CARILLON EAGLE MID CAP GROWTH FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

SECOND QUARTER | 2022

Investment Team

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Characteristics

Total Net Assets (billions): $5.72

Number of holdings: 90

Top 10 Holdings

Synopsys
LPL Financial
Waste Connections
CrowdStrike
AutoZone
SBA Communications
Tyler Technologies
Baker Hughes
McKesson
WW Grainger

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

Mid-cap stocks overall posted markedly lackluster returns in the second quarter. In what has become a common theme, the Russell Midcap® Growth Index (down 21.07%) lagged its Russell Midcap® Value Index (down 14.68%) counterpart. No individual sector was spared in the market turbulence, as sector returns across the Russell Midcap Growth Index were entirely negative. Notably disappointing results were seen within communication services (down 27.90%), information technology (down 25.31%), consumer discretionary (down 24.34%), and real estate (down 20.69%). On the other end of the spectrum, the defensively-oriented consumer staples (down 3.00%) held up best, while energy (down 4.45%) and utilities (down 5.34%) also fared well on a relative basis.

Portfolio Review

Best Securities	Average Weight (%)	Contribution to Return (%)
Seagen	0.92	0.26
Ritchie Bros. Auctioneers	1.55	0.22
Monster Beverage	0.84	0.12
AutoZone	2.34	0.11
McKesson	1.60	0.08
Worst Securities		
Cognex	1.33	-0.75
CrowdStrike	2.73	-0.75
Marvell Technology	1.56	-0.70
Expedia	0.97	-0.63
Tyler Technologies	2.17	-0.58

As of June 30, 2022. 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.

Seagen is a biotechnology company that develops monoclonal antibody-based therapies to treat cancer. The company's stock jumped after a report indicating that Seagen was in talks with multiple suitors about a potential sale of itself.

Ritchie Bros. Auctioneers, an international industrial equipment auctioneer, posted an exceptional quarterly report highlighted by a notable increase in gross transaction value within its core auction business. Despite a used equipment market that remains tight, the company benefited from increased pricing and continued to gain market share. In the short term, the company could benefit from any economic slowdown that would alleviate the tightness of the used equipment market. Longer-term, Ritchie Bros. remains a compelling secular growth story as management remains focused on innovating and leveraging technology to build-out its omni-channel presence.

Monster Beverage develops and sells energy drinks and concentrates. The company's shares outperformed, driven by an impressive earnings report highlighted by better than expected organic growth. Management also gave guidance that indicated a potential bottom in gross margins, as well as upcoming price increases that helped give investors confidence in its growth outlook.

AutoZone sells automotive replacement parts and accessories. The company reported another solid quarterly update that highlighted particularly robust growth in its commercial segment, market share gains, and stable gross margins. Additionally, investors have appreciated the company's historically stable business model that is positioned to perform well in periods of economic stress.

McKesson provides diversified insights, products, and services to a variety of participants in the healthcare industry. Most notably, its underlying distribution and specialty services businesses are demonstrating excellent earnings growth, which is no small feat for a company of McKesson's size. Also, for investors seeking safety, McKesson is currently in a position of considerable financial strength, which should insulate it from substantial economic risks.

Cognex, a provider of machine vision products for logistics and equipment used in factory automation, posted solid earnings results for the quarter, although the outlook disappointed. A number of the company's customers are dealing with supply chain delays and staffing shortages, and some automation projects have been pushed out. We remain positive on the potential for a rebound later in the year, especially for the logistics, consumer electronics, and electric vehicle markets.

CrowdStrike, a security software platform for protecting information technology assets and cloud workloads, delivered strong earnings results, with solid recurring revenue, customer growth, and profitability. Some investors, however, hoped for bigger numbers on the annual recurring revenue metric. Additionally, CrowdStrike has shown a desire to continue to hire to fuel growth, and so the expected increase in future profitability will be held back somewhat in the near term. We remain positive on the company's prospects, as current geopolitical tensions make cyber security mission-critical.

Marvell Technology provides infrastructure semiconductor solutions. Investors have recently become concerned about the semiconductor cycle and how demand for Marvell's products will fare in a slowing economic environment. We remain confident that the company's portfolio of products is extremely important in parts of the datacenter server market, which remains healthy and possesses long-term secular trends. The company also has secured strong contract wins in upcoming global 5G wireless infrastructure build-outs, which are generally insulated from macroeconomic pressures. With supply chain issues easing, we believe Marvell remains in a strong position to post continued robust growth.

Online travel company Expedia underperformed after posting quarterly results that were slightly below market expectations. The company's results were negatively impacted by the omicron variant early on in the quarter and then later the war in Ukraine. Despite this, positive forward commentary from the company noted a recovery in booking trends that point toward these issues being temporary.

Tyler Technologies provides software for state and local governments with a focus on ERP (enterprise resource planning), courts and justice, public safety, and payments. The company delivered solid results, although a mix shift toward cloud computing, where deals carry lower upfront revenue recognition, as well as cloud hosting fees and investments in products, are pressuring the outlook for near-term profitability. We remain optimistic that the company will benefit from healthy state and local budgets, especially as infrastructure funds begin to flow more freely next year.

