CARILLON EAGLE SMALL CAP GROWTH FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

SECOND QUARTER | 2021

Investment Team

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Portfolio Manager

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Characteristics

Total Net Assets (billions): $2.88

Number of holdings: 99

Top 10 Holdings

- Everi
- Quaker Chemical
- Pegasystems
- Chart Industries
- Ritchie Bros. Auctioneers
- Entegris
- Summit Materials
- Woodward
- Universal Electronics
- Landstar System

Market Overview

Small-cap stocks extended their recent run of success in the second quarter, advancing for the fifth consecutive quarter following the selloff in the early stages of the pandemic. Among the two style indexes, the Russell 2000® Growth Index (up 3.92%) lagged its Russell 2000® Value Index (up 4.56%) counterpart once again in the period, in what has become a common theme as of late. Individual sector returns across the Russell 2000 Growth were nearly all positive, with energy (up 24.93%) leading the way, despite its relatively modest weighting in the benchmark. Solid gains were also seen in communication services (up 9.69%), consumer staples (up 7.44%), financials (up 6.89%), and information technology (up 6.28%). The worst performing sector, and the only one to post negative returns in the quarter, was industrials (down 1.06%). Utilities (up 0.84%) and materials (up 2.97%) also trailed the broader benchmark, but to a lesser degree.

Portfolio Review

Best Securities	Average Weight (%)	Contribution to Return (%)
Everi	2.45	1.46
Intellia Therapeutics	0.24	0.56
Cricut	0.64	0.55
Pegasystems	2.60	0.54
Summit Materials	2.15	0.51
Worst Securities		
Penn National Gaming	1.60	-0.54
SelectQuote	0.65	-0.31
Universal Electronics	2.04	-0.27
Rush Street Interactive	0.82	-0.25
Emergent BioSolutions	0.33	-0.24

As of June 30, 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.

Everi develops and manufactures casino gaming systems as well as cash-access solutions and related technologies for the gaming industry. The company reported quarterly results that were well ahead of consensus expectations on both revenues and earnings. In addition, towards the end of the current quarter, Everi positively pre-announced results for the upcoming quarter. The company is seeing notable strength in both its financial technology and games divisions, as positive visitation trends in the broader casino industry bode well for the firm's operations.

Intellia Therapeutics is a clinical-stage genome editing company focused on the development of proprietary, potentially curative therapeutics. The company's stock soared after announcing positive interim data from an ongoing phase 1 clinical study of its in vivo gene editing candidate, which is being developed as a single-dose treatment for hereditary transthyretin (ATTR) amyloidosis. This specific form of therapy would be the first of its kind resulting in the precision editing of a gene in a target tissue in the human body.

Cricut designs and markets a creativity platform that enables users to turn ideas into professional-looking handmade goods by using the firm's assortment of connected machines, design apps, and accessories and materials. The firm's first quarterly results as a public company came in handily above Wall Street expectations. More importantly, the company's outlook for the current quarter caused a meaningful lift in current year revenue and earnings estimates. Cricut appears to be continuing its strong business momentum even as it faces comparisons against outsized growth rates experienced as its business surged during the pandemic.

Pegasystems develops software used in automating business tasks. The company's artificial intelligence-driven recommendations for customer service contact centers is a key growth driver, and a mix shift towards cloud-computing should result in a higher valuation over time. Investors have appreciated this dynamic, sending the shares higher.

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. The firm continues to benefit from recent migration trends that favor construction activity in the rural and exurban markets it primarily serves, allowing it to outpace the broader private construction markets. The potential extensive infrastructure plan recently proposed by the Biden administration could also provide an additional tailwind for future growth.

Penn National Gaming is a diversified omni-channel provider of retail and online gaming, live racing, and sports betting entertainment. After a substantial run, Penn National Gaming sold off during the quarter, reflecting a profit taking in a number of sports and online gambling stocks. However, fundamentals are healthy in firm's regional gaming markets and its sports betting initiatives remain strong.

SelectQuote is a technology-enabled, direct-to-consumer distributor of complex senior health, life, auto, and home insurance policies. The stock underperformed during the quarter after the company reported results that were in line with expectations, but lowered the next quarter earnings outlook slightly due to investments in an adjacent business.

