Eagle Quarterly Commentary

EAGLE | Asset Management

Small Cap Growth

Fourth Quarter | 2022

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Market Overview[1]

For the first time in 2022, small-cap stocks posted solid gains in the fourth quarter, clawing back part of the previous quarters' underwhelming returns. Among the style indexes, the Russell 2000® Growth Index (up 4.11%) trailed the Russell 2000® Value Index (up 8.39%), in turn to the trend that has been in place for the better part of two years, after a one-quarter hiatus in the third quarter. Sector returns within the Russell 2000 Growth were mostly positive, and were once again led by continued strength in energy (up 17.39%). Consumer staples (up 11.20%), real estate (up 8.73%), and materials (up 7.92%) were additional sources of strength in the quarter. In contrast, healthcare (down 3.18%) and communication services (down 0.80%) turned in the most disappointing results, and were the only two sectors in the red for the quarter. Financials (up 0.06%) and utilities (up 0.95%) also lagged the broader benchmark, but to a lesser extent.

For the full year, small-cap stocks as a whole posted disappointing returns, with the pain being felt much more drastically in the Russell 2000 Growth Index (down 26.39%), as it severely lagged the Russell 2000 Value Index (down 14.50%). On a sector basis within the Russell 2000 Growth Index, positive gains were unsurprisingly hard to come by, though energy (up 39.43%) turned in a remarkable year, and was the main source of leadership throughout the year. Consumer staples (down 9.02%), materials (down 12.20%), industrials (down 19.19%), and utilities (down 19.75%) all were additional sources of relative strength compared to the broader index. On the other side of the spectrum, the rate-sensitive real estate sector (down 41.39%) found itself at the back of the pack at the end of the year. The areas of the index that are often seen as the most growth-oriented also lagged in meaningful way, with communication services (down 39.98%), information technology (down 34.40%), and consumer discretionary (31.53%) all disappointing. The sharp increase in interest rates weighed most heavily on the valuation multiples in these areas.

Portfolio Review[2,3]

The Eagle Small Cap Growth portfolios underperformed the benchmark Russell 2000 Growth Index on a gross and net basis during the fourth quarter. On a sector basis, the portfolios' healthcare and industrials holdings most notably underperformed, as lackluster stock selection produced returns that lagged their benchmark counterparts. Communication services and real estate also detracted, but to a lesser extent. Outperformance was seen within the portfolios' consumer discretionary sector, as strong stock selection helped to generate relative returns that offset part of the broader underperformance. Additionally, returns within information technology, energy, and consumer staples outpaced their benchmark counterparts.

For the full year, the Eagle Small Cap Growth portfolios effectively performed in line with the Russell 2000 Growth Index on a gross basis and underperformed it on a net basis. Our most noteworthy sector during the year was financials, where strong stock selection helped offset a large part of the overall portfolio underperformance. Positive relative results also were seen in consumer staples and industrials. The portfolios' modest allocation to cash also proved to be a source of positive attribution in the very disappointing overall market environment. On the other side, weak stock selection in information technology and healthcare were sources of underperformance, as the portfolios' holdings in these specific sectors failed to keep pace with their respective benchmark constituents. Materials and consumer discretionary also detracted from overall relative performance during the year, but to a lesser degree.

Brigham Minerals acquires and actively manages

Top 10 Holdings *

Sitio Royalties
Celsius
Halozyme Therapeutics
Ritchie Bros. Auctioneers
Lattice Semiconductor
Wingstop
Quaker Houghton
Casey's General Stores
Summit Materials
PJT Partners

As of Dec. 31, 2022. The information provided above 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. 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 composite. They are provided for informational purposes only. Eagle, its affiliates, or their respective employees may have a position in the securities listed.

* In addition to these securities, as of Dec. 31, 2022, the portfolios held a position in the U.S. dollar that would put it in the No. 2 spot on this list.

a portfolio of mineral rights and royalty interests to oil- and gas-producing properties in the most active resource basins across the United States. The company's shares have risen sharply recently, outpacing both the price of West Texas Intermediate crude oil and the company's publicly-traded mineral rights peers. The company recently completed its merger with peer Sitio Royalties, and we believe the combined company should be well-positioned in this current market because it doesn't incur the service costs to drill and complete the wells, which continue to increase dramatically and offset a portion of the upside from higher commodity prices for traditional exploration and production companies.

