CARILLON EAGLE SMALL CAP GROWTH FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FOURTH QUARTER | 2021

Investment Team

Bert Boksen, CFA
Managing Director and Portfolio Manager

Eric Mintz, CFA
Portfolio Manager

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Portfolio Manager

Characteristics

Total Net Assets (billions): $2.14

Number of holdings: 94

Top 10 Holdings

Everi

Quaker Houghton

Chart Industries

Landstar System

LPL Financial

Ritchie Bros. Auctioneers

EastGroup Properties

Simply Good Foods

Summit Materials

MarineMax

Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Call 800.421.4184 or your financial professional for a prospectus, which contains this and other important information about the funds. Read the prospectus carefully before you invest or send money.

Market Overview

Small-cap stocks overall posted minor gains in the final quarter of 2021. In what has become a common theme, the Russell 2000® Growth Index (up 0.02%) trailed its Russell 2000® Value Index (up 4.36%) counterpart for the fifth consecutive quarter. Sector returns across the Russell 2000 Growth Index were mostly positive, with the defensively oriented utilities (up 14.18%) and real estate (up 13.94%) sectors leading the way. Industrials (up 9.73%), financials (up 9.05%), and consumer staples (up 5.67%) also provided returns that outpaced the benchmark. In contrast, healthcare (down 11.36%) and communication services (down 9.72%) were the worst-performing sectors by a considerable degree, although energy (down 1.01%) also turned in a rather lackluster quarter that lagged slightly behind the overall benchmark.

For the full year, small-cap stocks as a whole were able to post positive returns once again, continuing the momentum they have carried since rebounding from the sharp sell-off triggered by the pandemic in early 2020. In a sharp reversal from last year, however, the most impressive returns in 2021 were seen within the Russell 2000 Value Index (up 28.27%), as it significantly outperformed the Russell 2000 Growth Index (up 2.84%) after lagging behind in each of the previous four years. Gains were seen across a majority of the sectors within the benchmark growth index, led by considerable strength in energy (up 70.66%), despite its relatively minor weighting in the index. Also notably outpacing the broader index were real estate (up 25.31%), utilities (up 22.33%), and industrials (up 21.00%). After leading the way during 2020, healthcare (down 21.24%) was the most disappointing sector this year, as it meaningfully underperformed the broader benchmark. Communication services (down 11.07%) also underwhelmed, albeit to a lesser degree.

Portfolio Review

Best Securities	Average Weight (%)	Contribution to Return (%)
CMC Materials	1.51	0.81
Silicon Laboratories	2.03	0.74
EastGroup Properties	1.92	0.59
Summit Materials	1.92	0.38
Simply Good Foods	1.92	0.35
Worst Securities		
Everbridge	1.86	-1.29
Chart Industries	2.90	-0.56
Asana	1.51	-0.48
Penn National Gaming	1.46	-0.44
Sprout Social	1.38	-0.41

As of December 31, 2021. The information provided above should not be construed as a recommendation to buy, sell, or hold any particular security. The data are shown for informational purposes only and are not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice. Past performance does not guarantee future results. Please note that the holdings identified do not represent all of the securities purchased, sold, or recommended for the fund. They are provided for informational purposes only. Carillon Tower Advisers, Eagle Asset Management, their affiliates or their respective employees may have a position in the securities listed. Please contact Carillon at 800.421.4184 to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall fund's performance during the measurement period.

CMC Materials supplies consumable materials used in semiconductor chip production as well as oil pipelines. Shares rose after it was announced the firm had reached an agreement to be acquired by a materials sciences company that is another of the fund's holdings in a cash and stock deal valuing the company at a healthy premium to the prior close price. We believe this acquisition makes a lot of sense given the increasing importance of critical chemicals used by chip makers at smaller nodes.

Silicon Laboratories provides silicon, software, and solutions used in a variety of technologies. The company now is solely focused on the Internet-of-Things (IoT) market after divesting non-core assets. The company reported excellent acceleration in growth for IoT products, and management gave a forecast that suggested very strong growth coupled with healthy improvement in gross margins. We remain optimistic the company now has sharp focus on a compelling growth area, and with the sale of the non-core assets, the balance sheet allows for significant share buybacks or dividends.