Universal Electronics designs and manufactures pre-programmed universal wireless remote controls for home video and audio entertainment equipment. The firm's shares underperformed in the quarter, due largely in part to the impact that the global semiconductor shortage is expected to have on its operations in the near-term. The lingering effects of the pandemic are also proving to be a minor headwind, as in-home installations of the firm's products that require a technician remain below pre-pandemic levels. Despite this, the company is seeing notable margin expansion as it continues to push into more sophisticated, software-intensive products that are expected to be a significant source of future growth.

Rush Street Interactive is an online casino (iGaming) and sports gambling company. Despite a rather strong and upbeat quarterly report, the stock lagged the broader market during the period. Rush Street is ramping up investment in new jurisdictions as they open up for legalized iGaming, and the company expects this to continue as new states come online. Given the expected rising interest rate environment and the intermediate-term financial losses, the stock has underperformed.

Emergent BioSolutions is a manufacturer of vaccines, therapeutics, and devices that are used to address public health threats. The firm's main growth engine is its contract development and manufacturing organization (CDMO), which enabled the company to reach manufacturing agreements with some major players in the COVID-19 vaccination rollout. Unfortunately, considerable issues surrounding the manufacturing of the Johnson & Johnson vaccine at one of the firm's facilities calls into question the future growth trajectory of their CDMO business and subsequently caused a selloff of their shares. We no longer hold the stock.

Outlook

Despite early signs of inflation and the specter of possible U.S. Federal Reserve (Fed) tightening beginning in 2022, equity markets continued their strong run during the second quarter. Surprisingly, 10-year Treasury yields dropped in the face of sharply higher inflation figures. With the market seemingly discounting inflation, perhaps agreeing with Fed Chairman Jerome Powell that inflation is indeed transitory, it's currently quite difficult to identify any potential macro factors that could derail the bull market over the short term. Companies with strong pricing power should perform relatively well in the face of rising costs. With the majority of the country fully reopened, led by a very healthy consumer, the economy is quite strong and even gathering considerable strength. Certainly, earnings reports for the June quarter will be very positive against the easy comparisons from the same period in 2020, and productivity enhancements implemented during the pandemic should bolster margins going forward. Politics being what they are make it difficult to handicap the impact of the large infrastructure package winding its way through Congress, although with bipartisan support it seems likely to pass. However, the larger and more controversial Democratic proposal including a myriad of social welfare programs with additional tax increases faces more challenges. If either or both of these spending proposals are passed, it would add fuel to an already healthy economy. Additionally, valuations are certainly elevated across the board, but for the time being the market has shrugged this off. One note of caution: Equity markets have a tendency to surprise on the downside when the overall outlook might seem bright.

The outlook for cyclically sensitive areas of the market appears constructive in light of the unfolding global economic recovery. While first half of 2021 earnings growth rates may be the "peak" of the cycle for the industrials, materials, and energy sectors, we believe the current economic expansion may be more prolonged in duration. Continued progress on the vaccination front, the recent pull back in long-term interest rates, a gradual alleviation of supply chain constraints, and a possible bipartisan infrastructure bill all represent compelling reasons to be optimistic on the economic outlook for the next 12 to 18 months. In response to the modest pull-forward in the expected timing of interest rate hikes revealed at the Fed's May meeting, the stock prices of many cyclical stocks pulled back in anticipation of tighter monetary policy. The bond market's response contrasts the Fed-induced gyrations in the equity markets. The yield curve flattened as longer-term Treasury yields actually declined – providing further stimulus to credit-sensitive areas of the economy, most notably housing. Anecdotally, many of our conversations with management teams suggest that the supply chain constraints in the manufacturing sector appear to be abating. Finally, we note that prospects for a bipartisan infrastructure bill, while difficult to handicap, do appear to have brightened despite mixed messages. Given these favorable dynamics, we remain optimistic that the cyclically-oriented areas of the market will provide solid returns in the coming quarters.

