Carillon Scout Mid Cap Fund

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FIRST QUARTER 2025

Investment Team

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Characteristics

Total Net Assets (billions): $2.93

Number of holdings: 124

Top 10 Holdings

Agree Realty
EQT Corporation
Cencora
Casey's General Stores
CenterPoint Energy
First Horizon
PPL
Encompass Health
Mid-America Apartment Communities
STAG Industrial

Market Overview

The Russell Midcap® Index return was negative in the first quarter. Despite optimism from investors and business leaders heading into the new year, significant policy uncertainty, headlined by aggressive tariff announcements, caused sentiment to turn, sending domestic equity markets lower. Sector returns for the index were mostly lower, though the more defensive utilities, consumer staples and real estate sectors were up. Surprisingly, the energy sector reported the best results for the index as natural gas-levered and pipeline companies did well.

The first-quarter macroeconomic environment showed signs of deceleration, but not recession. The U.S. Federal Reserve (Fed) was on hold after cutting the federal funds rate by 100 basis points last year, as it now sees the risks to employment and inflation as more balanced. We do not yet have first-quarter gross domestic product (GDP) data, but we believe the economy continued to grow, though at a much slower pace than in the fourth quarter of 2024. The official GDP figure likely will be negatively impacted by a rise in net imports as importers sought to transact ahead of tariffs. Unemployment remains low, and weekly jobless claims have been in a stable range for several months. Overall, the current economic environment appears okay, though downside risks are clearly building.

Portfolio Review

Top securities

Pharmaceutical distributor and logistics provider Cencora raised guidance after closing accretive acquisitions and as industry data showed strong demand for prescription drugs. Cencora tends to compound earnings at a steady rate over time, a feature that investors may have appreciated more during market turbulence. We expect the steady growth to continue as Cencora can benefit from general demand for healthcare services, increase usage of generic small-molecule and biologic drugs, and acquire attractive assets to expand its specialty services businesses.

Hims & Hers is an online healthcare provider, allowing patients to access a variety of healthcare professionals through its telehealth platform. The stock appreciated around the release of a major television advertising campaign highlighting its weight-loss offering, which includes popular, and potentially difficult to acquire, GLP-1 drugs. While we continue to like the opportunity for Hims & Hers to expand medical care in a consumer-friendly manner, the U.S. Food and Drug Administration changed certain rules regarding the methods that Hims & Hers was using to supply its weight-loss products, and it may take time for the company to adjust to the new environment.

EQT Corporation is an integrated energy company with an emphasis on upstream and midstream natural gas operations in Pennsylvania. The company's natural gas production costs are among the lowest in the country. Natural gas producers benefitted from a colder than anticipated winter, draining natural gas storage to levels well below the 5-year average. Demand is expected to grow rapidly in the coming years, but suppliers like EQT are not adding rigs and storage is starting from a low point.

CenterPoint Energy, a regulated utility, benefitted from improved rulings from one of its key regulators in Texas, following a difficult storm season and outages in 2024. With operations and regulations moving

Portfolio Review (continued)

Top Securities	Average Weight (%)	Contribution to Return (%)
Cencora	1.73	0.38
Hims & Hers Health	0.43	0.30
EQT Corporation	1.94	0.29
CenterPoint Energy	1.85	0.25
WEC Energy Group	1.43	0.21

Bottom Securities	Average Weight (%)	Contribution to Return (%)
Marvell Technology	1.14	-0.51
Delta	1.15	-0.31
Vertiv	0.66	-0.29
Ciena	0.92	-0.29
AppLovin	1.75	-0.28

As of March 31, 2025. 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, Scout Investments, 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.

back on track, we believe CenterPoint's earnings per share growth should recover in 2025.

WEC Energy Group, a regulated utility, is seeing outsized growth in its Wisconsin electric utility from both local industrial development and very large technological development from one of the mega-cap software giants. There had been some doubts around this growth materializing, but as those fears subsided, it provided a tailwind for the stock.

Bottom securities

Marvell Technology designs and markets semiconductors and networking equipment. The company has a strong market position as a leading application-specific integrated circuit (ASIC) chip design partner for some of the largest cloud services providers, but confusion over future customer orders weighed on the stock price. It was also impacted, along with most artificial intelligence (AI) infrastructure stocks, by the DeepSeek model advancements, which caused broad concerns that growth in AI capital spending would slow. We see significant long-term growth opportunity for this leading semiconductor provider, though we acknowledge the risk that AI excitement has peaked for now.

