CARILLON CHARTWELL SHORT DURATION BOND FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FOURTH QUARTER | 2023

Investment Team

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Characteristics

Total Net Assets (millions): $12.58

Number of holdings: 109

Top Holdings

US TREASURY N/B T 4 1/8 09/30/27
US TREASURY N/B T 1 1/2 01/31/27
US TREASURY N/B T 4 1/4 09/30/24
US TREASURY N/B T 0 3/4 11/15/24
US TREASURY N/B T 3 1/8 08/15/25
US TREASURY N/B T 0 3/8 11/30/25
US TREASURY N/B T 1 12/15/24
US TREASURY N/B T 1 5/8 09/30/26
US TREASURY N/B T 0 3/8 09/15/24
US TREASURY N/B T 2 3/8 05/15/27

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

Rates flat for the year

It seems all the hysteria about rising rates from the summer and early fall was for naught, as the fourth quarter saw a massive reversal in 2- and 10-year yields. Rate volatility was certainly elevated throughout the year, but ultimately 10-year yields finished 2023 almost exactly where they started it. With inflation moving lower and the U.S. Federal Reserve (Fed) no longer hiking, interest rates are more likely to move with the jobs data over the coming quarters.

Credit spreads hit two-year lows

For the last two years, credit markets have worried that the Fed would hike interest rates until something broke. As a result, credit spreads have remained somewhat elevated considering solid underlying economic growth. With the Fed signaling it is likely done hiking interest rates, and the economic data continuing to come in strong, investors piled into credit during the quarter, sending spreads meaningfully tighter.

Inflation lower, but for how long?

Three- and six-month core Consumer Price Index (CPI) inflation is running close to 3%, when annualized, and we believe it will drift lower over the first half of 2024. However, we are starting to see housing prices firm again and note there is a significant lag until this makes its way through the CPI calculation. Pent-up demand for housing is a large part of why we believe inflation will average 2.5% to 3% over the next cycle versus the Fed's 2% target.

Fund Review

Risk assets rallied during the quarter as the perceived pivot and underlying technicals drove rates lower in a magnified manner. Rates across the yield curve moved dramatically lower in a modest bull steepening fashion. Corporate credit spreads also tightened significantly during the quarter, causing the Bloomberg U.S. Corporate Credit Index (Investment Grade) to fall below 100 basis points (bps) for the first time in nearly two years. Within high yield, higher-quality issues outperformed marginally in the fourth quarter, with BB-, B- and CCC-rated bonds returning 7.34%, 6.78% and 6.76%, respectively, as the ICE BofA US Cash Pay High Yield Index tightened 69 bps from the end of the previous quarter.

The Carillon Chartwell Short Duration Bond Fund's best-performing sectors during the fourth quarter were in credit – specifically, industrials and financials – while the more interest rate-sensitive sectors, Treasuries and government-related, lagged, reflecting the combination of positive carry, spread tightening, and lower benchmark rates. The excess yield generated from the Fund's allocation to high-yield securities was the leading contributor to performance. The Fund's allocation to corporate securities rated below investment grade (high yield) is concentrated in names that carry BB ratings,* and this portion has historically outperformed its investment-grade counterpart due to the extra cushion it provides. We believe the enhanced income from this basket mitigates the underlying rate risk and is a key differentiator toward generating alpha.

The Fund's duration of a slightly long position was actively maintained versus the index during the quarter. This tactical shift should continue as downside risks to the economy still exist and market re-pricing to a higher-for-longer policy reverberates through risk assets, causing heightened bouts of volatility. Monetary policy is said to work with "long and variable lags" – this cycle's first interest rate increase was nearly two years ago – and we think we are just now starting to see meaningful effects on the economy from both higher rates and reduced money supply. The barbelled approach of maximizing exposure to the elevated yield levels offered by current conditions in the front-end with a higher-quality tilt slightly further out the curve should serve clients well as we re-deploy capital in a prudent manner. In our view, this approach will facilitate the portfolio's ability to capture the embedded value of the rate cycle and is an added benefit to a short-duration strategy where the re-investment risk dynamic presents a re-investment opportunity into more attractive value opportunities while also providing risk-mitigating ballast.

