CARILLON EAGLE SMALL CAP GROWTH FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

THIRD QUARTER | 2023

Investment Team

Eric Mintz, CFA
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Portfolio Manager

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Portfolio Manager

Characteristics

Total Net Assets (millions): $570.60

Number of holdings: 92

Top 10 Holdings

Viper Energy Partners

PJT Partners

Lattice Semiconductor

RB Global

Celsius Holdings

Summit Materials

Landstar Sytem

Silicon Laboratories

Quaker Chemical

Liberty Energy

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

In the third quarter, small-cap stocks reversed course from their mostly positive performance in the first half of 2023 and posted negative returns. It was the first quarter this year that the Russell 2000® Growth Index (down 7.32%) declined, underperforming the Russell 2000® Value Index (down 2.97%) by a notable margin. Energy (up 18.96%) was one of only two sectors to finish the quarter with positive returns, leading financials (up 2.04%) by a wide margin. All other sectors were negative with consumer staples (down 3.52%), industrials (down 6.10%), and consumer discretionary (down 6.64%) followed by information technology (down 8.36%), communication services (down 9.10%), real estate (down 9.63%), and materials (down 9.82%). Utilities (down 11.96%) and healthcare (down 14.76%) capped a challenging quarter closing in the red by a notable margin.

Portfolio Review

Top Securities	Average Weight (%)	Contribution to Return (%)
Liberty Energy	1.88	0.58
Celsius Holdings	3.12	0.42
PJT Partners	2.59	0.32
Freshworks	1.82	0.23
Kinsale Capital Group	1.91	0.16
Bottom Securities		
Silicon Laboratories	2.46	-0.71
Summit Materials	2.76	-0.50
Planet Fitness	1.56	-0.48
Livent	1.17	-0.44
Quaker Chemical	2.26	-0.42

As of Sept. 30, 2023. 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.

Top securities

Liberty Energy provides innovative hydraulic services and related technologies to onshore oil and natural gas exploration and production companies in North America. The stock was an impressive performer in the quarter, as the recent sharp increase in oil prices should translate to healthy levels of North American shale activity in the remainder of the year and into 2024.

Celsius Holdings develops, markets, sells, and distributes functional fitness and lifestyle beverages. The stock performed well, driven by strong financial results that meaningfully surpassed expectations. The company continues to benefit from its distribution agreement with a leading soft drink bottler as the arrangement enables Celsius to increase its availability dramatically in convenience stores.

PJT Partners is a global advisory-focused boutique investment bank. The stock performed well as quarterly results meaningfully surpassed expectations. The restructuring piece of the company's business drove much of the upside. This area has benefited from a higher interest rate environment, which drives demand for PJT's services.

Freshworks is a customer relationship management and IT helpdesk software provider in the cloud. During the quarter, investors saw steady growth from the company as well as strong improvement in margins and cash flow. At its analyst day, management discussed new products that we believe should help expansion within the customer base as well as improve average revenue per customer.

Kinsale Capital Group is a specialty insurance company focused on the excess and surplus (E&S) market, serving customers with specialized coverage needs not covered by standard coverage policies. The company's quarterly results exceeded consensus estimates on the backdrop of rising demand for E&S services. Primary risks continue to migrate to the specialty market and pricing continues to be strong with notable premium growth during the reporting quarter. The company is positioned to benefit from the overall bullishness in the E&S market given its technology-driven cost advantages.

Bottom securities

Silicon Laboratories is a diversified semiconductor company. During the quarter, shares retreated on concerns of a prolonged inventory correction in the semiconductor industry as well as a broader macroeconomic slowdown. We believe the supply cuts and destocking within the semiconductor industry will help bring supply and demand into balance and Silicon Labs will benefit on the other side of the cycle.

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. Despite posting a strong quarter highlighted by continued impressive pricing and margin trends, the stock was pressured after the company announced a sizable acquisition in the southeastern U.S. Summit expects that improving operational efficiencies in these assets will ultimately create shareholder value. The company also benefits from ongoing migration trends favoring construction activity and accelerating levels of infrastructure spending in the markets it primarily serves.

Planet Fitness franchises and operates fitness centers. The stock lagged as the company lowered its new-unit opening target for this year. The cost to build new units has increased, driven by both higher construction costs and rising interest rates. In addition to these operational challenges, the CEO was removed in a rather abrupt fashion.

Livent is a pure-play, fully integrated producer of performance lithium compounds. The decline in lithium spot market prices, primarily in China, pressured shares. Despite this near-term headwind, the global lithium market remains tight in the long term. We believe Livent plays a critical role in the electric vehicle (EV) battery value-chain and is well-positioned for the overall growing global adoption of EVs. The company also remains on track to close its announced merger with an Australian-based peer by the end of the year. The combined company will benefit from enhanced operating flexibility and an increased global footprint.

