CARILLON EAGLE MID CAP GROWTH FUND

INSIGHT | COMMENTARY

FOURTH QUARTER | 2022

Investment Team

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Characteristics

Total Net Assets (billions): $5.97

Number of holdings: 81

Top 10 Holdings

Synopsys

Waste Connections

U.S. Bank Money Market Deposit Account

AutoZone

MarketAxess

Baker Hughes

Tyler Technologies

LPL Financial

W.W. Grainger

SBA Communications

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

For the first time in 2022, mid-cap stocks posted solid gains in the fourth quarter, clawing back a portion of the previous quarters' underwhelming returns. Among the style indexes, the Russell Midcap® Growth Index (up 6.90%) trailed the Russell Midcap® Value Index (up 10.43%), in a return to the trend that has been in place for the better part of two years, after a one-quarter hiatus in the third quarter. Sector returns within the Russell Midcap Growth Index were almost entirely positive, with utilities (up 16.56%), energy (up 14.98%), and healthcare (up 14.54%) leading the way. Real estate (up 13.52%) and consumer discretionary (up 10.96%) were additional sources of strength. In contrast, communication services (down 11.72%) held the distinction of being the only sector to finish in the red. Information technology (up 0.03%), materials (up 4.49%), and consumer staples (up 5.93%) also lagged the broader index, but to a lesser extent.

For the full year, mid-cap stocks as a whole posted disappointing returns, with the pain being felt much more drastically within the Russell Midcap Growth Index (down 26.71%), as it severely lagged the Russell Midcap Value Index (down 12.06%). On a sector basis within the Russell Midcap Growth Index, positive gains were unsurprisingly hard to come by, though energy (up 59.15%) turned in a remarkable year and was the main source of leadership throughout the entire year. The defensive-oriented utilities sector (up 2.87%) was the only other sector to see positive returns, despite its relatively minuscule weight in the index. Consumer staples (down 3.72%) was an additional source of relative strength compared to the broader index. On the other side of the spectrum, the areas of the index that are often seen as the most growth-oriented lagged in meaningful way, with communication services (down 54.16%), information technology (down 33.05%), and consumer discretionary (29.20%) all disappointing. This also marked the second straight year that communication services was at the back of the pack from a sector standpoint after leading the way throughout the initial stages of the pandemic in 2020.

Portfolio Review

Best Securities	Average Weight (%)	Contribution to Return (%)
Baker Hughes	2.13	0.73
Horizon Therapeutics	0.89	0.57
Halliburton	1.23	0.52
United Rentals	1.74	0.48
Planet Fitness	1.51	0.46
Worst Securities		
CrowdStrike	2.09	-0.93
Generac	0.23	-0.48
Wolfspeed	1.00	-0.43
Albemarle	0.57	-0.43
Marvell Technology	1.46	-0.20

As of Dec. 31, 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.

Baker Hughes is a diversified energy technology and equipment company. After lagging the broader energy complex for the first quarters of 2022 amid some unfortunate operational hiccups related to ongoing supply-chain issues and the ceasing of operations in Russia, the stock rebounded meaningfully in the fourth quarter. Investors hope these recent headwinds are now in the rearview mirror and the company is poised to benefit from a number global tailwinds, including the multiyear upturn in upstream spending on exploration and production, the ongoing build-out of liquefied natural gas infrastructure, and the increased development of emerging technologies such as green hydrogen and carbon capture.

Horizon Therapeutics focuses primarily on the research, development, and marketing of late-stage biopharmaceutical products. Shares jumped after it was announced the company was in talks with a number of noteworthy players in the biopharmaceutical industry about a potential sale.

Halliburton provides equipment and services to the global energy industry. Shares have been on an impressive trajectory recently, outpacing the notable move in the overall oilfield services and equipment group. Halliburton benefits from the ongoing upswing in global upstream spending and should play a pivotal role in helping exploration and production companies navigate the recent productivity declines in North American shale. The tight services and equipment market has resulted in strong pricing gains and margin expansion, and when coupled with a disciplined approach to capital spending, has paved the way for the stock's outperformance.

United Rentals rents equipment primarily to construction and industrial companies, as well to as manufacturers, utilities, homeowners, municipalities, and other government entities. The company has benefitted from the continued tightness throughout the machinery sector, as original equipment manufacturers struggle to meet demand due to ongoing supply chain constraints. Activity within most of its major customer verticals remains strong, and the company sees itself as well-positioned to capitalize on secular trends such as the reshoring of global supply chains and increased infrastructure investment.

Planet Fitness is a franchisor and operator of fitness centers. The stock performed well, driven by better than expected quarterly results that highlighted positive new membership trends. Both full-year revenue and earnings guidance were also raised above expectations. Additionally, the company gave a strong three-year growth outlook that was well-received by investors at its inaugural Investor Day.