*Credit quality ratings are sourced from Standard & Poor's (the "S&P"), and Moody's. Ratings values shown are reflective of both agencies. If none of the rating agencies has assigned a rating, the Fund will assign a rating of NR (non-rated security). The ratings represent their (S&P, Moody's) opinions as to the quality of the securities they rate. The ratings range from AAA (S&P) or Aaa (Moody's) (extremely strong capacity to meet its financial commitment) to D (S&P) or C (Moody's) (in default). Credit ratings of BBB are good credit quality and the lowest category of investment grade. Ratings are relative and subjective and are not absolute standards of quality. The ratings provided relate to the underlying securities within the fund and not the fund itself.

Outlook

It is our opinion that U.S. real gross domestic product (GDP) growth will likely slow versus 2023, especially in the first half of 2024, but it has the potential to start to pick up in the second half of the year, depending on how monetary policy unfolds. If the Fed lowers rates into weakening data and soft inflation numbers, we could see short-term rates falling in the first half faster than longer-term rates, causing the yield curve to steepen. This could potentially set the stage for a second half rebound as buyers return to the market for big purchase items (like housing and autos) and take advantage of these lower rates. The steepening trade should continue as the economy starts to find its footing and back-end yields rise in the second half of 2024 with a recession no longer on the table. In such a scenario, inflation is likely to start to inflect higher.

There are a couple of ways to play the steepening yield curve. Given our opinion that the data will start to deteriorate at some point in the first quarter, we believe investors will likely want to be long, or at least neutral duration. We think concentrating duration in the 2- to 5-year range will help relative performance in the first half. We believe lower-coupon mortgages are a strong candidate to outperform in such a scenario as they trade at a discount to par and provide some prepayment protection.

While the downward pressure on inflation should continue into 2024, we are starting to look at U.S. Treasury Inflation-Protected Securities (TIPS) as a potential space to allocate capital. With inflation expectations approaching 2%, roughly 50 bps below our longer-run expectations, we think TIPS could end up a better total return vehicle than Treasuries later in 2024. Admittedly, this trade is early, but is something we have our eye on as "disinflation" and even "deflation" starts to grab headlines in the new year.

Return correlations were uncomfortably high in the fourth quarter, as equities, Treasury bonds and credit spreads all rallied together. This gives us slight pause, particularly on credit spreads, where we would not be surprised to give back some of the fourth quarter's tightening over the next couple of quarters. As such, we are approaching 2024 cautiously out of a sense of prudence. The Fund's quality and maturity "guardrails" (solid investment-grade ratings and an effective duration of less than three years) remain fundamental to our investment process, as we believe these structural factors continue to aid in preserving capital and generating an attractive income stream.

Mutual fund investing involves risk, including the potential loss of principal.

Risk considerations: Fixed income investment includes the following risks: credit, prepayment, call and interest rate risk. Credit risk refers to the loss in the value of a security based on a default in the payment of principle and/or interest of the security, or the perception of the market of such default. As interest rates rise the value of bond prices will decline. High-yield bonds have a higher risk of default or other adverse credit events, but have the potential to pay higher earnings over investment grade bonds. The higher risk of default, or the inability of the creditor to repay its debt, is the primary reason for the higher interest rates on high -yield bonds. The Fund may invest in foreign and emerging market securities which involves certain risks such as currency volatility, political and social instability and reduced market liquidity. The Fund may also invest in ETFs (Exchange-Traded Funds) and therefore would be subject to the same risks as the underlying securities in which the ETF invests as well as entails higher expenses than if invested into the underlying ETF directly. The Fund is new and has limited history for investors to review.

