AAM/Bahl & Gaynor Income Growth Fund Outlook

A·A·M MUTUAL FUNDS

AFNAX • AFYCX • AFNIX

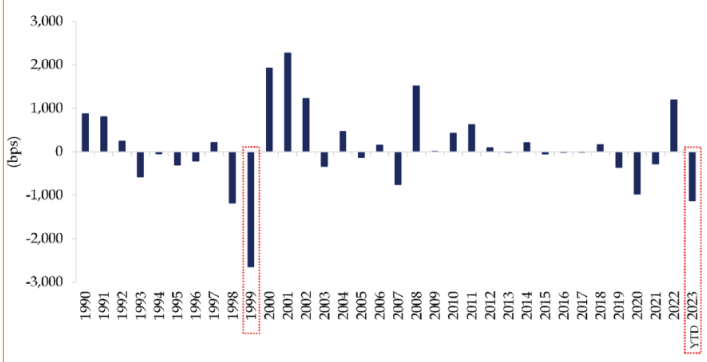
Second Quarter 2023

The following commentary is from Bahl & Gaynor Investment Counsel, the sub-advisor to the Fund and the "we" throughout this commentary.

THE ALL IMPORTANT TWO LETTERS

As we close the first half 2023, two letters have dominated headlines and helped propel the S&P 500 and NASDAQ indices into bull market territory – AI. The history of Artificial Intelligence ("AI") extends well before the November 2022 introduction of ChatGPT (machine learning was introduced in the 1950s), but with recent advances in computer processing, big data storage and cloud compute, generative AI is likely to become the next wave of innovation and monetization within the global economy. The mega-growth companies enabling the AI boom have been meaningful winners year-to-date, causing the largest underperformance of dividend stocks versus the S&P 500 since the dot-com bubble in 1999 (Exhibit 1).

Exhibit 1: S&P 500 Dividend Aristocrats Relative to S&P 500



Source: Strategas Research, 2023. **Past performance does not guarantee future results**

While the introduction of the internet revolutionized the way we communicate, work, and access information, artificial intelligence goes a step further by enabling routine task automation and decision-making. To the extent AI will help spur productivity and profit gains across sectors of the market, we are cognizant of the threats felt by domestic and global regulators on data privacy, intellectual property, and especially workforce retention at a time when corporate profits as a share of U.S. GDP (gross domestic product) are rising while wages continue to trend lower (Source: Goldman Sachs Investment Research, 2023).

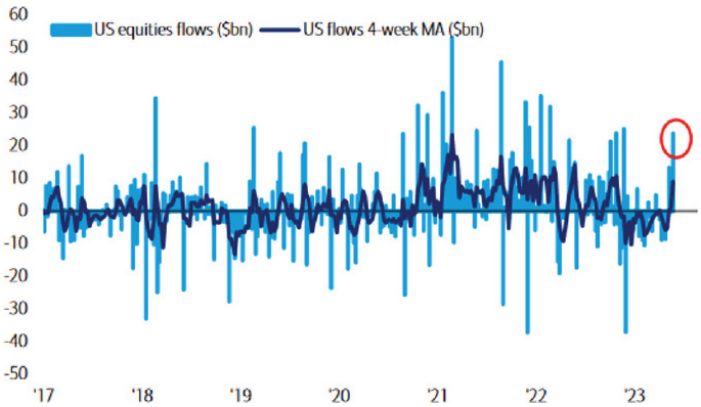
To be clear, we remain excited about the productivity gains associated with Artificial Intelligence yet are aware of the high expectations investors are placing on this AI-centric group of stocks that are driving the index higher. The S&P 500's seven largest market-cap weighted stocks, most of which have AI exposure, have a mean Enterprise Value to Sales (EV/Sales) ratio of 11.8x relative to the 3.0x ratio assigned to the S&P 500 benchmark, meaning investors have rewarded these companies' growth potential with high valuations.[1] However, should any of the discussed risk factors cause sales and earnings growth rates to fall short of expectations, investors are likely to flee resulting in multiple compression. According to Goldman Sachs, firms that trade at EV/Sales multiples greater than 10x have typically gone on to lag peers over one-, three-, and five-year horizons **regardless of realized sales growth.**

"Price is what you pay. Value is what you get."
- Warren Buffet

CHASING MARKET RALLIES

Coming into the year, 2023 was one of very few years where market pundits directed investors to the sidelines and predicted a negative S&P 500 market return. However, halfway through 2023 market-cap weighted indices have refuted this expectation with the S&P 500 posting a double-digit total return through June. The pursuit of market timing has historically yielded little success with the "Market Timing Hall of Fame" remaining empty. Consequently, those waiting for a stock market bottom are now beginning to chase rallies (Exhibit 2), particularly in equity sectors like Technology and Consumer Discretionary that have significantly outperformed year-to-date.

Exhibit 2: US Equities Fund Flows

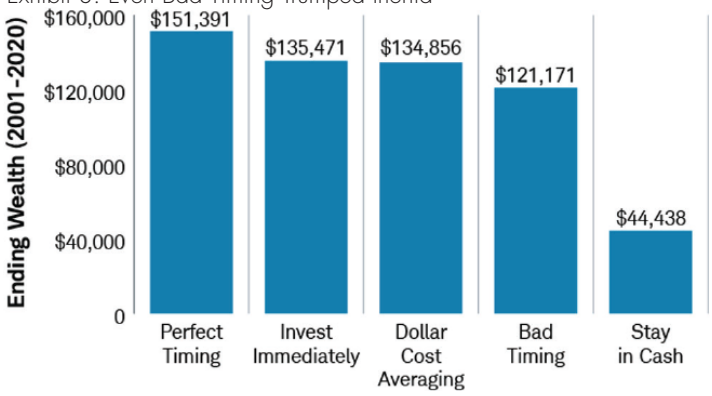


Source: BofA Global Investment Strategy, EPFR, 2023.

