CARILLON CHARTWELL SHORT DURATION HIGH YIELD FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FIRST QUARTER | 2024

Investment Team

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Characteristics

Total Net Assets (millions): $256.54

Number of holdings: 69

Top Holdings

FORD MOTOR CREDIT CO LLC F 5 1/8 06/16/25

PRIME SECSRVC BRW/FINANC PRSESE 5 3/4 04/15/26

AMERICAN AIRLINES/AADVAN AAL 5 1/2 04/20/26

SBA COMMUNICATIONS CORP SBAC 3 7/8 02/15/27

ALBERTSONS COS/SAFEWAY ACI 3 1/4 03/15/26

BOYD GAMING CORP BYD 4 3/4 12/01/27

SIRIUS XM RADIO INC SIRI 3 1/8 09/01/26

VISTRA CORP VST 5 1/2 09/01/26

GFL ENVIRONMENTAL INC GFLCN 4 1/4 06/01/25

CROWN AMER/CAP CORP VI CCK 4 3/4 02/01/26

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

The tight job market starts to ease

The labor market in the United States has continued to prove resilient in the face of tighter financial conditions. While some of the strong job gains seen over the last quarter were revised down, they remain robust, averaging over 230,000 a month since September. That said, the U.S. Federal Reserve (Fed) is likely pleased to see the job market loosen a bit, with the unemployment rate rising to 3.9% and average hourly earnings annualizing below 4% over the past six months.

Inflation struggles to move lower

Inflation is starting to find a floor above the Fed's target of 2%. We believe there are some structural reasons inflation should remain elevated over the long term, including demographics, waning global trade, and a housing shortage. Outside of a significantly weaker economy, we struggle to see how the Fed will achieve its inflation target for a sustained period.

Rates move higher

There is a battle being fought within the rates market over what the appropriate monetary policy is going forward. While the Fed still believes rates are firmly in restrictive territory, the market has begun to question what the neutral rate is in a world where inflation remains closer to 3% than 2%. The Fed may justify modestly cutting the target rate from 5.50% this year without much pushback. However, if inflation starts to rise in the second half of the year, the Fed will have a difficult time defending a lower target rate.

High Yield Overview

The broad high-yield bond market returned 1.47% in the first quarter as measured by the ICE BofA U.S. Cash Pay High Yield Index. The yield on the 10-year Treasury bond rose 32 basis points (bps) to end the quarter at 4.21%. High yield's risk premium, or spread over Treasury, tightened 24 bps to end the quarter at 3.08%. Within high yield, lower quality outperformed on average in the first quarter, with CCCs, Bs, and BBs returning 2.93%, 1.48%, and 1.09%, respectively. Given the increase in underlying interest rates, shorter-duration issues outperformed longer-duration issues on average. High-yield mutual funds and exchange-traded funds (ETFs) saw roughly $4 billion of inflows. These inflows, along with reinvested coupon income and proceeds from maturities and early tenders/calls, helped the high-yield market to absorb about $84 billion of new issuance. First-quarter new issue activity was up more than 100% over the prior-year period. At the end of the quarter the yield to maturity on the broad high-yield market was 7.8% and the market's effective duration was 3.3 years.

Fund Review

In the first quarter, insurance and basic industry were the Carillon Chartwell Short Duration High Yield Fund's best-performing sectors, while the information technology and telecommunications sectors lagged. Top contributors in the first quarter included NMI Holdings and Ford Motor Company. NMI Holdings, a private mortgage insurer, benefited from disciplined underwriting and strong cash flow, while Ford's bonds saw strong market demand after a ratings upgrade and migration to the investment-grade index in late 2023. The smallest contributors in the first quarter included positions in Sensata Technologies, a manufacturer of sensors, and Tegna, an operator of television stations. Both Sensata and Tegna reported lower sales for the fourth quarter and compressed profit margins due to higher costs.