Halozyme Therapeutics is a biopharmaceutical technology platform company. The stock continued its run of impressive outperformance as investors have appreciated the company's defensive characteristics within the often turbulent biotechnology industry. The company has also seen notable pipeline progress and commercial success for a number of its products.

Lattice Semiconductor is a semiconductor company focused on the lower- to mid-end of the field programmable gate array (FPGA) sub-sector. The company has been executing well in a volatile semiconductor and technology spending environment. Most recently, investors have appreciated the company's announcements regarding new product introductions that we believe will significantly increase the total addressable market at a much higher pricing than the existing products.

Coupa Software provides business spend management solutions. Shares soared after a report indicated that a private equity firm was interested in acquiring the company. It was later announced that a large private equity firm would acquire Coupa for a sizable premium to where the stock had traded prior to the initial report.

ESAB is a leader in fabrication and specialty gas control technology. The stock outperformed in the quarter led by strong new product development and recent success on the mergers and acquisition front that have combined to create a faster-growing, less-cyclical, and higher-margin company. Additionally, ESAB's most recent quarterly update highlighted attractive opportunities in a number of end markets and geographies, and a much-anticipated recent secondary offering has also removed what was previously a slight overhang on the stock.

Chart Industries manufactures highly engineered equipment with multiple applications in the energy and industrial gas markets. The company announced the notable pending acquisition of a U.K.-based provider of air and gas handling products. Unfortunately the stock subsequently sold off rather aggressively largely due to investor concerns regarding the additional debt financing needed to fund the transaction. Despite the added financial leverage, we believe the deal should provide Chart with a higher level of aftermarket exposure, which carries both a higher margin as well as a more recurring and less cyclical revenue stream. The acquisition also would expand the company's offerings in energy transition areas such as green hydrogen, carbon capture, and water treatment, while complementing Chart's core capabilities in liquefied natural gas.

Evolent Health provides a platform of technology-enabled administrative and clinical management services to provider networks and managed care organizations to help them manage patient care under value-based care (VBC) arrangements. Unfortunately, the company missed revenue estimates due to a retroactive adjustment resulting from the way that the Centers for Medicare and Medicaid Services calculates savings for companies participating in gain-sharing pilot programs with them. While this was disappointing, later in the quarter the company announced an accretive acquisition of a specialty benefit management

Small Cap Growth

Small Cap Growth	Top Securities	Average Weight (%)	Contribution to Return (%)	Bottom Securities	Average Weight (%)	Contribution to Return (%)
	Brigham Minerals	4.51	1.33	Chart Industries	2.20	-0.72
	Halozyme Therapeutics	2.22	0.78	Evolent Health	1.70	-0.47
	Lattice Semiconductor	2.20	0.58	Lantheus	1.21	-0.37
	Coupa Software	1.21	0.41	Shockwave Medical	1.28	-0.36
	ESAB	1.20	0.40	Livent	0.77	-0.35

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organization that focuses on managing cost and quality in radiology, musculoskeletal medicine, physical medicine, and genetics. The announcement of this acquisition was favorably received by investors, and when combined with recent impressive new client additions, sets the company up for what we believe should be a strong 2023.

Lantheus provides imaging diagnostics, targeted therapeutics, and artificial intelligence solutions used to fight serious medical conditions. Despite another strong quarterly update, the stock came under pressure due in part to investor concerns regarding a possible deceleration of revenue growth in the company's leading product, Pylarify, as the company seems to have penetrated most of the early adopters of this imaging agent for prostate cancer. Later in the quarter, the company announced a strategic collaboration and exclusive licensing agreement for two late-stage therapeutic products used to treat metastatic prostate cancer and neuroendocrine tumors. We believe approval of these products should help offset any significant declines in revenue growth of Pylarify.

Shockwave Medical develops devices and products to treat calcified cardiovascular disease. Despite reporting strong revenue growth in the quarter, the magnitude of the increase and the forward guidance given were not enough for elevated expectations, and investors who had made money in the stock through early November took some profits.

Livent is a pure-play, fully integrated producer of performance lithium compounds. The stock underperformed as investor concerns about how the future price of lithium would be affected by a potential decelerating rate of growth in overall electric vehicle (EV) production and demand, primarily in China. Despite these potential near-term headwinds, longer-term the global lithium market remains tight, and we believe Albemarle plays a critical role in the battery value chain and remains well-positioned for the overall continued global adoption of EVs.

