company specific views rather than any top-down predictions for each sector. Conversely, we continue to be underweight in Consumer Discretionary, as we have been unable to identify what we consider to be compelling long-term opportunities that fit our discipline given the rising risk profiles of many retail businesses and a potential deceleration in goods spending following a period of strength. We are also underweight in Financials as the sector has experienced strong returns, leading us to harvest gains and redeploy the proceeds to what we consider to be more attractive reward to risk opportunities. Given our focus on long-term business fundamentals, our patient investment approach and low portfolio turnover, the strategy's sector positioning generally does not change significantly from quarter to quarter. However, we may take advantage of periods of volatility by adding selectively to certain companies when appropriate.



Aristotle Small/Mid Cap Equity Composite Performance

All Periods Ended June 30, 2025



Year	Small/Mid Cap Equity Composite (Gross %)	Small/Mid Cap Equity Composite (Net %)	Russell 2500 Index (%)
2Q 2025	4.78	4.64	8.59
2024	14.04	13.47	11.99
2023	8.34	7.73	17.42
2022	-12.05	-12.52	-18.37
2021	18.50	17.93	18.18
2020	10.23	9.71	19.99
2019	23.73	23.25	27.77
2018	-10.22	-10.55	-10.00
2017	13.98	13.24	16.81
2016	22.73	21.89	17.59
2015	3.77	3.17	-2.90
2014	2.91	1.78	7.06
2013	38.34	37.41	36.82
2012	16.49	15.27	17.88
2011	0.00	-1.11	-2.51
2010	28.17	28.07	26.70
2009	28.88	28.88	34.38
2008	-30.53	-30.53	-36.78

Sources: CAPS Composite Hub, Russell Investments

Composite returns for periods ended June 30, 2025, are preliminary pending final account reconciliation.

*The Aristotle Small/Mid Cap Equity Composite has an inception date of January 1, 2008, at a predecessor firm. During this time, Jack McPherson and Dave Adams had primary responsibility for managing the strategy. Performance starting January 1, 2015, was achieved at Aristotle Boston.

As of December 31, 2014, there were no non-fee-paying accounts in the Composite. Past performance is not indicative of future results. Performance results for periods greater than one year have been annualized.

Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Net returns are presented net of actual investment advisory fees and after the deduction of all trading expenses. Please see important disclosures enclosed within this document.

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All investments carry a certain degree of risk, including the possible loss of principal. Investments are also subject to political, market, currency and regulatory risks or economic developments. International investments involve special risks that may in particular cause a loss in principal, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. While Large-capitalization companies may have more stable prices than smaller, less established companies, they are still subject to equity securities risk. In addition, large-capitalization equity security prices may not rise as much as prices of equity securities of small-capitalization companies. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid. Value stocks can perform differently from the market as a whole and other types of stocks. The material is provided for informational and/or educational purposes only and is not intended to be and should not be construed as investment, legal or tax advice and/or a legal opinion. Investors should consult their financial and tax adviser before making investments. The opinions referenced are as of the date of publication, may be modified due to changes in the market or economic conditions, and may not necessarily come to pass. Information and data presented has been developed internally and/or obtained from sources believed to be reliable. Aristotle Boston does not guarantee the accuracy, adequacy or completeness of such information.

The Russell 2500 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500 Growth® Index measures the performance of the small/mid cap companies located in the United States that also exhibit a growth probability. The Russell 2500 Value® Index measures the performance of the small/mid cap companies located in the United States that also exhibit a value probability. The volatility (beta) of the composite may be greater or less than the benchmarks. It is not possible to invest directly in these indices.

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