

## **PART 2A OF FORM ADV: FIRM BROCHURE**

### **ARISTOTLE INVESTORS, INC.**

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**This brochure provides information about the qualifications and business practices of Aristotle Investors, Inc. (“Aristotle” or the “Adviser”). If you have any questions about the contents of this brochure, please contact us at 603-253-6827 or [cmorrill@aristotleinvestors.com](mailto:cmorrill@aristotleinvestors.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority, and references in this Brochure to Aristotle as a “registered investment adviser” are not intended to imply a certain level of skill or training.**

**Additional information about Aristotle also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2 – MATERIAL CHANGES**

There are no material changes to report since Aristotle filed an interim amendment to its Part 2A of Form ADV on April 18, 2012 to reflect the following material change to its business:

- The legal and primary business name of the Adviser is now Aristotle Investors, Inc.; and
- Aristotle investors should contact [cmorrill@aristotleinvestors.com](mailto:cmorrill@aristotleinvestors.com) with any questions regarding Aristotle's Form ADV.

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## **ITEM 4 – ADVISORY BUSINESS**

Aristotle provides discretionary investment advisory services to the Aristotle Fund, L.P., a private investment fund (the “Fund”), and separately managed accounts (“SMAs” or “Accounts” and, together with the Fund, the “Advisory Clients”). Aristotle has been in business since 1993, and is the General Partner of the Fund. John P. Morrill is the principal owner and Portfolio Manager of Aristotle.

Aristotle generally has broad and flexible investment authority with respect to the investment portfolios it manages for its Advisory Clients. The investment objectives and strategy of the Fund is set forth in its confidential private offering memorandum (“PPM”).

Aristotle provides investment advisory services to its Advisory Clients with respect to a wide range of investments consisting of primarily of equity and equity-related securities, including short-sales, but may also include bonds and other fixed income securities, currencies, money market instruments, options and warrants. For risk control, Aristotle’s advisory services exclude the use of future contracts and limits leverage (i.e., total assets divided by equity at month-end) to a maximum of 1.25.

Aristotle does not tailor its advisory services to the individual needs of investors in the Fund (“Fund Investors”) and does not accept Fund Investor-imposed investment restrictions. When deemed appropriate, Aristotle has established, and may in the future establish, an SMA for a particular Advisory Client. The Accounts are subject to investment objectives, guidelines, restrictions, fee arrangements and other terms that are individually negotiated with the Advisory Client. The Account relationship may involve significant account minimums.

Aristotle has entered (and may in the future enter) into agreements, or “side letters,” with Investors whereby such Investors may be subject to terms and conditions that are more advantageous than those applicable to other Investors. For example, such terms and conditions may provide for lower fees or preferential liquidity, among other rights.

As of December 31, 2012, Aristotle manages approximately \$254.3 million of Advisory Client assets, all on a discretionary basis.

## **ITEM 5 – FEES AND COMPENSATION**

Aristotle is compensated by clients in the form of management fees (“Management Fees”) and performance-based allocations (“Incentive Allocations”). Management fees are generally calculated and paid quarterly in advance and are equal to 1% of the Fund’s assets under management. Incentive Allocations generally equal 20% of the net profits as of the end of the Fund’s fiscal year, subject to a high water mark limitation, which generally provides that to the extent the Fund incurs net losses as of the end of any year, the Advisory Client will not be charged an incentive allocation on net profits earned in subsequent years unless 100% of the net losses carried forward from prior years has been recouped. The fee arrangements for the SMAs are individually negotiated and are generally based on assets under management, and may include performance-based fees. These fees are deducted from Advisory Clients’ assets invested in the Fund and investors do not have the ability to choose to be billed directly for fees incurred.

Investors may generally withdraw from the Fund by providing written notice to Aristotle, as set forth in the Fund’s governing documents. In general and if applicable, Aristotle refunds the unearned portion of any pre-paid management fee if a withdrawal is made from a Fund before the end of a billing period. Aristotle generally determines the amount of the relevant refund on a pro rata basis, based upon the portion of the relevant period during which it provided services. In each case, withdrawals will be subject to certain conditions and restrictions, which are also set forth in the Fund’s governing documents, which may include, without limitation: the condition that any “lock-up period” applicable to the shares or the interests has expired or relevant withdrawal fee has been paid; restrictions on the timing of the withdrawal payments; and restrictions on the amount of any partial withdrawal. Aristotle has the discretion to waive any of the foregoing withdrawal terms, including the notice period.