Delta, a leading global airline, struggled from declining consumer confidence and slowing corporate travel due to uncertainty about tariffs, economic growth, and broader policy changes under a new administration. Longer term, we believe Delta's operational and financial leadership versus its legacy peers should continue to benefit from corporate demand, international growth, a leading premium offering, a strong loyalty program, and a more disciplined airline industry.

Vertiv provides data center infrastructure equipment and services. The stock suffered amid concerns over a near-term slowdown in orders for its cooling systems, which we believe was primarily due to hyperscalers that are redesigning their data centers to cram more equipment into each server rack. Broader concerns regarding artificial intelligence demand and fears of peak levels of capital spending have also weighed on investor sentiment. We believe a significant number of new data centers must be built to meet the demand for increasing AI training and inference workloads globally. These power-hungry systems generate more heat and require greater power density, which can be addressed by the more efficient power and cooling solutions that Vertiv provides.

Ciena develops and markets networking equipment, software, and services for the telecommunications industry and large cloud service firms. Its offerings include optical network switches and routing platforms. There have been major tariff concerns due to its production concentration in Mexico and Thailand. The stock was also negatively impacted, along with many other AI infrastructure suppliers, following the DeepSeek model release, which caused broad concerns that growth in AI capital spending would slow. The company has improved inventory management and could raise prices to offset tariffs. Also, telecom and cloud spending continues to improve and Ciena is well positioned to benefit from a continuous infrastructure buildout, with growing demand for data center capacity and connectivity.

AppLovin is a mobile application advertising technology provider that has one of the most advanced mediation and attribution platforms. The stock sold off following a barrage of short seller reports making claims regarding mobile application and web site privacy rules and the sustainability of AppLovin's strong revenue and cash flow growth. We vetted the short reports carefully and have listened to a number of digital advertising experts, and we continue to have confidence in the company's long-term growth opportunity in both mobile game and e-commerce advertising.

Outlook

Forecasting near-term mid-cap equity returns is always difficult, but the task is even more challenging when the outcome may well depend on the decisions of the president, who does not face traditional checks and balances regarding tariff policy. We came into the year concerned that stocks were pricing in a lot of optimism, but the economy was in a good place, earnings were expected to grow and there was a reasonable expectation that the Trump administration would be, on balance, pro-growth. This outlook supported a balanced portfolio, mindful of risks, especially those most likely to be impacted by tariffs or changes in fiscal support, but still exposed to powerful themes such as artificial intelligence, U.S. infrastructure, and a resilient consumer with confidence to spend. A quarter into the year, and especially following the recent reciprocal tariff announcements, it has become clear to us the administration plans to aggressively reshuffle global production and trade. This deglobalization trend has been underway for about a decade, but the president's policies seek to rapidly accelerate the movement. While investors debate the specifics, the direction seems clear – higher trade barriers, a surge in tariffed goods prices (hopefully temporary), and heightened uncertainty. We believe these actions ultimately could lead to trade that is freer and fairer but sticking the landing will be difficult and, therefore, the risk to markets has risen, and we have adjusted the portfolio to reflect these risks.

In our view, the market has priced in uncertainty but has not fully priced in risks to inflation and growth from a sustained trade war. The economy appears to be on solid footing for now, and we do not want to fully position for a recession because there is still a possibility tariffs could be negotiated lower. Earnings estimates are also hanging in despite increasing risks. Jobs are harder to find, but unemployment remains low and weekly jobless claims are stable. Inflation remains above target and could go higher still as tariffs are passed through, yet we see signs of weaker prices in housing, new vehicles, airfare and retail that may foreshadow lower inflation later this year.

The current market backdrop is full of confusing contradictions. The Trump administration wants to lower tax rates but also reduce the deficit. Officials want to cut government waste, fraud and abuse, though if they cut too deeply, recession risk grows, which would make the deficit worse. The market is clearly concerned infrastructure spending for artificial intelligence is peaking, yet industry participants speak of the lack of compute capacity. While AI infrastructure capacity remains tight, profits from AI appear elusive. Pundits discuss the "end of American exceptionalism," yet our trading partners may be hurt more than us from higher trade barriers. We could go on, but the point is, it looks like U.S. equity markets are at a fork in the road and only time will tell which road we take – the road to freer trade, optimism and progress or to protectionism, pessimism and stasis. We expect the country to make the correct turn, though it could take a while, and the road could be bumpy.

