INSIGHT | COMMENTARY

Investment Team*

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*Effective March 31, 2024, Patrick Dunkerley, CFA, retired and no longer serves as a Portfolio Manager for the Carillon Scout Mid Cap Fund.

Characteristics

Total net assets
(billions): $3.45

Number of holdings: 136

Top 10 Holdings

Palantir Technologies

Edwards Lifesciences

CBOE Global Markets

First Horizon

Viper Energy

Quanta Services

BioMarin Pharmaceutical

CenterPoint Energy

Evercore

Casey's General Stores

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

Major equity indices continued to advance in the first quarter, as more cyclical sectors such as industrials, financials and energy led the way. Market breadth was solid as only the communication services and real estate sectors within the Russell Midcap® Index failed to post positive returns.

The U.S. Federal Reserve (Fed) continued to hold interest rates steady, and despite a few higher than expected inflation readings, the Fed's summary of economic projections (i.e., the dot plot) continued to forecast rate cuts later this year. This favorable monetary policy outlook combined with still-low unemployment and solid earnings growth expectations were enough to drive the S&P 500 Index to an all-time high. The Russell Midcap Index neared its 2021 peak, while the Russell® 2000 Index remained well below its high.

Portfolio Review

Top-performing securities

The top contributor to return for the quarter was Palantir Technologies. Sentiment improved on Palantir after it reported stronger than expected commercial customer revenue and free cash flow. U.S. commercial growth was especially encouraging, as U.S. commercial revenue was up by a large percentage year over year for the fourth quarter and U.S. commercial customer count grew nearly as much. We expect Palantir to become one of the premier artificial intelligence (AI) software providers, built on its Foundry and AIP platforms.

Super Micro Computer was another top contributor. Super Micro designs and manufactures server solutions based on modular and open-standard architecture. The company's sales are expected to grow significantly due to demand for graphics processing unit (GPU)-based servers, as well as other server platforms. Super Micro's modular designs and engineer-led culture allow it to bring the latest accelerated compute solutions to market faster than competitors. Though the stock is up dramatically in the quarter, fiscal 2025 earnings estimates are also up meaningfully and we think the market still underestimates the company's earnings potential.

Edwards Lifesciences was the third-largest contributor. Edwards designs, manufactures and markets products such as heart valves to treat cardiovascular disease. The stock performed well after a competitor delayed, and potentially cancelled, its entry into the aortic heart valve replacement market. Edwards also received approval from the U.S. Food and Drug Administration for its tricuspid valve replacement product much sooner than expected. We continue to find the company's market position and growth opportunities attractive.

Viper Energy, an oil and natural gas mineral rights operator, was a top five contributor. Global oil prices moved up during the quarter, which likely helped push the stock higher. We also expect the company to add to its mineral rights inventory as its large shareholder sells Viper the mineral rights from a recent acquisition, which is expected to close later this year. Viper trades at a meaningful discount on enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortization) versus its mineral rights peers partially due to its dual class equity structure, which we expect will be resolved over time.

Dell Technologies reported results that exceeded earnings expectations and announced a better than expected AI-optimized server order pipeline. We expect Dell to participate in the growth of artificial intelligence hardware in its server, storage and personal computing franchises. Long-term, we like the company's depth and breadth of products and services, as well as its focus on keeping costs low.

Bottom-performing securities

BioMarin Pharmaceutical was the bottom contributor for the quarter. Expectations for its hemophilia drug came down as the company has failed to monetize the drug as well as expected. Despite this setback we continue to like the stock as its short-stature drug has significant pipeline opportunities and the new management team looks to be more focused on optimizing research and development and improving overall profitability.

Lululemon Athletica, a major yoga and fitness wear retailer, was a top five detractor as well. The stock traded lower following disappointing earnings results. Management guided next-quarter earnings lower than expected and called out a shift in consumer behavior to start the year. We now think expectations are low enough that the company can hit its growth targets with square footage growth alone. Lululemon remains a strong brand that is on-trend, and the stock's current-year price-to-earnings ratio is at the low end of its historic trading range.