**IT IS CRITICAL THAT INVESTORS REFER TO THE RELEVANT OFFERING AND FUND GOVERNING DOCUMENTS FOR A COMPLETE UNDERSTANDING OF APPLICABLE FEES AND EXPENSES. THE INFORMATION CONTAINED HEREIN IS A SUMMARY ONLY AND IS QUALIFIED IN ITS ENTIRETY BY SUCH DOCUMENTS.**

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Aristotle provides investment management services to the Fund and SMAs. As described in Item 5, Aristotle receives performance-based compensation from its Advisory Clients.

Certain Advisory Client accounts may have higher management fees or performance-based compensation arrangements more favorable to Aristotle than other accounts engaging in the same or similar investment activities. As a result, a potential exists for Aristotle to seek to favor one Advisory Client over another Advisory Client in allocating investment opportunities or otherwise. In particular, Aristotle may have a greater incentive to favor Advisory Clients that pay Aristotle (and indirectly its investment personnel) performance-based compensation or otherwise pay higher fees, or in which Aristotle personnel have more significant investments.

Aristotle has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with different fee arrangements and different investment strategies. Aristotle reviews investment decisions for all Advisory Clients on a regular basis in order to ensure that all accounts are treated fairly and equitably. The performance of similarly managed Accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, Aristotle has implemented a detailed investment allocation policy and the Adviser regularly reviews its trade allocations to ensure they are made in a manner that is fair and equitable to all Advisory Clients (as described in Item 12).

## **ITEM 7 – TYPES OF CLIENTS**

As previously described in Item 4, Aristotle’s clients consist of a private investment fund and SMAs for institutional/sophisticated investors. With respect to the Fund, any initial and additional subscription minimums are disclosed in the relevant offering documents. With respect to the SMAs, Aristotle determines the minimum investment amounts on a case-by-case basis with each Advisory Client. In general, such Accounts involve significant minimum investments.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

The investment strategies, methods of analysis and material risks applicable to an investment in the Fund are set forth in detail in the offering documents. A brief summary is provided below.

**An investment in the Fund may be deemed speculative and is not intended as a complete investment program. Investing in the securities markets involves significant risk. Investments in the Fund is appropriate for only experienced and sophisticated persons who meet certain eligibility criteria, are able to bear the risk of loss of some or all of an investment, and have a limited need for liquidity. Prospective investors should speak with their legal, tax and financial advisors prior to making an investment with Aristotle.**

### METHODS OF ANALYSIS

In selecting investments Aristotle uses a “Long Term Business Valuation” methodology on publicly traded equities. That is, Aristotle purchases equity securities in companies trading at a substantial discount to a conservatively calculated business value. Aristotle believes that the investment community often overreacts to short term news regarding earnings and, by doing so, offers an unusually attractive opportunity to long term investors focused on business value. Aristotle intends to exploit this long term opportunity. In calculating “Long Term Business Values,” Aristotle employs a highly detailed analytical process in which understanding the level of sustainable free cash flow margins and sales growth are a primary focus. The Adviser believes that sales and cash flows are less susceptible to financial manipulation and therefore superior valuation measures versus earnings. It is Aristotle’s opinion and goal that the depth of its valuation work will create a competitive advantage versus other investors and fund managers. In the investment selection process, Aristotle demonstrates a strong bias toward companies with high quality business franchises and management teams.

Aristotle prefers to invest in strong, well-managed franchises. As stated, the Fund’s investments consist primarily of equity and equity-related securities, including short sales (particularly during times of excessive valuations), but may also include bonds and other fixed income securities, currencies, money market instruments, options and warrants from time to time.

### INVESTMENT STRATEGIES AND MATERIAL RISKS

#### Investment Strategy

Aristotle’s investment objective is to produce superior returns while utilizing moderate risk over the long term. For risk control purposes, the Fund excludes the use of future contracts and limits leverage (i.e., total assets divided by equity at month-end) to a maximum of 1.25.

#### Material Risks

**Market Risks.** While Aristotle does not try to anticipate general price movements of securities and other investments, market movements may significantly affect the value of the Fund’s portfolio. With respect to the investment strategy utilized by Aristotle, there is always some, and occasionally a significant, degree of market risk.

**Concentration Risk.** Aristotle generally concentrates its investments in a relatively small number of securities. As a result, Aristotle is more exposed to the risks of these securities and the appreciation or depreciation of a single security may have a greater impact on the performance of the Fund. In addition,



the Fund's performance may be more volatile than that of a diversified portfolio of securities over comparable time periods.