Outlook[2]

Following an exceptionally challenging 2022, we are cautiously optimistic on the outlook for equity markets in the year ahead. As investors are acutely aware, inflationary pressures, once deemed to be transitory, surged to surprisingly high levels and wreaked havoc across global financial markets. We believe that stocks will return to their long-term upward trajectory as it becomes increasingly apparent that the aggressive actions already taken by the U.S. Federal Reserve (Fed) and other central banks have brought inflation under control. While it will take time for inflation to return to the Fed's target range, we are encouraged by recent trends in the data. Most notably, consumers' inflationary expectations remain well-anchored and money supply growth has flattened. The Fed's hawkish jawboning, unprecedented pace of rate hikes, and quantitative tightening have proven to be effective tools to restrict financial conditions enough to burn off the excesses accumulated during a period of overly accommodative monetary and fiscal policies. Valuations largely reflect the risks associated with the lagged effects of monetary tightening that are ominously depicted in the inverted yield curve. Although corporate revenues will likely see downward pressure as global economic growth slows, we believe that profits may prove more resilient than bearish forecasts project. Companies that can implement vigilant expense management programs to mitigate a slowdown in revenue and to protect margins could outperform the broader averages. As always, stock selection remains key and we are optimistic about the portfolio. Finally, we remind investors that equity markets are forward-looking as stocks typically bottom before the economy troughs.

The outlook for the more cyclically oriented areas of the market appears balanced at current levels as several notable end markets have begun to feel the impact of tighter monetary policy. Several regional surveys of economic activity have dropped into contraction territory. Ominously, trucking volumes and rates, a real-time proxy for economic activity, have fallen sharply. The housing market is clearly in the midst of an abrupt slowdown due to the rapid rise in mortgage rates during 2022. Building permits, a key leading indicator for residential construction, have plunged and homebuilders' confidence has dropped to levels last seen at the onset of the pandemic. Due to the lagged effects of the stringent monetary tightening already in place, growth will likely slow further in the coming quarters. Against this backdrop, we favor companies with exposure to infrastructure spending and themes such as the re-shoring of supply chains. Following a period of broad-based inflationary pressures, we believe that corporate profit margins could potentially benefit from falling costs and fewer supply chain bottlenecks. As such, stock selection will be key as corporate managers navigate this dynamic environment. In our opinion, the market offers attractive investment opportunities for companies with idiosyncratic opportunities for growth despite the broader economic slowdown.

It is a well-known investment axiom that healthcare is a defensive sector and therefore generally a desirable place to hide during turbulent periods in the market. While that has proven to be true for large-cap managed care, large-cap pharmaceuticals, and large-cap distributors, unfortunately the same cannot be said for most industry groups in the small-cap or mid-cap healthcare landscape. Essentially, this year has been a market environment where healthcare has not been a place to "hide." In mid-November, the market began to rotate out of year-to-date winners and into stocks that were high-quality, profitable companies that had been poor performers through most of the year. This rotation was driven by a belief that a Fed pause or "pivot" was just months away and that this would signal the beginning of a new cycle that would favor growth stocks. Unfortunately, the Fed's recent comments have poured some cold water on that thesis as the market has been under pressure since then. From a fundamental point of view, we continue to favor medium-duration stocks that have several characteristics: strong management teams; above-average revenue and earnings growth; large competitive moats; and reasonable valuations. These types of companies tend to perform well in turbulent markets, while also having the necessary growth characteristics to keep pace in growth cycles. Several notable healthcare conferences in January and February will help set the tone for the first-half performance of the sector. Despite these challenges, it is our view that healthcare is poised for a recovery in 2023. We believe there is currently just too much value in large swaths of quality healthcare companies, and it is merely a matter of time before investors will seek the attractive fundamentals of these companies.

As we enter the new year, we believe there are positive signs that the worst of the inflation pressures may be behind us and thus interest rates may also be peaking. This could be a nice setup for the technology investment landscape, especially given the meaningful pullback in valuations last year. Mergers and acquisitions activity also picked up late in the year, which also suggests a good environment to initiate positions in some of the best-positioned technology companies for the mid- to longer-term horizon. Despite some of the macroeconomic issues compounded by geopolitical risks, U.S. employment remains strong, consumer spending has held up well, and enterprise spending has for the most part remained healthy. Within technology, we continue to find attractive opportunities in durable, strong companies with healthy balance sheets that will benefit from secular themes such as cloud computing, artificial intelligence, mobility and telecommunications infrastructure, digital payments, the "Internet of Things," smart homes, industrial automation, security software, e-gaming, and alternative energy.