Quaker Chemical is a global provider of formulated industrial process fluids and related services. The company's shares underperformed as volumes continued to be pressured and remained below pre-pandemic levels. Trickle-down effects from the United Auto Workers' strike perhaps provided an additional headwind to the stock. Despite this, Quaker has made notable strides with a strategy that emphasizes profitable growth driven by strong pricing and margin expansion, and we believe the company should be well-positioned for an eventual upward inflection in volumes. Additionally, the company's direct exposure to North American automobile manufacturing companies affected by the strike appears to be manageable for the time being.

Outlook

Equity markets endured a volatile third quarter as surprisingly resilient economic data supported the case for continued tight monetary policy despite a significant slowdown in the rate of inflation. With sustained monetary tightness increasing the risk of a mistake by the U.S. Federal Reserve (Fed), the economic outlook for 2024 has become murkier. As interest rates continue to climb, equity market valuations have come under pressure. While painful in the short term, we believe that growth stocks present an attractive long-term opportunity compared to their current levels given their reasonable valuations. In fact, we believe the increased likelihood of a slowdown in economic growth due to higher interest rates may be a catalyst for growth stocks. Against this backdrop, we believe that a portfolio of high-quality growth stocks with resilient balance sheets should perform well going forward. Specifically, we believe that companies that have growth prospects underpinned by secular trends and that generate robust free cash flows should outperform.

Thematically, we remain excited about the potential for generative AI to transform a variety of businesses, and we continue to look for ways to benefit from this emerging trend. Although there has been strong interest in this theme from the investment community, the valuations for many companies that are well-positioned to benefit from AI currently trade at reasonable multiples relative to their prospects for accelerating earnings growth.

The outlook for cyclically exposed areas of the stock market has dimmed following a sharp increase in real interest rates across the belly of the yield curve. While uncertainty surrounding the delayed impacts of monetary tightening that has transpired over the past year remains an overhang, the recent surge in medium- and long-term interest rates along with the decline in the rate of inflation has pushed real interest rates notably higher. This is virtually certain to impact investment spending going forward. According to the Mortgage Bankers Association, mortgage applications already have fallen to their lowest level since 1996 as 30-year mortgage rates have approached 8% and as of this writing sit at the highest level since 2000. Resilient home prices coupled with higher mortgage rates have pushed home affordability to its lowest level in decades. In contrast to the severe headwinds in residential construction, non-residential construction activity may be supported by the significant fiscal stimulus already in place that should provide tailwinds in the coming years. Additionally, we believe data center spending should be a bright spot in industrial end markets as the global race to compete in generative AI continues to accelerate. Finally, with respect to energy, we see a balanced picture as subdued demand for oil appears to be more than offset by the discipline oil-producing countries, notably Saudi Arabia and Russia, to keep excess barrels off the market. Importantly, we are encouraged by the capital discipline across the energy sector, among both producers and service companies, to generate free cash flows to reward shareholders through share buybacks and dividends. In fact, despite a 20% surge during the quarter in the 12-month oil strip – that is, the average of the daily settlement prices of the next 12 months' oil futures contracts – the U.S. rig count fell 7% to 623 and is now down 20% year to date. Given the depressed valuations throughout the energy sector, we believe the recent outperformance could continue.

To say that healthcare, as a sector, was challenged during the third quarter is an understatement. In fact, healthcare was the worst-performing sector in both the Russell 2000 Growth and the Russell Midcap® Growth indices. The sector was negatively impacted by several significant headwinds. One headwind arises from concerns over higher than expected utilizations of healthcare services due to deferral of elective procedures during the COVID-19 pandemic. This poses a significant threat to the margins of managed care organizations. In biotechnology, there was a higher than expected number of negative readouts. In addition, access to capital, the lifeblood of the biotech industry. was constrained by lower than normal levels of initial public offerings and secondary offerings. These headwinds caused many investors to leave the sector or to avoid it entirely. Perhaps the greatest damage to the healthcare industry was caused by concerns over the impact of GLP-1 agonists and their potential ability to produce significant amounts of weight loss in obese individuals. Medical device companies suffered outflows and a buyers' strike due to concerns over the possibility of diminished demand for their products. Investors became concerned that patients experiencing significant weight loss would reduce demand for insulin pumps, continuous blood glucose monitors, or cardiac catheterization procedures. As a result, and despite quarters in which they exceeded estimates and raised their guidance for the future, many of these stocks sold off by significant margins. While at face value, these drugs have the potential to reduce the incidence of obesity, Type 2 diabetes, and sleep apnea, there are several factors that may impede the adoption of these drugs at levels sufficient to produce an overall reduction in demand for certain medical devices and services. Some less-mentioned facts include that:

- Patients must stay on these drugs for the rest of their lives to maintain weight-loss effects.
- They are expensive and could become financial burdens for some, even with co-pays.
- Their adverse side effects include nausea, vomiting, and low blood sugar.

Given this, we believe that investors will eventually recognize the attractive valuations of these stocks and will resume buying them. While it is hard to know when this will happen, we remain optimistic that stocks with attractive valuations, large competitive moats, high profit margins, and high revenue growth rates will attract investors seeking to take advantage of these opportunities.