***Lack of Liquidity in Markets.*** Despite the heavy volume of trading in securities, the markets for some securities have limited liquidity and depth. This lack of depth could be a disadvantage to the Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices.

***Financially Troubled Companies.*** Some of the Fund's investments may be in companies which are experiencing or are expected to experience severe financial difficulties, which difficulties may never be overcome. Investments of this type may involve substantial financial and business risks that can result in significant, or at times, even total, investment losses.

***Long Equity Strategy Risk.*** Since the Fund's primarily long equity strategy involves identifying securities which are generally undervalued by the marketplace, the success of this strategy necessarily depends upon the market eventually recognizing such value in the price of the security, which may not necessarily occur or which may occur over extended time frames which limit profitability.

***Short Sales.*** Aristotle's investment program may include short selling. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the Fund's portfolio. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security which could result in an inability to cover the short position or the theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

***Options and Warrants.*** Trading in options and warrants is a highly specialized activity which, while it may increase the total return on the Fund's portfolio, may entail greater than ordinary investment risk. The use of derivatives may also have a leveraging effect on the Fund. All derivative instruments, including options and warrants, involve risks different from, and, in certain cases, greater than the risks presented by more traditional investments. Accordingly, derivative products require specialized investment techniques and risk analyses that are different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into and the ability to assess the risk that a derivative adds to the Fund portfolio under all market conditions.

***Leverage.*** Aristotle may, to the limited degree discussed in more detail in the Fund's PPM, borrow or utilize other direct or indirect forms of leverage (including but not limited to short sales and derivative securities) on a secured or unsecured basis for any purpose, including to increase investment capacity, cover operating expenses, make redemption or distribution payments or for clearance of transactions. While leverage presents opportunities for increasing total returns, it also has the effect of potentially increasing losses. Leverage will exaggerate the effect of any increase or decrease in the value of the Fund's assets and, therefore, may increase the volatility of the Fund's performance. The costs associated with leverage (such as transaction costs associated with short sales and the use of derivatives) may exceed the income received from the securities purchased or sold short through leverage. There can be no assurance that the Fund will be able to leverage its investments effectively. If the Fund has insufficient cash to meet daily variations in margin or collateral requirements with respect to the use of short sales or derivatives, it may have to sell securities to meet such requirements. Should the Fund fail to meet these requirements, the Fund's counterparty may liquidate the Fund's positions. In any of these cases, such sales may be made at prices or in circumstances that Aristotle considers unfavorable. While the use of borrowed funds can substantially improve the return on invested capital, its use, even to the limited degree discussed above, may also increase the adverse impact to which the investment portfolio of the Fund may be subject.

**Investors and prospective Investors are provided with investment offering documents that contain a detailed description of the risks related to an investment in the Fund and are advised to carefully review all risk factors set forth in the relevant offering documents.**

## **ITEM 9 – DISCIPLINARY INFORMATION**

Not applicable.

**ITEM 10 – OTHER FINANCIAL INDUSTRY  
ACTIVITIES AND AFFILIATIONS**

Not applicable.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Aristotle's Code of Ethics (the "Code") is designed to meet the requirements of Rule 204A-1 of the Investment Advisers Act of 1940 (the "Advisers Act"). The Code applies to Aristotle's Access Persons." Access Persons include, generally, any partner, officer or director of Aristotle and any employee or other supervised person of Aristotle who, in relation to the Advisory Clients, (1) has access to non-public information regarding any purchase or sale of securities, or non-public information regarding securities holdings or (2) is involved in making securities recommendations, executing securities recommendations, or has access to such recommendations that are non-public.

The Code sets forth a standard of business conduct that takes into account Aristotle's status as a fiduciary and requires Access Persons to place the interests of Advisory Clients and Investors above their own interests and the interests of Aristotle. The Code requires Access Persons to comply with applicable federal securities laws. Further, Access Persons are required to promptly bring violations of the Code to the attention of Aristotle's Chief Compliance Officer (the "Chief Compliance Officer"). All Access Persons are provided with a copy of the Code and are required to acknowledge receipt of the Code upon hire and on at least an annual basis thereafter.

The Code also seeks to ensure the protection of nonpublic information about the activities of the Advisory Clients. Investors or prospective Investors may obtain a copy of the Code by contacting the Chief Compliance Officer, Christopher E. Morrill, at [cmorrill@aristotleinvestors.com](mailto:cmorrill@aristotleinvestors.com).