Shift4 Payments was another bottom contributor. The payments company was openly considering a sale, but management determined the offers failed to appropriately value the business, which sent the stock lower. We

Top-Performing Securities	Average Weight (%)	Contribution to Return (%)
Palantir Technologies	4.79	1.90
Super Micro Computer	1.36	1.72
Edwards Lifesciences	1.92	0.51
Viper Energy	1.78	0.48
Dell Technologies	0.93	0.41
Bottom-Performing Securities		
BioMarin Pharmaceutical	1.96	-0.22
Lululemon Athletica	0.73	-0.20
Shift4 Payments	0.21	-0.19
Darling Ingredients	0.55	-0.17
Agree Realty	1.66	-0.16

believe Shift4 has significant revenue and earnings growth potential at a reasonable valuation. We expect growth to come from serving larger customers both in the United States and overseas.

Darling Ingredients, an animal rendering company with a joint venture ownership in a leading biodiesel refinery, traded down as prices moved lower in the key Renewable Identification Number (RIN) refined products markets. Although earnings have suffered recently from excess biodiesel supply we see strong long-term demand, and Darling has a feedstock advantage as the largest rendering company in the United States.

Finally, Agree Realty rounded out the top detractors. Agree is a real estate investment trust (REIT) that primarily owns neighborhood community shopping centers. REITs were generally out of favor during the quarter as the market adjusted to a higher interest rate outlook compared to the start of the year. In addition, Agree failed to offer an acquisition spend target for 2024, which may have disappointed investors. We see Agree as a lower-risk REIT with an attractive dividend yield and low to mid-single digit funds from operations growth.

Outlook

Reuters pointed out in late March we have now experienced a record period for an inverted yield curve, defined as the 10-year U.S. Treasury yield less the 2-year Treasury yield. The previous record ended at 624 days in 1978.[1] While no economic indicator is infallible, historically an inverted yield curve has been one of the most reliable predictors of a recession. Now that we are in record territory, we have to ask ourselves if the indicator is simply early (i.e., subject to "long and variable lags"), or flat out wrong. Only time will tell, but in our opinion the evidence indicates it is likely flashing a false recession signal for this cycle. The Institute for Supply Management (ISM) manufacturing and services indices are both above 50, showing expansion. The U.S. unemployment rate remains low at 3.7% and weekly initial jobless claims continue to hover around 200,000, revealing no signs of surging higher. Although there are signs of weakness from certain consumers, the overall earnings picture remains strong with analysts expecting 10% growth from the S&P 500 Index this year. Finally, judging BAA-to-Treasury yields, credit spreads have tightened significantly and

volatility, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index (VIX), remains low.

So what is supporting the economy and equity markets? We continue to believe robust government stimulus is a key driver. According to the Federal Reserve Bank of St. Louis, the U.S. federal budget deficit was more than 6% of gross domestic product (GDP) in 2023, which is unusually high outside of recessions. In addition to the usual spending on transfer payments and defense, specific spending programs include:
- the Inflation Reduction Act, which stimulates investment in various alternative energy projects;
- the CHIPS (Creating Helpful Incentives to Produce Semiconductors) and Science Act, which helps reshore semiconductor manufacturing capacity; and
- the Infrastructure Investment and Jobs Act, which modernizes and improves transportation, communications and power networks.

Remarkably, this cumulative stimulus spending appears to be offsetting some of the effects of the Fed's past interest rate hikes. This has allowed overall growth to maintain

[1] "US Treasury key yield curve inversion becomes the longest on record," by David Barbuscia, Reuters. March 21, 2024. https://www.reuters.com/markets/rates-bonds/us-treasury-key-yield-curve-inversion-becomes-longest-record-2024-03-21/ Accessed April 5, 2024

a steady pace, even if many consumers suffer from higher interest rate costs. Estimates vary as to the total magnitude of incremental government spending flowing from these three laws, but we calculate it could be more than $2 trillion over the next decade. Neither major political party appears to have the appetite to rein in deficit spending, so until markets force fiscal discipline, our macroeconomic view is one of cautious optimism with expectations of low single-digit GDP growth.

Our macroeconomic view is likely close to the consensus view, so where do we see opportunity to outperform? One of our highest conviction themes, the various impacts from the early proliferation of artificial intelligence (AI), has clearly become more mainstream over the last few quarters. Positions we took in 2023 to reflect our growing optimism for AI-related spending largely paid off in the first quarter. At this point, we must ask ourselves if the risk-reward remains attractive. On one hand, we are very likely in the early innings of the impact from AI. Institutions are rapidly building out the infrastructure for the latest large language models, which will lead to further applications that should create significant value. On the other hand, we expect AI to follow the same Gartner Hype Cycle as other major technology cycles.[2] While impossible to know with precision, we believe we are likely getting closer to the initial "Peak of Inflated Expectations" as life-changing use cases take time to mature, potentially setting us up for a "Trough of Disillusionment" before we collectively experience the true benefits from AI. Our approach is to apply this overarching framework as we monitor fundamental progress compared to the embedded expectations for our AI beneficiaries. Fortunately, our work shows that opportunity remains in software, semiconductors, hardware and power management, though given the stock price move for many of these holdings, we plan to manage the risk exposure with position sizing.