Past performance is not indicative of future results, and investing involves risk, including the risk of loss. All information as of Dec. 31, 2023. Opinions expressed are the current opinions as of the date appearing in this material only. This material should not be construed as research or investment advice. No part of this material may, without Carillon Tower Advisers' prior written consent, be copied, photocopied, or duplicated in any form, by any means.

The information provided should not be construed as a recommendation to buy, sell, or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice.

Definitions

Alpha is a measure of the difference between a manager's actual returns and its expected performance, given its level of risk as measured by beta. A positive alpha figure indicates the manager has performed better than its beta would predict. A negative alpha indicates the manager performed worse than expected based on its level of risk. Thus it is possible for a manager to outperform an index and still have a negative alpha. In general, however, the higher the alpha the better.

Annualized estimates represent short-term calculations or rates that have been converted into annual rates.

Average maturity in a bond portfolio is determined by weighting each bond's maturity by its market value within the portfolio and the likelihood of any of the bonds being called (or redeemed) before their dates of maturity.

A barbell investment strategy in fixed income typically entails investing half the portfolio in long-term bonds (generally those with maturities of 10 years or more) and the other half in short-term bonds (generally those with maturities of five years or less), with little or nothing in between. Barbell strategies can allow investors to benefit from current interest rates by investing in short-term bonds and also benefit from the higher yields of holding long-term bonds. The risks associated with using a barbell strategy include interest rate risk and inflation risk.

Basis points (bps) are units of measure often used in discussions of interest rates, equity indices, and yields of fixed-income securities. One basis point is equal to 1/100th of 1%.

Beta is a measure of a manager's sensitivity to market movements. In general, the larger the beta, the more volatile the historical performance. Beta compares the manager's excess return over Treasury bills to the benchmark's excess return over Treasury bills. By definition the beta of the index is 1.00. A beta of 1.10 shows that a manager has performed 10% better than its benchmark in up markets and 10% worse in down markets. Conversely, a beta of 0.85 indicates that the manager is expected to perform 15% worse than the market's excess return during up markets and 15% better during down markets.

Bull steepening describes the change that takes place in the yield curve as short-term interest rates fall faster than long-term rates, resulting in a larger spread between the two ends of the curve. Bull steepeners are caused by falling interest rates and hence, rising bond prices.

Core inflation, as measured by the "Consumer Price Index for All Urban Consumers: All Items Less Food & Energy" is an aggregate of prices paid by urban consumers for a typical basket of goods, that does not include food and energy.

Correlation is a statistic that measures the degree to which two securities move in relation to each other.

Credits are a generic term for fixed income securities such as corporate bonds, mortgage- or asset-backed securities, municipal bonds, or emerging market bonds.

A credit spread is the difference in yield between a U.S. Treasury bond and another debt security with the same maturity but different credit quality. Also referred to as "bond spreads" or "default spreads," credit spreads are measured in basis points, with a 1% difference in yield equaling a spread of 100 basis points. Credit spreads reflect the risk of the debt security being compared with the Treasury bond, which is considered to be risk-free. Higher quality securities have a lower chance of the issuer defaulting. Lower quality securities have a higher chance of the issuer defaulting.

Disinflation refers to the temporary slowing of the pace of price inflation and describes what happens when the inflation rate is marginally lower over the short term. Disinflation refers only to the rate of change in the rate of inflation. In this, it is distinct from inflation and deflation, which describe the direction of prices.

Duration incorporates a bond's yield, coupon, final maturity and call features into one number, expressed in years, that indicates how price-sensitive a bond or portfolio is to changes in interest rates. Bonds with higher durations carry more risk and have higher price volatility than bonds with lower durations.

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

High-yield bonds have credit ratings below BBB- from Standard & Poor's or below Baa3 from Moody's.

Investment-grade refers to fixed-income securities rated BBB or better by Standard & Poor's or Baa or better by Moody's.

Money supply aggregates are broad categories that measure the money supply in an economy.