The technology sector continues to grapple with crosscurrents of inflation pressures subsiding as interest rates continue to move higher amid mixed macroeconomic signals. Despite the near-term issues of unpredictable customer spending, financial turbulence, and geopolitical uncertainties, the sector remains attractive due to longer-term demand drivers, palatable valuations, and healthy balance sheets that we believe should support robust acquisition activity. The emergence of the latest version of artificial intelligence also has sparked healthy optimism, which has translated to increased spending in various industries such as semiconductors, hardware, and software. Management teams have maintained a focus on enhancing profitability by implementing short-term strategies such as downsizing their workforces and curtailing unnecessary expenditures that should help protect earnings in a slower, weaker environment. 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 is challenged. Interest rates continue to inch higher and the yield curve has been inverted for almost a full year. We suspect economic growth is poised to moderate moving forward. In this environment we see opportunities outside of the typical banking space. Areas we are excited about include boutique advisory firms poised to assist companies restructure their liabilities. In addition, we remain constructive on companies gaining share in the excess and surplus (E&S) insurance underwriting cycle. Lastly, we see opportunities in pawn lenders that we expect to benefit as consumers' overall access to credit potentially becomes challenged in a slower economic environment.

The up-until-now resilient consumer is beginning to look vulnerable as the number of headwinds rises. Inflation has stayed stubbornly high and remains a headwind to consumers' buying power, the student loan repayment moratorium is ending, gasoline prices are moving higher, and overall savings balances continue to be whittled down. Against this backdrop, we continue to see two dynamics at play: Consumers are changing what they desire to purchase while looking for value in certain areas. Areas we are excited about and see attractive 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 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.

Definitions

A consensus estimate is a forecast of a public company's projected earnings, the results of a particular industry, sector, geography, asset class, or other category, or the expected findings of a macroeconomic report based on the combined estimates of analysts and other market observers that track the stock or data in question.

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.

Destocking describes the reduction in the inventory that a company holds, either through market demand or company decisions to reduce or hold less of a particular product or products

Dividend yield, which is expressed as a percentage, is a ratio of the current rate of dividend payout divided by the current stock price.

Excess and surplus lines (E&S) insurance, also known simply as surplus lines insurance, offers protection against financial risks that are too great or too uncommon for a regular insurance company to take on.

Generative artificial intelligence (AI) is a form of artificial intelligence that can create new content that includes text, audio, code, video, and images.

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.

Glucagon-like peptide 1 (GLP-1) agonists comprise a class of type 2 diabetes drugs that improve blood sugar control and may also lead to weight loss. The drugs mimic the action of a hormone called glucagon-like peptide 1 by stimulating the body to produce more insulin when blood sugar levels start to rise after someone eats. The additional insulin helps lower blood sugar levels, which helps in controlling type 2 diabetes. How GLP-1 agonists lead to weight loss is less clear.

A company's market capitalization reflects the total market value of its outstanding shares of stock.

A moat, in finance, refers to a business's ability to maintain competitive advantages in relation to its competitors and thereby to safeguard its market share and long-term profits. Investor Warren Buffett popularized the term.

The Mortgage Bankers Association Weekly Applications covers mortgage application activity that includes purchase, refinance, conventional, and government application data, weekly data on mortgage rates, and indices covering fixed-rate, adjustable, conventional, and government loans for purchases and refinances.

A multiple, sometimes referred to as the price multiple or earnings multiple, is a measure of a company's value based on the ratio of its current share price to its earnings per share. This is known as the price-to-earnings ratio, or P/E.

Oil strip pricing is the average of the daily settlement prices of the next 12 months' oil futures contracts.

Overhang describes the process of investors, customers, or other market participants who are following a particular part of the market waiting for future events to take place in that area before they act.

Overweight describes a portfolio position in an industry sector or some other category that is greater than the corresponding weight level in a benchmark portfolio.

A pure-play company is one that operates in a single industry.

Readouts are financial reports.

A real interest rate is an interest rate that has been adjusted to remove the effects of inflation. Once adjusted, it reflects the real cost of funds to a borrower and the real yield to a lender or to an investor. A real interest rate reflects the rate of time preference for current goods over future goods. For an investment, a real interest rate is calculated as the difference between the nominal interest rate, which is not adjusted for inflation, and the inflation rate.

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.

Underweight describes a portfolio position in an industry sector or some other category that is less than the corresponding weight level in a benchmark portfolio.

Upstream expenditures for oil and natural gas production activities include property acquisition, exploration and development, and production. Exploration and development includes searching for and developing the facilities and infrastructure to produce reserves. Production includes extracting oil and natural gas from the ground once the field has been developed. Property acquisition includes buying proved and unproved oil and natural gas reserves.

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

Vertical integration is a strategy whereby companies seek to streamline their operations by directly owning various stages of its production process rather than relying on outside contractors or suppliers.

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.

Indices

The Russell 2000® Growth Index, the Fund's benchmark 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 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.

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

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