As explained in Item 4 above, Aristotle serves as the investment manager and General Partner to the Fund. Aristotle recommends interests in the Fund to prospective investors. Aristotle has a material financial interest with respect to fees paid by Investors. Management Fees are payable without regard to the overall success or income earned by the Advisory Clients and therefore may create an incentive on the part of Aristotle to raise or otherwise increase assets under management to a higher level than would be the case if Aristotle were receiving a lower or no management fee. Performance-based fees may create an incentive for Aristotle to make investments that are riskier or more speculative than in the absence of such Incentive Allocation.

Aristotle's Portfolio Manager also invests directly in the Fund. It should be noted that investments in the Fund made by such party is generally not subject to the management or performance-based fees described in Item 5 above. Aristotle believes that when Access Persons invest in the Fund, it aligns Access Persons' interests with those of the Investors.

Aristotle addresses these potential conflicts through regular monitoring of the Advisory Client portfolios for consistency with Advisory Client objectives, strategies, and target capacity. Further, the Portfolio Manager carefully considers the risks involved in any investments and Aristotle provides extensive disclosure to Investors regarding the potential risks that come with an investment in the Fund. The Code requires Access Persons to place the interests of Advisory Clients and Investors over their own or those of Aristotle, and all Access Persons are required to acknowledge their receipt and understanding of the Code.

Aristotle recognizes the potential conflict when Access Persons make transactions in their personal securities accounts. Aristotle reduces the risk by adhering to the Code, which requires Access Persons to maintain annual holding disclosures and quarterly transaction statements, and consult with outside counsel or compliance consultants in situations where a potential conflict exists.

## **ITEM 12 – BROKERAGE PRACTICES**

Aristotle has authority for selecting the broker-dealer used in each transaction for the Advisory Clients. Generally, commissions and fees paid to brokers are fixed. Aristotle recognizes its duty to obtain “best execution.” Consistent with such duty, in determining best execution, Aristotle takes into account the full range and quality of a broker-dealer’s services, including, research and other services. Aristotle does not select broker-dealers solely on the basis of lowest possible costs, but by the best qualitative execution. Brokerage costs are generally negotiable and thus selecting brokers on the basis of considerations that are not limited to the applicable costs may result in higher transaction costs than would otherwise be obtainable.

Consistent with such policy, consideration is given to a variety of factors, including but not limited to the financial stability and reputation of brokerage firms, the research, brokerage or other services provided by such brokers, or the broker or dealer’s ability to provide Aristotle with opportunities to participate in capital introduction events sponsored by the broker-dealer or to refer investors to Aristotle (subject to best execution).

Aristotle does not utilize “soft dollars.” If in the future Aristotle utilizes soft dollars, it will amend its Form ADV as appropriate. It should be noted, however, that broker-dealers utilized by Aristotle on behalf of Advisory Clients may include research, certain services or access to certain information as part of the brokerage service provided to Aristotle.

Aristotle does not have directed brokerage agreements.

When appropriate, Aristotle may, but is not required to, aggregate Advisory Client orders to achieve more efficient execution or to provide for equitable treatment among accounts. Advisory Clients participating in aggregated trades will be allocated securities based on the average price achieved for such trades.

Aristotle will act in a fair and equitable manner in allocating investment and trading opportunities, including private placements, among the Advisory Clients. In furtherance of the foregoing, Aristotle will consider participation in all appropriate opportunities within the purpose and scope of each Advisory Client’s objectives, and Aristotle will evaluate such factors as it considers relevant in determining whether a particular situation or strategy is suitable and feasible for each Advisory Client (which factors may include the investment restrictions and objectives of each Advisory Client, diversification, covenants and other limitations in the governing agreements, relative size of the Advisory Client, available cash, the nature of the opportunity in the context of the Advisory Client’s other positions at the time, risk tolerance, liquidity requirements, required credit ratings, duration targets and/or constraints, existing asset allocation targets, minimum investment size, maximum investment size, tax implications, legal, contractual or regulatory constraints). Aristotle is not obligated to purchase or sell for each Advisory Client every security which Aristotle or its employees may purchase or sell for other Advisory Clients, if such a transaction or investment appears unsuitable, impractical or undesirable for the Advisory Client; provided that Aristotle, to the extent within its control, will not favor itself in any way to an Advisory Client’s detriment and will act in a manner that over the long term is fair and equitable to all its Advisory Clients. Notwithstanding the foregoing, it should be noted that Aristotle (for a variety of reasons) may allocate trades solely to one Advisory Client, on a non-pro rata basis or on a pro rata basis across only those Advisory Clients for whom the trade is appropriate based on investment strategy as determined by Aristotle.