Par value, also known as nominal value, is the face value of a bond or the stock value stated in the corporate charter. Securities that sell for more than the par value are said to be tradiing at a premium to par. Those that sell for less than par value trade at a discount to par.

Positive carry is used to describe an investment strategy in which investors often use borrowed capital and to profit from the difference between interest earned and interest paid.

Real gross domestic product (GDP) is nominal GDP adjusted for inflation. Nominal GDP, also called headline GDP, is the total value of all goods and services produced in a specified period of time.

Reinvestment risk is the possibility that an investor will not be able to reinvest cash received from an investment, such as interest earned or coupon payments received, at a rate of return that is equal to or better than the original investment's current rate of return.

Spread tightening refers to the contraction of credit spreads in response to changes in economic conditions that cause a decline in credit risk.

Technicals refers to technical indicators of historic market data, including price and volume statistics, to which analysts apply a wide variety of mathematical formulas in their study of larger market patterns.

U.S. Treasury Inflation-Protected Securities (TIPS) provide protection against inflation. The principal of a TIPS instrument increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, investors are paid the adjusted principal or original principal, whichever is greater.

Total return, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given period of time. Total return includes interest, capital gains, dividends, and distributions realized over the specified period. Total return accounts for two categories of return: income including interest paid by fixed-income investments, distributions, or dividends and capital appreciation, representing the change in the market price of an asset.

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. A steepening yield curve reflects a wider spread between short and long-term rates as long-term rates rise faster than short-term rates or as long-term rates rise while short-term rates fall. Steepening yield curves are often associated with a stronger economy and rising expectatons for inflation.

Indices

The Bloomberg 1-3 Year U.S. Government/Credit Index , the Fund's benchmark index, measures the performance of investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related debt with 1-3 years maturity. It is comprised of a corporate and a non-corporate component that includes non-U.S. agencies, sovereigns, supranationals and local authorities.

The Bloomberg U.S. Corporate Bond Index (Investment Grade) is designed to track a more liquid subset of the U.S. Corporate Bond Index, which measures the market for investment grade, fixed-rate, taxable corporate bonds..

The ICE Bank of America (ICE BofA) US Cash Pay High Yield Index is an unmanaged index used as a general measure of market performance consisting of fixed-rate, coupon-bearing bonds with an outstanding par that is greater than or equal to $50 million, a maturity range greater than or equal to one year and must be less than BBB/Baa3 rated but not in default.

One cannot invest in an index.

The fund is the successor to the Chartwell Short Duration Bond Fund pursuant to a reorganization involving the fund and the Predecessor Fund that occurred on July 1, 2022. The Class Chartwell shares of the Fund have adopted the performance history and financial statements of the Predecessor Fund. Prior to the date of the reorganization, the fund had no investment operations. Accordingly, the information, including information on fees and expenses and financial information provided in this prospectus for periods prior to the reorganization (the Fund's commencement of operations) is historical information for the Predecessor Fund. Given the above, unless specifically stated otherwise, subsequent references in this section to the Fund should be read to include the Predecessor Fund.

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Prior to June 30, 2022 the wholesaling and marketing efforts were provided by, among others, Chartwell TSC Securities Corp., an affiliate broker dealer, member FINRA. Chartwell Investment Partners, LLC and Chartwell TSC Securities Corp. were both wholly owned subsidiaries of TriState Capital Holdings, Inc. Beginning July 1, 2022: the fund was re-named the Carillon Chartwell Short Duration High Yield Fund; the underwriting, wholesaling and marketing efforts became provided by Carillon Fund Distributors, Inc., member FINRA; Chartwell Investment Partners, LLC became the sub-adviser for the fund as well as a subsidiary of Carillon Tower Advisers, Inc., which became the investment adviser. All entities named are affiliates

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While the Fund is no load, there are management fees and operating expenses that do apply. Such fees and expenses are described in the Fund's Prospectus.

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