Other key themes include growth in infrastructure spending, the need for traditional fossil fuel energy, the return of spending on experiences instead of things, and other opportunities created by post-COVID normalization. Estimates range widely, but according to SemiAnalysis, data center power usage alone could add 1000 terawatt hours of global power demand by the end of the decade.[3] Stack on electric vehicles, building electrification, and industrial megaprojects and reshoring, and we could see a return to growth in total electricity demand in the United States and likely globally. There are many other infrastructure trends beyond building out the electrical grid. Housing remains in short supply in the United States. Bridges, highways, and other key infrastructure need to be maintained and upgraded. We also expect energy demand to continue to grow in developing markets. We are convinced renewable energy sources alone will not meet this demand. Oil and natural gas are important transportation fuels, feedstocks, and heating sources that simply cannot be replaced by renewables in the coming decade and likely much longer. We are also seeing several trends that took a pause during the COVID lockdowns reassert themselves. Consumers are once again spending on travel, concerts, and restaurants. Supply chains have mostly healed, though they remain fragile. Companies such as mobile gaming publishers saw a surge in demand during COVID only to see growth slow as consumers left their homes. We are now seeing a return to growth.

Overall, our portfolio reflects a neutral economic outlook with a beta near the market. We remain well exposed to our key themes including AI and the industries we expect to benefit from its initial build-out. We have exposure to the other themes previously mentioned as well. Not all the portfolio fits nicely into a top-down theme. In general, as a core strategy, our holdings tend to fall in one of three categories: value with a catalyst, quality at a reasonable price or under-appreciated growth. The value with a catalyst bucket includes many of our banks, insurance, energy, and materials holdings. Our quality positions span multiple sectors. It's no surprise that many of our underappreciated growth names are in technology, though we also have these names in industrials and other sectors. We like the current balance of the portfolio though our process is designed to adjust as our outlook shifts, both bottom up, and top down.

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-than-average 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 exchange-traded funds ("ETFs") (which may, in turn, invest in equities, bonds, and other financial vehicles), may involve duplication of advisory fees and certain other expenses.

[2] Gartner Hype Cycle, https://www.gartner.com/en/research/methodologies/gartner-hype-cycle, accessed April 5, 2024.
[3] "AI Datacenter Energy Dilemma – Race for AI Datacenter Space," by Dylan Patel, et al. SemiAnalysis, March 13, 2024. Available at: https://www.semianalysis.com/p/ai-datacenter-energy-dilemma-race Accessed April 5, 2024.

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Definitions

Acquisition spend target is a range companies use in budgeting resources for potential purchases of other businesses.

Allocation effect is a measure of the return generated by allocating portfolio weights to particular sectors, industries, segments, or geographies.

The BAA to Treasury yield ratio is a comparison of the yield of BAA-rated bonds to U.S. Treasuries. It aims to ascertain whether BAA bonds are an attractive buy in comparison.

Beta is a measure of the volatility or systemic risk of a security, group of securities, or portfolio compared with the market as a whole.

Breadth describes the relationship between the median and the mean of a market index. When a few data outliers result in a mean that is substantially larger (or smaller) than the median of the full data set, then the performance of the entire index is being driven by a "narrow" selection of companies. An index supported by "broad" market movements is one where the median is closer to the mean.

The CHIPS (Creating Helpful Incentives to Produce Semiconductors and Science) Act is federal legislation passed in 2022. It aims to increase investments in U.S. semiconductor manufacturing capacity, while also aiming to support the development leading-edge technologies, such as quantum computing, AI, clean energy, and nanotechnology, while also looking to create high-tech hubs that can foster a larger and more inclusive science, technology, engineering, and math (STEM) workforce.

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.

Conviction represents a market participant's confidence in particular investments or the likelihood that particular outcomes will take place. High-conviction investments represent what participants consider to be their best bets for performance for a given outlook or period.

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.