CrowdStrike, a provider of cyber security software solutions, delivered quarterly results that exceeded expectations, but provided guidance that disappointed, as the macro economy is causing longer sales cycles and some larger orders are being sold in smaller pieces. However, these deals are not being lost to competitors; they are just being delayed, and management expects enterprise security spending to remain relatively resilient in 2023.

Generac is an energy technology company providing backup and prime power generation systems, as well as clean energy solutions. The stock underperformed after the company pre-announced underwhelming third-quarter results that highlighted a sharp rise in channel partner inventories. Fears that the company has increased production capacity while installation bottlenecks continue to persist and consumer demand for its residential power generation products could be decelerating, plus a bankruptcy filing from one of its notable clean energy customers, also weighed on the shares. We have sold the stock.

Wolfspeed supplies semiconductors that help electric vehicles (EVs) charge more quickly and fully. The company has made significant announcements regarding long-term supply agreements with various auto manufacturers and their suppliers regarding buying the company's products. However, there is a fairly sizable capital investment required to meet those supply agreements, and investors have questioned to what degree and at what cost financing is available to build those factories. We firmly believe the company will be able to meet the financing needs to meet the long-term targets via a combination of debt, equity, and customer pre-payments.

Albemarle is a global specialty chemicals company with leading positions in lithium, bromine, and refining catalysts. The stock gave back some of its recent gains amid investor concerns about how the future price of lithium could be affected by a potential decelerating rate of growth in overall electric vehicle (EV) production and demand, primarily in China. Despite these potential near-term headwinds, longer-term the global lithium market remains tight, and Albemarle plays a critical role in the battery value chain and remains well-positioned for the overall continued global adoption of EVs.

Marvell Technology provides infrastructure semiconductor solutions. Investors are 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 highly important in parts of the datacenter server market and note that the company recently has secured strong wins with large technology companies to use its products. The company also benefits from 5G wireless infrastructure build-outs that remain on pace and are generally insulated from macroeconomic pressures. With supply chain issues easing, we believe Marvell remains in a strong position to post healthy growth in 2023.

Outlook

Following an exceptionally challenging 2022, we are cautiously optimistic on the outlook for equity markets in the year ahead. As investors are acutely aware, inflationary pressures, once deemed to be transitory, surged to surprisingly high levels and wreaked havoc across global financial markets. We believe that stocks will return to their long-term upward trajectory as it becomes increasingly apparent that the aggressive actions already taken by the U.S. Federal Reserve (Fed) and other central banks have brought inflation under control. While it will take time for inflation to return to the Fed's target range, we are encouraged by recent trends in the data. Most notably, consumer's inflationary expectations remain well-anchored and money supply growth has flattened. The Fed's hawkish jawboning, unprecedented pace of rate hikes, and quantitative tightening have proven to be effective tools to restrict financial conditions enough to burn off the excesses accumulated during a period of overly accommodative monetary and fiscal policies. Valuations largely reflect the risks associated with the lagged effects of monetary tightening that are ominously depicted in the inverted yield curve. Although corporate revenues will likely see downward pressure as global economic growth slows, we believe that profits may prove more resilient than bearish forecasts. Companies that can implement vigilant expense management to mitigate a slowdown in revenue and protect margins will likely outperform the broader averages. As always, stock selection remains key and we are optimistic about the portfolio. Finally, we remind investors that equity markets are forward-looking as stocks typically bottom before the economy troughs.

The outlook for the more cyclically-oriented areas of the market appears balanced at current levels as several notable end markets have begun to feel the impact of tighter monetary policy. Several regional surveys of economic activity have dropped into contraction territory. Ominously, trucking volumes and rates, a real-time proxy for economic activity, have fallen sharply. The housing market is clearly in the midst of an abrupt slowdown due to the rapid rise in mortgage rates during 2022. Building permits, a key leading indicator for residential construction, have plunged and homebuilders' confidence has dropped to levels last seen at the onset of the pandemic. Due to the lagged effects of the stringent monetary tightening already in place, growth will likely slow further in the coming quarters. Against this backdrop, we favor companies with exposure to infrastructure spending and themes such as the re-shoring of supply chains. Following a period of broad-based inflationary pressures, we believe that corporate profit margins could potentially benefit from falling costs and fewer supply chain bottlenecks. As such, stock selection will be key as corporate managers navigate this dynamic environment. In our opinion, the market offers compelling investment opportunities for companies that have idiosyncratic opportunities for growth despite the broader economic slowdown.