1 Data as of 6/26/2023.The seven largest stocks include Facebook (META), Apple (AAPL), Amazon (AMZN), Tesla (TSLA), Microsoft (MSFT), Alphabet (GOOG/L), and Nvidia (NVDA). EV / Sales ratios referenced herein compares a company's enterprise value (EV) to its last twelve months (LTM) annual sales.

Equity market inflows to outperforming sectors is somewhat akin to investors acting like "bad shoppers." Behavioral finance suggests that the herding effect and loss aversion contribute to 'buy' decisions often when equity prices and valuations are high; 'sell' decisions tend to come when prices decline. These psychological influences can affect investor behavior and often impact market flows, contrary to "good shopper" behavior. We are committed to remaining fully invested and believe that a consistent strategy and long-term approach could allow us to avoid the pitfalls of market timing (Exhibit 3).

Exhibit 3: Even Bad Timing Trumped Inertia



Source: Schwab Center for Financial Research.
$2,000 invested annually from 2001-2020 in a hypothetical portfolio that tracks the S&P 500® Index. Past performance is no guarantee of future results. The examples shown above are hypothetical and provided for illustrative purposes only. They are not intended to represent a specific investment product, and investors may not achieve similar results. Dividends and interest are assumed to have been reinvested, and the examples do not reflect the effects of taxes, expenses, or fees. Had fees, expenses, or taxes been considered, returns would have been substantially lower. Perfect Timing invested their $2,000 each calendar year at the lowest closing level for the S&P 500. Invest Immediately invested on the first trading day of the year. Dollar Cost Averaging divided the annual $2,000 allotment into 12 equal portions, and invested at the beginning of each month. Bad timing invested $2,000 each calendar year at the S&P 500 peak for the year. Stay in Cash never bought stocks and instead invested in a hypothetical portfolio that tracked the Ibbotson U.S. 30-day Treasury Bill Index.

BOTTOM LINE

We seek to invest in companies with dividend growth potential and competitive advantages. We look to remain fully invested because it has been shown that time in the market, not timing the market, oftentimes builds wealth. We believe our disciplined investment approach can potentially provide investors with reasonably stable cash flows and a favorable risk-adjusted return profile over a full market cycle. We extend our sincere gratitude for your continued support.

Learn how the AAM/Bahl & Gaynor Income Growth Fund may add value to a diversified portfolio.

See following page for important information.

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus and summary prospectus contains this and other information about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus and summary prospectus by calling 888.966.9661.

Risks: Mutual fund investing involves risk, including the potential loss of principal. An investment in the Fund is subject to risks and you could lose money on your investment in the Fund. The principal risks of investing in the Fund include, but are not limited to, investing in foreign securities, investing in small and mid-cap companies, and focused risk. The prices of foreign securities may be more volatile than the securities of US issuers because of economic conditions abroad, political developments, and changes in the regulatory environment of foreign countries. Investments in small and mid-cap companies involve greater risks including increased price volatility compared to the market or larger companies. Although the Fund is diversified, the Sub-advisor intends to focus its investments in the securities of a comparatively small number of issuers. Investment in securities of a limited number of issuers exposes the Fund to greater market risk and potential losses than if its assets were diversified among the securities of a greater number of issuers. More information about these risks may be found in the Fund's prospectus.

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Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.

An issuer of a security may be unwilling or unable to pay income on a security. Common stocks do not assure dividend payments and are paid only when declared by an issuer's board of directors. The amount of any dividend may vary over time.

A **basis point** (bps) is 0.01 percent of 1 percent. **Enterprise value-to-sales (EV/Sales)** is a financial ratio that measures how much it would cost to purchase a comapny's value in terms of its sales. A lower EV/Sales multiple indicates that a company is a more attractive investment as it may be relatively undervalued. **Gross Domestic Product (GDP)** is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate. The **Nasdaq Composite Index** is a market capitalization-weighted index of more than 2,500 stocks listed on the Nasdaq stock exchange. It is a broad index that is heavily weighted toward the important technology sector. The index is composed of both domestic and international companies. The **S&P 500 Dividend Aristocrats** is an equal-weighted index composed of the companies in the S&P 500 index that have increased their dividends in each of the past 25 consecutive years. The **S&P 500 Index** is an unmanaged market capitalization weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors. It is not possible to invest directly in an index. Index performance does not reflect the deduction of any fees or expenses.

Top ten holdings does not include cash allocation. As of 6/30/23, the top ten holdings in the AAM/Bahl & Gaynor Income Growth Fund were:

	Name	(%)
1.	Broadcom Inc	5.69
2.	Merck & Co Inc	4.47
3.	PepsiCo Inc	3.99
4.	Mondelez International Inc	3.68
5.	AbbVie Inc	3.48
6.	Air Products and Chemicals Inc	3.48
7.	Chevron Corp	3.47
8.	Eli Lilly & Co	3.47
9.	Procter & Gamble Co/The	3.36
10.	McDonald's Corp	3.24

Portfolio holdings will change due to ongoing management of the funds. References to specific securities or sectors should not be construed as recommendations by the Funds, the Advisor or the Distributor.

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Bahl&Gaynor
Investment Counsel

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