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

The U.S. Federal Reserve dot plot is a chart summarizing the Federal Open Market Committee's (FOMC) outlook for the federal funds rate. Each dot represents the interest rate forecasted by one of the 12 members of the committee.

A company with a dual class equity structure has two (or more) classes of shares, each with different voting rights and/or dividend payments.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) is a measure of a company's overall financial performance.

The enterprise value (EV) is a measure of a company's total value. It is calculated by adding the firm's market capitalization and its total debt, then subtracting its cash and cash equivalents. A firm's enterprise value over the last 12 months is represented as LTM EV.

The enterprise multiple, or the EV-to-EBITDA multiple, is a ratio used to determine the value of a company.

The Gartner hype cycle tracks the life cycle of a new technology through five key phases that can be mapped on a curve: 1. A trigger for new innovation; 2. A peak of inflated expectations; 3. A trough of disillusionment; 4. A rising slope of enlightment; and 5. A plateau of productivity as mainstream adoption starts to take off. Gartner is a corporate research and consulting firm.

A graphics processing unit (GPU) is a type of electronic circuit used in a wide range of applications that include parallel processing, graphics and video display, and artificial intelligence.

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.

Guidance refers statements from the managers of publicly traded companies that indicate whether they expect to realize near-term profits or losses and why.

Hawkish, dovish, and centrist are terms used to describe the monetary policy preferences of central bankers and others. Hawks prioritize controlling inflation and may favor raising interest rates to reduce it or keep it in check. Doves tend to support maintaining lower interest rates, often in support of stimulating job growth and the economy more generally. Centrists tend to occupy the middle of the continuum between tight (hawkish) and loose (dovish) monetary policy.

The Inflation Reduction Act (IRA) is federal legislation passed in August 2022. It aims to help curb inflation by directing spending toward reducing carbon emissions and lowering health care costs, while also aiming to improve taxpayer compliance through increased funding for the Internal Revenue Service.

The Infrastructure Investment and Jobs Act, passed by the U.S. Congress in November 2021, provides the funding for new initiatives to rebuild roads and bridges, improve public transit, replace lead pipes and address drinking water contamination, and to also expand access to high-speed internet.

The Institute for Supply Management (ISM) Purchasing Managers' Index (PMI) measures the prevailing direction of economic trends in the manufacturing sector. It consists of an index summarizing whether market conditions as reported in a monthly survey of supply chain managers are expanding, staying the same, or contracting.

The Institute for Supply Management (ISM) Services ISM® Report on Business® is based on data compiled from purchasing and supply executives in a wide variety of industries nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month in supplier deliveries along with seasonally adjusted business activity, new orders, and employment.

Large language models (LLMs) are artificial intelligence algorithms that can recognize, summarize, translate, predict, and generate text, as well as respond to questions in a conversational manner, by massively large sets of data. Large language models learn context and meaning by tracking relationships in sequential data, such as words in a sentence.

Modular and open-ended computer architecture is designed with parts that can be easily replaced, upgraded or moved from one piece of equipment to the next.

An option is a financial instrument based on the value of underlying securities such as stocks. An options contract offers its buyers the opportunity to buy or sell — depending on the type of contract they hold — the underlying asset.

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.

The price/earnings ratio (P/E) measures a company's current share price relative to its per-share earnings.

A renewable identification number (RIN) is a 38-character number assigned to each physical gallon of renewable fuel produced or imported. Obligated parties (fuel refiners, blenders, and importers) that produce or own RINs must register with U.S. Environmental Protection Agency and comply with RIN record and reporting guidelines on a quarterly basis.

Reshoring describes the effort to bring manufacturing and other services back to the United States from overseas operations.

A "soft landing" scenario is one where a central bank tightens monetary conditions to slow economic activity without triggering a widespread recession. In a "hard landing" scenario, a central bank has tightened monetary conditions to the point where it triggers a widespread recession.

The summary of economic projections is produced following meetings of the Federal Open Market Committee and includes meeting participants' projections of the most likely outcomes for real gross domestic product growth, the unemployment rate, and inflation for a forward-looking three-year window and over the longer run.

A terawatt is a unit of electrical power equal to one trillion watts.

Tight monetary policy is an action taken by a central bank to slow down overheated economic growth by raising short-term interest rates.

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.

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

The VIX, officially known as the Chicago Board Options Exchange (CBOE) Volatility Index, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.

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 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.

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 7% of the total market capitalization of the Russell 3000® Index.

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