EastGroup Properties is an equity real estate investment trust (REIT) focused on the development, acquisition, and operation of industrial properties in major Sunbelt markets across the United States. The stock has been an impressive performer as of late, as the firm continues to benefit from overall strong fundamentals in the industrial real estate market. Enterprises in a number of industries, but most notably retail e-commerce, are investing heavily in their distribution networks in light of the ongoing global supply chain issues. Positive migration trends in the Sunbelt markets where the company operates also have contributed to the firm's recent success, leading to record occupancy rates and rental rate growth.

Summit Materials is a vertically integrated construction materials-based company that supplies aggregates, cement, ready-mix concrete, and asphalt in the United States and British Columbia. Shares rose as the firm benefitted from both a healthy market demand environment and price growth across each of its lines of business. Summit also is the beneficiary of ongoing migration trends favoring construction activity in the exurban and rural markets that it primarily serves. Additionally, the recently passed federal infrastructure bill could also provide a source of future growth.

Simply Good Foods develops and sells nutritional food and snacks, positioning it to take advantage of the secular trend towards healthy snacking. The stock outperformed when the company reported quarterly results in excess of expectations and also provided strong forward fiscal year guidance. The firm is seeing an improvement in sales as consumer mobility gradually returns to more normalized levels, and it benefits from going up against easy comparisons from last year when mobility was hampered by the pandemic.

Everbridge is a cloud-based enterprise software provider of a real-time communications platform used by state and local governments as well as companies to send alerts to their constituents via phone and/or email. The stock fell in the quarter following the unanticipated departure of the CEO, who is leaving to lead a private cloud software company. The firm also subsequently provided revenue guidance for next year that came in below investor expectations. We believe Everbridge's growth prospects remain healthy and its valuation is extremely attractive to us at these levels.

Chart Industries manufactures highly engineered equipment servicing multiple applications in the energy and industrial gas markets. After an impressive run, modest profit-taking caused the firm's shares to cool slightly. Despite some recent order delays and supply chain difficulties, the company's long-term fundamentals remain strong as it continues to be well-positioned to benefit from a number of trends in the clean energy space. In addition to its core position in liquefied natural gas, some of the more compelling opportunities the company has invested in recently are hydrogen, carbon capture, and water treatment. On a positive note, the company recently announced that it had secured orders for four separate liquefaction projects.

Asana is a work management software platform that helps teams collaborate and orchestrate work. Despite a stellar earnings report, the shares pulled back as the company failed to exceed consensus estimates by the same magnitude it had in the prior two quarters. The firm's growth remains quite healthy, and with the CEO continuing to personally purchase substantial amounts of the firm's stock in the open market, we are quite positive about Asana's prospects.

Penn National Gaming is a diversified omni-channel provider of retail and online gaming, live racing, and sports betting entertainment. The stock sold off a bit after a quarterly update came in slightly below expectations, which was largely a result of the impact that Hurricane Ida and the reemergence of COVID had on its land-based operations. Despite this, the company's mobile sportsbook app is now live in more than 10 states and continues to gain market share. We are also very bullish on the prospects for the company's land-based casinos going forward.

Sprout Social provides cloud-based software used by companies to interact with their customers via social media. The firm delivered strong results in the quarter and issued guidance above expectations, driven by larger deal sizes from commercial customers. Despite the positive results, the stock pulled back alongside the majority of high-growth software stocks. We continue to like the company's favorable competitive position and market opportunity.

Outlook

Surely 2021 will go down in finance history books as a very strong year. Equity markets have largely shaken off fears of inflation, prospects of possibly three U.S. Federal Reserve (Fed) interest rate increases, delays in the current administration's Build Back Better bill, and the social and economic costs of the pandemic fueled recently by the omicron variant. We view the market's strength in the face of these well-known headwinds as encouraging. We also view as healthy the recent correction in the segments of the market that had benefitted from the work-from-environment and have exhibited what we view as excessive valuations. That said, we are optimistic that the early part of 2022 could potentially prove as a relatively strong catch-up period, particularly for the small-cap growth spaces.

Bolstered by a solid near-term economic backdrop, the outlook for cyclical sectors appears constructive. Although the global economic recovery hit a recent speed bump with the omicron variant, the impact appears likely to be less severe than with the delta variant, which wreaked havoc on supply chains. Looking ahead, we expect that manufacturing volumes will continue to ramp to meet pent-up demand as supply chain bottlenecks ease. We expect growth to be further sustained as depleted inventories are re-stocked. While demand remains strong across most markets, expanding profit margins likely will be the key driver of relative share price performance. Companies that command enough pricing power to offset raw material inflation should do well. Additionally, companies that can attract and retain labor in a challenging market should also outperform. The intermediate-term outlook is less clear given uncertainty surrounding the future direction of monetary and fiscal policies. On the optimistic side, inflationary pressures could ease enough to prevent monetary policy tightening beyond current expectations. In this context, we believe upward pressure on wages remains a key variable to monitor. Despite political brinksmanship during negotiations, we believe that a Build Back Better bill is still a possibility and, if passed, could help boost economic growth in the back half of the coming year.