In the event that an investment opportunity is appropriate for more than one Advisory Client but is not allocated between such Advisory Clients on a pro rata basis, the Portfolio Manager, or a designee, will document the reasons why such opportunity was not allocated pro rata between the Advisory Clients.

## **ITEM 13 – REVIEW OF ACCOUNTS**

The Advisory Client portfolios are under continuous review by the Portfolio Manager. Such reviews include a review of existing investments, potential investments, investment policy, the suitability of the investments used to meet policy objectives, cash availability, and investment objectives. The Portfolio Manager considers, among other things, investment performance, the portfolio's sensitivity to market changes, and whether anything has changed subsequent to an initial investment decision that impacts the risk or potential return.

Investors are expected to receive quarterly letters, including a list of portfolio holdings with pricing and the Portfolio Manager's valuation analysis, as well as a monthly account statement from the Fund Administrator. In addition, Investors are expected to be provided with annual audited financial statements within 120 days of the fiscal year-end and Investors in Fund will receive tax reports relating to their investments.

## **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

Not applicable.



## ITEM 15 – CUSTODY

If you have *custody* of *client* funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your *clients*, explain that *clients* will receive account statements from the broker-dealer, bank or other qualified custodian and that *clients* should carefully review those statements. If your *clients* also receive account statements from you, your explanation must include a statement urging *clients* to compare the account statements they receive from the qualified custodian with those they receive from you.

Aristotle is deemed to have custody of the Fund's assets and securities by virtue of its status as investment manager. The qualified custodian is Oppenheimer & Co., Inc., 750 Washington Blvd., Stamford, CT 06901.

To ensure Aristotle is in compliance with Rule 206(4)-2 under the Advisers Act, Aristotle or the Fund's administrator provides Investors with audited financial statements for the Fund within 120 days of the end of the Fund's fiscal year (i.e., generally by April 30). Investors should carefully review such statements.

Aristotle does not have custody of the Accounts' assets or securities.

## **ITEM 16 – INVESTMENT DISCRETION**

If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).

Aristotle has discretionary authority to manage securities accounts on behalf of the Fund, and is authorized to make transaction recommendations for the Fund. As explained in Item 4.C above, the Fund's investment strategy is set forth in detail in the Fund's PPM and governing documents. Fund Investors do not have the ability to impose limitations on the discretionary authority of Aristotle. Fund Investors must execute a subscription agreement in which they make various representations, including representations regarding their suitability to invest in a high-risk investment pool. Further, investors in the Fund must execute a limited partnership agreement that contains a power of attorney.

Aristotle has discretionary authority to manage the SMAs and that Account is subject to investment objectives, guidelines, and restrictions, and fee arrangements, as well as other terms that are individually negotiated with the given Advisory Client, and set forth in an investment management agreement.

## **ITEM 17 – VOTING CLIENT SECURITIES**

Aristotle has authority to vote Advisory Client securities. Aristotle understands and appreciates the importance of ensuring that its proxy voting procedures are clearly described to Advisory Clients and Investors. In general, Aristotle will not vote a proxy unless such proxy is deemed material.

Prior to voting any proxies, Aristotle will determine if there are any conflicts of interest related to the proxy in question. If a material conflict is identified, Aristotle will determine what course of action is in the best interests of the affected Advisory Clients (which may include utilizing an independent third party to vote such proxies). Further, Aristotle will determine whether it is appropriate to disclose the conflict to affected Advisory Clients and give such Advisory Clients (and Investors, if applicable) the opportunity to vote the proxies in question themselves.

Aristotle delivers completed proxies in accordance with instructions related to such proxy. Aristotle keeps a record of its proxy voting policies and procedures, proxy statements received, votes cast, communications received and internal documents created that were material to voting decisions and Investor requests for proxy voting records and Aristotle's response.

Investors do not have the ability to direct proxy votes.

Advisory Clients and Investors may obtain additional information regarding how Aristotle voted proxies and may obtain a copy of Aristotle's proxy voting policies and procedures by contacting the Chief Compliance Officer at [cmorrill@aristotleinvestors.com](mailto:cmorrill@aristotleinvestors.com).

## **ITEM 18 – FINANCIAL INFORMATION**

Not applicable.