The current outlook for the financials sector remains constructive, although there are crosscurrents beneath the surface. While interest rates have continued their upward trajectory, we suspect we are nearing the end of this rate-hiking cycle. At the same time, we anticipate economic growth to slow as the rapid pace of rate hikes take hold. In this environment we see opportunities in boutique advisory firms poised to assist companies restructure their liabilities and also grow through mergers and acquisitions. In addition, we remain constructive on certain financial firms that are gaining share and also benefit from higher rates. Lastly, we see opportunities in pawn lenders, which we expect to capitalize as consumers' overall access to credit potentially becomes challenged.

Inflation remains the No. 1 issue facing the consumer. While moderating a bit over the past few months, it remains a headwind to consumers' buying power. Ongoing supply chain disruptions are beginning to show signs of finally improving. Against this backdrop, we continue to see two dynamics at play: Consumers are changing what they want to purchase while at the same time looking for value in certain areas. Some areas we are excited about and see attractive opportunities in include companies selling fitness services as part of a longer-term health and wellness trend, as well as restaurants and specialty retailers offering discount value products.

Eagle **Quarterly Commentary**

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Small Cap **Growth**

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Performance[2] as of Dec. 31, 2022

		Fourth Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (Jan 1, 1994)
Eagle Small Cap Growth	Gross	3.76%	-26.22%	-26.22%	2.31%	4.20%	8.96%	10.98%
Eagle Small Cap Growth	Net	3.01%	-28.59%	-28.59%	-0.74%	1.11%	5.78%	7.75%
Russell 2000® Growth Index		4.13%	-26.36%	-26.36%	0.65%	3.51%	9.20%	6.95%

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance information, please call your financial professional or visit eagleasset.com.

Performance Disclosures [2]

The calculation of the performance data includes reinvestment of all income and gains and is depicted on a time-weighted and size-weighted average for the entire period. Performance is shown after deduction of transaction costs and both "gross" (before the deduction of management fees) and "net" (after the deduction of management fees). Performance figures include all internal, retail Small Cap Growth accounts of Eagle Asset Management, a St. Petersburg, Florida-based firm. Eagle Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Eagle Asset Management, Inc. has received a firm-wide verification for the periods January 1, 1982 through December 31, 2021. Performance data for 2022 and the current year may be revised, and Eagle will publish any revised performance data. No inference should be drawn by present or prospective clients that managed accounts will achieve similar investment performance in the future. Past performance does not guarantee future results. Because accounts are individually managed, returns for separate accounts may be higher or lower than the average performance stated in the charts. Investing in equities may result in a loss of capital.

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3. Source: Bloomberg.

Investments in small-cap companies generally involve greater risks than investing in larger capitalization companies. These 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 strategy'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. 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.

Definitions

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.

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

A multiple, sometimes referred as the price multiple or earnings multiple, is a measure of a company's value based on the ratio of its current share price to its earnings per share. This ratio is known as the price-to-earnings ratio, or P/E.

Defensive stocks provide consistent dividends and stable earnings regardless whether the overall stock market is rising or falling. Companies with shares 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.

Cyclical stocks have prices influenced by macroeconomic changes and are known for following the economy as it cycles through expansion, peak, recession, and recovery.

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.

Quantitative tightening refers to the attempt by central bankers to reverse the effects of quantitative easing (QE), which is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. In quantitative easing, buying securities adds new money to the economy, and also serves to lower interest rates by bidding up fixed-income securities. It also expands the central bank's balance sheet. In quantitative tightening, reducing those purchases is a policy primarily aimed at interest rates and at influencing investor perceptions of the future direction of interest rates.

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.

Equity duration is the cash-flow weighted average time at which investors can expect to receive the cash flows from their investment in a company's stock. Long-duration stocks include fast-growing technology companies, including those that may not pay any dividends in their early years, while short-duration stocks tend to be more mature companies with higher ratios to dividend to price.

Secular stocks are characterized by having consistent earnings over the long term constant regardless of other trends in the market. Secular companies often have a primary business related to consumer staples most households consistently use whether the larger economy is good or bad.

Indices

The Russell 2000® Growth Index, the strategy's benchmark 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.

Indices are unmanaged, and one cannot invest directly in the index.