In 2021, a very unusual year for healthcare, strange dynamics led to an unusual pattern of returns. Despite their usual strong positive correlation, there was a large disparity in returns among the healthcare sectors of the Russell Midcap® Growth and Russell 2000 Growth indices. This was largely in part due to the dismal performance seen within biotechnology, which accounts for a significantly larger portion of the Russell 2000 Growth than the Russell Midcap Growth. An additional factor that contributed to the divergence was a bit of a factor rotation that began to favor shorter duration stocks due to the re-opening of the economy and prospects for rising interest rates. Given the macro backdrop of a strong economy, rising interest rates, and rising inflation, we believe that shorter duration healthcare stocks will continue to outperform. However, given the overall poor performance of healthcare in 2021 and the possibility that economic growth could peak in 2022, it would not surprise us if we see the sector exhibit strength later on in the year if the overall market becomes a bit more defensive in nature.

COVID variants appear to have put a damper on what was a strengthening macroeconomic picture late in the year. Going forward, we believe that vaccine booster shots and lower mortality rates are likely to bring the world back toward normality, with increasing in-person interaction. Enterprise spending has been steady, and we expect supply chain issues and semiconductor chip shortages to abate around mid-year, with the potential for accelerating growth. The consumer also appears to be in a healthy position and able to spend on goods and entertainment, and improvement in consumer sentiment should sustain spending on enabling technologies. Within technology, we continue to find attractive opportunities in themes such as cloud computing, artificial intelligence, mobility and telecommunications infrastructure, digital payments, the Internet of Things, smart home, industrial automation, security software, e-gaming, and alternative energy.

The current outlook for the financials sector remains constructive. While volatile throughout the fourth quarter, interest rates have regained their upward trajectory. Given this rate backdrop coupled with solid economic growth, we see selective opportunities in the regional banking space. We see unique opportunities in those banks that are both asset-sensitive and located in geographies with outsized economic growth. In addition, we see appealing opportunities in certain financial firms that are gaining market share and will also benefit from a rising rate environment. As the economy continues to heal, we anticipate the strong pace of merger and acquisition activity to continue into next year. We feel as though this underlying environment will continue to benefit smaller advisory boutiques that are gaining share from the larger firms.

Entering 2022, the consumer sectors could be a bit of a mixed bag. On one hand, the high-end consumer is in a relatively healthy position currently. Confidence is high, fueled in part by the strong stock market as well as by rising real estate values. On the other hand, the lower-end consumer could face challenges from sharply reduced government subsidies as well as from inflationary cost pressures. The rapid spread of the omicron variant should dampen travel in the quarter, but we believe the market ultimately will look past the short-term negative economic impact towards a strong recovery by springtime. Housing should remain on its upward trend, as low interest rates should trump inflationary labor and supply chain costs. The automobile industry also should strengthen as supply chain constraints begin to ease and pent-up consumer demand fuels gains. On the retail front, much like the overall present consumer situation mentioned earlier, high-end retailers should benefit as a result of their thriving affluent customer-base, but at the lower end, some retailers could face challenges from both inflation and supply chain costs in the face of a more challenged consumer.

Risk Considerations: Investments in small-cap companies generally involve greater risks than investing in larger capitalization companies. Small-cap companies often have narrower commercial markets and more limited managerial and financial resources than larger, more established companies. As a result, their performance can be more volatile and they face greater risk of business failure, which could increase the volatility of a fund's portfolio. Additionally, small-cap companies may have less market liquidity than larger companies.

Growth companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns.

Investing in mid-cap stocks may involve greater risks than investing in larger, more established companies. These companies often have narrow markets and more limited managerial and financial resources. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply.

Initial Public Offerings ("IPOs") include the risk that the market value of IPOs will fluctuate considerably due to the absence of a prior market, among other factors.

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Benchmark Index:

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Midcap® Growth Index measures the performance of the midcap growth segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

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