As of this writing, the global impact of COVID-19 is still being felt. Many countries are still struggling to reopen. Others are in the midst of a surge of variants of the virus that are wreaking havoc on their economies, infrastructure, and the lives of their people. Despite this, there are countries, such as the U.S., that are doing everything in their power to return their economies to some sense of pre-pandemic normalcy. All the while, they remain vigilant for new and potentially more infectious variants of the virus. Due to the success of Operation Warp Speed, 321 million doses have been administered as of this writing. In percentage terms, the U.S. Centers for Disease Control and Prevention (CDC) estimate that 46% of the American population is fully vaccinated, with perhaps 60 to 70% of Americans possessing some level of immunity through partial vaccination or previous exposure or infection.

However, this specific virus is unlike the majority of pandemic-inducing diseases that have afflicted humans historically. As would be expected, as the number of potential hosts develop resistance, viruses tend to mutate. New mutations of this virus, especially the Delta variant, have been shown to be much more infectious than the original strains and, in many cases, to produce symptoms that are much more severe. For now, we must remain vigilant.

Against this backdrop, the U.S. healthcare industry is undergoing a transformation unlike any we have seen in the previous 50 years. This has been spurred, in part, by the need for the healthcare system to develop new and innovative ways to access patients during the pandemic. Despite this, the U.S. healthcare system unfortunately remains decades behind the majority of corporate America with regard to the adoption of technology. Interestingly, there recently has been a wave of technology-related companies pursuing opportunities in the healthcare industry, triggering what is being referred to as the "digital healthcare revolution." It is our belief that new business models will emerge from this, leading to much higher overall levels of patient satisfaction as well as a plethora of attractive investment opportunities. Other compelling areas to watch are in the fields of cell and gene therapy, which hold great promise as treatments (and in some cases, cures) for both hard-to-treat cancers and genetic or rare diseases.

During the pandemic, we saw corporations focus their spending on technologies to enable cloud computing and work from anywhere, while consumers spent on electronics and home-related technologies. As the world begins to emerge from the pandemic, we expect enterprise spending on technology to broaden more generally and will likely accelerate. We expect an increase in technologies that are poised to benefit from travel and hospitality, as well as social interaction. We also foresee a catch-up in spending as a result of the pent-up demand of projects that were temporarily postponed, and on technologies that enable the recovery in the industrial and consumer discretionary sectors, such as those related to semiconductors. Increased visibility of this positive economic environment is likely to support healthy corporate budgets. A resumption in technology spending beyond the U.S. as various countries emerge from the pandemic is likely to provide a second wind to the recovery in 2022. Besides cloud computing and work-from-anywhere beneficiaries, we continue to find attractive opportunities in themes such as artificial intelligence, mobility and telecommunications infrastructure, digital payments, Internet of Things, smart home, industrial automation, security software, e-gaming, and alternative energy.

The current outlook for the financials sector remains constructive. Despite pulling back slightly this quarter, interest rates are above their historically extreme lows. Given this rate backdrop coupled with an accelerating economy, we see selective opportunities in the regional banking space. In addition, we see appealing opportunities in certain financial advisors who are gaining market share and will also benefit from a rising rate environment. As the economy continues to heal, we anticipate an acceleration in the pace of mergers and acquisitions. We feel this underlying environment will continue to benefit smaller advisory boutiques that are gaining share from the larger firms. In addition, we are pursuing unique opportunities in the insurance industry, specifically in the emerging Medicare Advantage market, where brokers are bringing unique product offerings directly to consumers and taking share market share from the traditional in-person broker model.

At the moment, the consumer has money and is ready to spend. Domestic leisure travel has rebounded considerably, and international travel is slowly showing signs of picking up. While business travel remains subdued, we recently received an invite to an in-person investment conference for the first time since the beginning of the pandemic. Cruise lines have begun sailing and are reporting very strong pent up demand and pricing. Virtually all retailers, including the mall-based cohort, are reporting encouraging results. Many new car models are completely sold out, reflecting supply issues in the face of robust demand, and used car prices are through the roof. New and existing home sales are extremely strong, as is furniture and remodeling. Leisure products such as boats are in short supply. Although unemployment figures remain at elevated levels, there are a plethora of job openings throughout the country as extended unemployment benefits subside. Importantly, the seeming worker shortage should result in higher wages which, while somewhat inflationary, should contribute to the overall health of the country. We remain highly constructive on consumer stocks at this time.

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.

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.

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

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