Outlook

Despite one of the worst starts for the equity markets on record, we believe there are compelling reasons to be constructive on stocks from current levels. Many of the culprits behind the drawdown in the equity markets – among them surging inflation and a beleaguered U.S. Federal Reserve (Fed) on a mission to rebuild its severely damaged credibility – are well-understood by investors and appear to be heavily discounted in current valuations. Inflationary pressures, largely borne from supply-side constraints and production bottlenecks coming out of the pandemic-induced economic shutdown, appear poised to abate but still remain at elevated levels. Energy prices may prove resilient given the sanctions against Russia and the lack of a coordinated energy policy to oversee the transition to renewable sources. Inflationary pressures have likely begun to subside but a return to the Fed's targeted range could prove to be elusive in the intermediate term. Due to the economy's lagged response to changes in monetary policy, uncertainty around the severity of the slowdown will likely linger into the coming year and raise the likelihood of a Fed policy mistake. On the positive side, the yield curve, which has flattened considerably and only briefly inverted, has yet to convincingly predict that the U.S. economy is headed into recession. The absence of glaring excesses in the economy suggests that the current slowdown will not escalate into a more severe contraction. Inventory levels in many interest rate-sensitive industries such as housing and autos remain lean and need to be re-stocked. Recent economic data have begun to soften and consumer confidence has plunged to levels historically associated with market bottoms. Additionally, tighter monetary policy has expunged the excessive speculation rampant in the market early last year in areas such as crypto currencies and special purpose acquisition companies (SPACs), as the proverbial pendulum of investor sentiment has swung from greed to fear. Valuations have reset accordingly and trade at levels toward the lower end of historical ranges. In fact, the approximate 75% drawdown in non-earning technology stocks is similar to the carnage experienced following the bursting of the tech bubble in 2000. Recently, there has been evidence that inflationary pressures may be abating as several retailers have noted a slowdown in spending in certain categories and a build-up of inventories with expected mark-downs on the horizon. Notably, measures of money supply growth, widely considered a leading indicator of inflation, have flattened out and could possibly turn negative in the coming months. Given the negative sentiment and well-known headwinds, we believe that the markets could rally sharply if a further weakening in data allows the Fed to soften its hawkish tone in the second half of the year.

The outlook for the cyclical sectors of the market has dimmed as central banks across developed economies have abruptly moved away from loose policies. Tightening monetary policies will undoubtedly lead to slower global economic growth. In the United States, the sharp back-up in mortgage rates likely will pressure the housing industry, which typically leads non-residential construction activity by a few quarters. From an end-market perspective, we favor companies with exposure to the energy sector, where supply deficits should support commodity prices despite waning demand growth in a more sluggish economic environment. Defense spending may prove to be robust in the coming year and also could represent a compelling buffer to market turbulence. Finally, we favor companies with idiosyncratic business models capable of outperforming during more challenging outlook environments.

To say that the healthcare sector has been under relentless selling pressure is an understatement. In addition to the current macroeconomic challenges being felt throughout the economy, we also believe there are some fundamental issues currently challenging the healthcare sector. While a portion of rising input and transportation costs can be passed on to customers as inflation continues to rise, there are fears among investors that many healthcare manufacturers will not be able to continue passing on these costs for much longer. Labor availability is also an acute problem, particularly among healthcare providers and hospitals, where labor shortages, specifically among nurses, likely will last for the foreseeable future. The net result of these higher input costs is likely to be lower gross, operating, and overall profit margins. Higher interest rates, margin compression, negative earnings revisions, and a slowing economy are setting the stage for most healthcare stocks to experience ongoing multiple compression and negative returns. The real question investors are asking is, at what point will all of the bad news be already discounted in the prices of healthcare stocks with strong franchises, solid growth prospects, and/or unique and protected assets? Our sense is that this question will likely be settled over the next four to five weeks as earnings results and outlooks for growth are presented by management teams, and valuations begin to incorporate this new information. In light of these factors, we have positioned our healthcare holdings to have both exposure to stocks with longer duration and higher growth, as well as to those with reasonable valuations, profitability, and prospects of accelerating profits.

With a pullback in the market, we are seeing much more palatable valuations in the information technology sector and believe that we are seeing early signs of supply chain issues dissipating and chip shortages improving. We remain hopeful that COVID-related shutdowns in China are now behind us, though the geopolitical outlook remains murky. Employment figures remain strong, consumer spending has held up well, and enterprise spending has for the most part remained healthy. 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 homes, industrial automation, security software, e-gaming, and alternative energy.

The current outlook for the financials sector remains constructive, but there are some shifting dynamics under the surface. Interest rates have continued on their upward trajectory, and we expect they will continue to have an upward bias. At the same time, we anticipate an environment moving forward of slowing economic growth. We see appealing opportunities in certain financial firms that are gaining market share and also will benefit from a rising-rate environment. In addition, we are constructive on smaller advisory boutiques that will benefit from an increase in restructuring activity and continue to gain share from the world's biggest investment banking firms. Lastly, we see opportunities in pawn lenders that we expect to capitalize as consumers' overall access to credit potentially becomes challenged.

The consumer is facing a number of headwinds, from higher interest rates to higher gas and housing prices. These forces have resulted in a sharp drop in consumer sentiment. In addition, ongoing supply chain disruptions make it increasingly challenging for consumer companies selling physical products. Against this backdrop we see consumers shifting their spending priorities. We see opportunities in companies selling fitness services as part of a longer-term health and wellness trend. In addition, we see opportunities as consumers prioritize travel and experiences over the purchase of goods, which is in stark contrast to the consumer landscape that persisted during the majority of the pandemic.

Risk Considerations: Investments in mid-cap and small-cap companies generally involve greater risks than investing in larger capitalization companies. Mid-cap companies often have narrower commercial markets, more limited managerial and financial resources, and more volatile trading than larger, more established 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. 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.

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Benchmark Index:

The Russell Midcap® Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth Index.

The Russell Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower 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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CFD22-0449, Exp. 10/31/22, CM-CFF-CEMCG