With these big-picture thoughts in mind, let's discuss how the portfolio was positioned at the end of the first quarter. Overall, the strategy was positioned slightly defensively, with a portfolio beta below 1.0. We acknowledge the policy uncertainty and the early signs that it's creating a pause in spending, both for consumers and capital allocators. We weigh this against investor sentiment that's already extremely pessimistic. While broad markets are down and are not obviously favorably priced, many stocks are down 30% or more and thus already bake in a lot of fear. On the other hand, the less cyclical, higher quality, and more defensive stocks look more fully priced to us. The net effect is a slightly defensive portfolio and a focus on bottom-up stock selection.

We have reduced exposure to AI infrastructure holdings as we believe AI capital spending growth has likely peaked. AI will be a powerful trend over the long term and we hope to identify the winners, but for now we think capital costs are rising and that the industry will need to sort itself out before we reach a sustainable growth path. We already expected manufacturers relocating to the United States along with the complementary infrastructure buildout to be an important theme for many years, and tariffs may only accelerate that trend. We see opportunities with companies that build the electrical grid, supply the parts and equipment, and provide the energy needed for this transformation. Consumer companies that are more isolated from tariff impacts, such as those that provide experiences or that provide good consumer value, also remain attractive.

Mostly, we see this as a time to be prudent, and to stick with stocks that have more reliable earnings outlooks, that provide solid dividends, and that have the balance sheets to repurchase their stock when it sells off. As always, we prefer to own bottom-up, long-term compounders at attractive prices, but we must be aware of the political, economic and monetary backdrop to protect capital and identify opportunities.

Risk considerations:

Mid-cap and small-cap stocks may temporarily fall out of favor or perform poorly relative to other types of investments. While stocks of mid-cap companies may be slightly less volatile than those of small-cap companies, they still involve substantial risk.

Real Estate Investment Trusts (REITS) may be affected by economic conditions including credit risk, interest rate risk and other factors that affect property values, rents or occupancies of real estate.

Foreign investments present additional risks due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors.

Investments in emerging markets involve even greater risks.

Groups of stocks, such as value and growth, go in and out of favor, which may cause certain funds to underperform other equity funds.

The Fund may, at times, experience higher-thanaverage portfolio turnover, which may generate significant taxable gains and increased trading expenses, which, in turn, may lower the Fund's return.

Investments in the securities of other investment companies, including money market funds and exchangetraded funds ("ETFs") (which may, in turn, invest in equities, bonds, and other financial vehicles), may involve duplication of advisory fees and certain other expenses.

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Definitions:

AI training models recognize patterns in data sets and make decisions or predictions without human intervention.

Application-specific integrated circuits are customized to deliver better performance than industry-standard integrated circuits in specific applications.

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Bottom-up investing focuses on evaluating the fundamentals of a specific company or group of securities, such as revenue or earnings, as opposed to looking at macroeconomic trends or cycles in markets.

Data center interconnect technology, which can include optical fiber connections, links data centers to facilitate the sharing of data and resources.

DeepSeek is a Chinese artificial intelligence startup that in January 2025 became a leading free downloadable app in the United States. This followed DeepSeek's announcement that its AI model performed as well as market-leading models and that it was developed at a significantly lower cost. This led to a selloff of well-known U.S. technology stocks on Jan. 27, 2025.

Defensive securities provide consistent returns and growth regardless of whether the overall market is rising or falling. Companies with securities 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.

The Federal Open Market Committee (FOMC) consists of 12 members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year at which it reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The federal funds rate is the target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

GLP-1 weight-loss drugs, formally known as glucagon-like peptide 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.

Hyperscalers refers to the largest cloud computing providers that can provide massive amounts of computing resources and storage at enterprise scale.

The inference stage in generative artificial intelligence — a form of artificial intelligence that can create text, audio, code, video, and images — entails putting a machine learning model to work on live data to deliver outputs.

Companies that are levered to natural gas directionally follow energy demands, growing revenue as demand for natural gas increases and shrinking as demand decreases.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

Mega-cap stocks are the largest publicly traded companies as measured by market capitalization. Generally, this refers to companies with market capitalizations over $200 billion.

Mediation, in mobile advertising, assists publishers managing multiple ad networks, and attribution attempts to measure which ads were most effective.

Midstream is a term used in the oil and gas industry to describe activities that take place between the production of the raw resource (upstream) and the refining stage of crude oil (downstream).

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.

Tailwind is a term used to describe events or market forces that exert a positive influence on an investment's performance. The opposite of a tailwind is a headwind, which contributes to an investment's underperformance.

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.

Indices

The Russell Midcap® Index, the Fund's benchmark, measures the performance of the mid-cap segment of the U.S. equity universe. The stocks are also members of the Russell 1000 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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