Trading activity was higher than normal with turnover registering 13% in the first quarter. The Fund had several positions that were called or tendered, as many companies took advantage of a robust new issue market to initiate refinancings. In addition, we proactively sold a position that had been upgraded and began selling another position due to potential credit concerns. We initiated new positions during the first quarter in a specialty pharmaceutical company, a manufacturer of gas control capital equipment, and a midstream energy company. We also extended maturities in several existing positions, adding incremental yield in each instance. At the end of the quarter the portfolio's largest sector weights were in energy (11.8%), healthcare (9.4%), and leisure (9.3%).

Outlook

High-yield bond performance is driven primarily by growth in U.S. gross domestic product (GDP). U.S. GDP growth has been remarkably resilient over the last two years in the face of both significantly higher interest rates and lower growth in the domestic money supply. Given current economic conditions, and with various inflation readings hovering around 3%, the market's 7.8% yield to maturity suggests the continued potential to earn meaningfully positive real returns from the high-yield asset class. In our minds, the most important question that high-yield investors need to wrestle with today is how long will strong U.S. GDP growth continue? We wish we knew the answer with certainty, but no one does. What we do know is that it will not last forever (apologies to the "no landing" crowd). We expect a higher for longer federal funds rate will eventually transmit to a period of weaker, perhaps negative, U.S. GDP growth and weaker employment conditions.

Our goal in this environment is something of a balancing act: namely, to position the portfolio to capture much of today's relatively attractive absolute yield, while maintaining a quality bias that should aid in preserving capital and in outperforming the broad high-yield market when weaker economic conditions materialize. To that end, the Carillon Chartwell Short Duration High Yield Fund will continue to emphasize higher quality, BB-rated issues.

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 invests 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 performance 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 March 31, 2024. 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.

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.

The fund is the successor to the Chartwell Short Duration High Yield 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 performance 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, as well as the other predecessor funds described below.

Prior to this reorganization, the fund acquired the assets and liabilities of the Chartwell Short Duration High Yield Fund (the "IMST Predecessor Fund," and together with the Predecessor Fund, the "Predecessor Funds"), a series of Investment Managers Series Trust, on July 17, 2017. As a result of the reorganization, the fund is the accounting successor of the Predecessor Funds. Performance results shown in the bar chart and the performance table reflect the performance of the IMST Predecessor Fund for the period prior to July 17, 2017.

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.

Definitions

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

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%.

A bond that can be called is one that the issuer may redeem before it reaches its date of maturity.

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.

Effective duration is a measure of risk for bonds with embedded options. It accounts for fluctuations in expected cash flows as interest rates change.

An exchange traded fund (ETF) is a type of security that tracks a market index, sector, commodity, or other assets, but which can be bought or sold on a stock exchange the same way a regular stock or other security can. An ETF can be structured to track a wide variety of securities, including stocks, bonds, individual commodities, diverse aggregations of securities, and specific investment strategies.

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.

Fund flow is the net of all cash inflows and outflows into and out of a particular financial asset, sector, or index. It typically is measured on a quarterly or monthly basis. Investors and others look at the direction of fund flows for indications about the health of specific securities and sectors or the overall market.

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

Margin compression is what happens when input costs rise faster than the sale price of a product. As a result, the producer's profit margins decline over time.

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

The neutral rate is the theoretical federal funds rate at which the stance of U.S. Federal Reserve monetary policy is neither accommodative nor restrictive. It is the short-term real interest rate consistent with the economy maintaining full employment with associated price stability. 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.

"No landing" describes a macroeconomic outcome where there is no recession but growth and inflation both remain above their long-term trends.

The real rate of return is the annual percentage of profit earned on an investment, adjusted for taxes and inflation. Real returns are lower than nominal returns, which do not subtract taxes and inflation.

A risk premium is the investment return an asset is expected to yield in excess of the risk-free rate of return. It compensates investors for tolerating the additional risk of the investment over that of a risk-free asset.

A tender offer is a public solicitation to a company's bondholders asking that they sell back their bonds at a specific price and during a certain period of time.

Yield to maturity is the total rate of return that will have been earned by a bond when it makes all interest payments and repays the original principal.

Indices

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 which 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.

Indexes are unmanaged. It is not possible to invest directly in an index.

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