It is a well-known investment axiom that healthcare is a defensive sector and therefore generally a desirable place to hide during turbulent periods in the market. While that has proven to be true for large-cap managed care, large-cap pharmaceuticals, and large-cap distributors, unfortunately the same cannot be said for most industry groups within the small- or mid-cap healthcare landscape. Essentially, this year has been a market environment where healthcare has not been a place to "hide." In mid-November, the market began to rotate out of year-to-date winners and into stocks that were high-quality, profitable companies that had been poor performers through most of the year. This rotation was driven by a belief that a Fed pause or pivot was just months away and that this would signal the beginning of a new cycle that would favor growth stocks. Unfortunately, the Fed's recent comments have poured some cold water on that thesis as the market has been under pressure since then. From a fundamental point of view, we continue to favor medium-duration stocks that have several characteristics: strong management teams, above-average revenue and earnings growth, large competitive moats, and reasonable valuations. These types of companies tend to perform well in turbulent markets, while also having the necessary growth characteristics to keep pace in growth cycles. Several notable healthcare conferences in January and February will help set the tone for the first-half performance of the sector. Despite these challenges, it is our view that healthcare is poised for a recovery in 2023. We believe there is currently just too much value in large swaths of quality healthcare companies, and it is merely a matter of time before investors will seek the attractive fundamentals of these companies.

As we enter the new year, we believe there are positive signs that the worst of the inflation pressures may be behind us and thus interest rates may also be peaking. This could be a nice setup for the technology investment landscape, especially given the meaningful pullback in valuations last year. Mergers and acquisitions activity also picked up late in the year, which also suggests a good environment to initiate positions in some of the best-positioned technology companies for the mid- to longer-term horizon. Despite some of the macroeconomic issues that are compounded by geopolitical risks, U.S. employment remains 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 durable, strong companies with healthy balance sheets that will benefit from secular 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, although there are a number of crosscurrents beneath the surface. While interest rates have continued their upward trajectory, we suspect we are nearing the end of this rate hiking cycle. At the same time, we anticipate economic growth to slow moving forward as the rapid pace of rate hikes takes hold. In this environment we see opportunities in boutique advisory firms poised to assist companies restructure their liabilities and grow through mergers and acquisitions. In addition, we still remain constructive on certain financial firms that are gaining share and also benefit from higher rates. Lastly, we see opportunities in pawn lenders, which we expect to capitalize as consumers' overall access to credit potentially becomes challenged.

Inflation remains the No. 1 issue facing the consumer. While moderating a bit over the past few months, it remains a headwind to consumers' buying power. Ongoing supply chain disruptions are beginning to show signs of finally improving. Against this backdrop, we continue to see two dynamics at play: Consumers are changing what they want to purchase while at the same time looking for value in certain areas. Some of the areas we are excited about and see compelling opportunities in include companies selling fitness services as part of a longer-term health and wellness trend, as well as restaurants and specialty retailers offering discount value products.

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.

Definitions

Defensive stocks provide consistent dividends and stable earnings regardless whether the overall stock market is rising or falling. Companies with shares considered to be defensive tend to have a constant demand for their products or services and thus their operations are more stable during different phases of the business cycle.

Growth investing is a stock-buying strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.

Secular stocks are characterized by having consistent earnings over the long term constant regardless of other trends in the market. Secular companies often have a primary business related to consumer staples most households consistently use whether the larger economy is good or bad.

Hawkish, dovish, and centrist are terms used to describe the monetary policy preferences of central bankers and others. Hawks prioritize controlling inflation and may favor raising interest rates to reduce it or keep it in check. Doves tend to support maintaining lower interest rates, often in support of stimulating job growth and the economy more generally. Centrists tend to occupy the middle of the continuum between tight (hawkish) and loose (dovish) monetary policy.

Quantitative tightening refers to the attempt by central bankers to reverse the effects of quantitative easing (QE), which is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. In quantitative easing, buying securities adds new money to the economy, and also serves to lower interest rates by bidding up fixed-income securities. It also expands the central bank's balance sheet. In quantitative tightening, reducing those purchases is a policy primarily aimed at interest rates and at influencing investor perceptions of the future direction of interest rates.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. Investors and market analysts watch certain yield curves for signs of inversion, when yields for longer-term debt instruments fall below yields on short-term debt with the same credit quality. Inversions are watched as potential signs of a weakening economy and in certain cases, a harbinger of recessions.

Cyclical stocks have prices influenced by macroeconomic changes in the economy and are known for following the economy as it cycles through expansion, peak, recession, and recovery.

Equity duration is the cash-flow weighted average time at which investors can expect to receive the cash flows from their investment in a company's stock. Long-duration stocks include fast-growing technology companies, including those that may not pay any dividends in their early years, while short-duration stocks tend to be more mature companies with higher ratios to dividend to price.

Indices

The Russell Midcap® Growth Index, the Fund's benchmark 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. Unmanaged index returns do not reflect any fees, expenses, or sales charges.

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