Quarterly Commentary

EAGLE Asset Management

Small Cap Growth

First Quarter | 2024

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Market Overview

Small-cap stocks posted positive gains in the first quarter, building on the rally at the end of last year. Among the style indexes, the Russell 2000® Growth Index (up 7.58%) outperformed the Russell 2000® Value Index (up 2.91%) by a notable margin, reversing the trend of value outperformance during the last two quarters. Information technology (up 16.38%) led the way during the quarter, significantly outpacing the returns generated by value counterparts. Energy (up 11.10%), industrials (up 9.29%), and consumer staples (up 8.01%) all outperformed the overall growth index on an absolute basis. Consumer discretionary (up 6.12%), healthcare (up 3.50%), and financials (up 3.24%) were the only other sectors to finish with positive returns and lagged the overall index return. Real estate (down 1.16%) and materials (down 1.21%) led the sectors that finished with negative returns. The worst-performing sectors during the first quarter were communication services (down 4.86%) and utilities (down 9.75%).

Portfolio Review[1,2]

The Eagle Small Cap Growth portfolios outperformed the benchmark Russell 2000 Growth Index on a gross and net basis during the first quarter. Consumer staples finished as the portfolios' best-performing sector on an absolute basis due to impressive stock selection. Savvy stock selection likewise benefited energy. Stock selection further propelled returns in financials and industrials. A modest overweight allocation in materials and an absence of an allocation in utilities benefited the portfolio. A noteworthy underweight allocation to communication services offset some of the weakness in the worst-performing sector in the portfolio on an absolute basis. Healthcare and information technology lagged while still contributing to returns.

Top-performing securities

Super Micro Computer provides accelerated computing platforms that are application-optimized, high-performance, and high-efficiency server and storage systems for end markets such as cloud computing and artificial intelligence (AI). The company delivered impressive financial results and provided strong guidance that reflected the increasing demand for the infrastructure that supports artificial intelligence. After the report, the stock notably traded higher as investors grew more enthusiastic about the growth prospects aligned with the critical role the company plays in the development of data centers.

Viking Therapeutics is a biotechnology company focused on obesity and nonalcoholic steatohepatitis (NASH), a chronic liver disease affecting a large population worldwide. The stock took off after the company unveiled results from a study of its lead injectable drug for obesity. It demonstrated strong overall weight reduction compared to the leading weight loss drug, tirzepatide. Investors have been excited about the potential size of the glucagon-like peptide 1 (GLP-1) agonist market, and it was an impressive achievement for a smaller, independent lab to make such a meaningful breakthrough. Additionally, the oral version of the drug also appears to have very strong weight reduction over a four-week period.

Celsius develops, markets, sells, and distributes functional fitness and lifestyle beverages. The stock performed well during

10 Largest Holdings

RB Global
Viper Energy
ESAB
U.S. dollar
Summit Materials
Quaker Chemical
Monday.com
MSA Safety
Woodward
PJT Partners

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the quarter driven by strong financial results that meaningfully surpassed expectations. The company's strategic initiatives have driven it to achieve an impressive market share, a difficult feat in the energy drink space that has helped solidify Celsius as a notable contender in the industry.

ESAB, a leader in fabrication and specialty gas control technology, has consistently achieved strong results in its core welding business, with notable success in the Middle East and Asia. Additionally, ESAB has been very active with new product development and has made notable strides in building out both its welding automation and gas control portfolios that we believe should prove to be drivers of growth going forward.

Wingstop franchises and operates restaurants that specialize in cooked-to order chicken wings in a fast-casual setting. Strong quarterly earnings and guidance propelled the stock during the period. Earnings continue to be driven by strong transaction growth.

Bottom-performing securities

Freshworks provides customer support software that helps businesses interact with customers via email, website and social channels. The company reported relatively healthy results compared to expectations and showed improving cash flow. Investors, however, have had concerns about whether the company's products might be displaced by artificial intelligence-enabled tools. We believe that the company itself is a beneficiary of AI tools and, without its deep know-how, complex customer service issues cannot be relegated to basic AI chat bots.

Thermon provides engineered industrial process heating solutions. The company's shares came under some pressure following a quarterly update that included a further slowing in organic growth and ordering trends amid pockets of softness among some of its end markets and geographies. We sold the stock.

Smartsheet provides collaboration software for enterprises and small and medium-sized businesses. The company has faced macroeconomic headwinds related to its smaller customers and thus revenue has slowed. However, management has diligently focused on improving operating margins as well as showing healthy cash flow generation. We remain optimistic that the macro headwinds will abate and that the company can reaccelerate revenue and facilitate more earnings growth in the second half of 2024 and beyond.

Wesco International provides electrical distribution, logistic services, and supply chain solutions. The stock sold off following a particularly lackluster quarterly report that fell well short of investor expectations. The results were highlighted by both a delay in larger projects as well as worse than expected results in its shorter-cycle business, which significantly pressured both margins and free cash flow. Management also gave disappointing commentary on early first-quarter trends and forward guidance for the remainder of this year that indicated the recent softness would persist for the foreseeable future. This update was especially disappointing given the current robust backdrop for the overall electrical industry. We sold the stock.

Five Below is a high-growth value retailer of trending products. The stock lagged as quarterly earnings and next fiscal-

Small Cap Growth

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Performance[2] as of March 31, 2024

		First Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (Jan. 1, 1994)
Eagle Small Cap Growth	Gross	10.14%	10.14%	21.20%	-1.35%	7.65%	8.18%	11.35%
Eagle Small Cap Growth	Net	9.34%	9.34%	17.66%	-4.28%	4.48%	5.00%	8.09%
Russell 2000® Growth Index		7.58%	7.58%	20.35%	-2.68%	7.38%	7.89%	7.52%

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.

Past performance is not a guarantee of future results. 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). The net returns reflect the application of the highest wrap fee of 3% annum.

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, 2022. Performance data for 2023 and the current year may be revised, and Eagle will publish any revised performance data. The compound impact on performance of the deduction of fees is determined by the account size, the amount of the fee, the time period and the gross investment performance. This compounding effect is generally reflected in the Annualized Performance chart. Because accounts are individually managed, returns for separate accounts may be higher or lower than the average performance stated in the charts.

Securities shown should not be considered recommendations or solicitations and may not have been, or in the future be, profitable. Investing in equities may result in a loss of capital. Past performance is not a guarantee of future results.

year guidance were below expectations. Continued high levels of inventory shrink, notably in the areas of self-checkout, have adversely impacted company performance. Management has put a plan in place to enhance security to help offset some of the theft.

Outlook

The equity market posted strong gains in the first quarter of 2024 as the economy continues to prove surprisingly resilient and inflationary pressures generally continue to subside. As the U.S. Federal Reserve maintains its "wait and see" posture, bond market volatility also has subsided. The equity market's focus has keyed in on corporate earnings and the initial 2024 guidance provided by companies during fourth-quarter earnings calls, which broadly have supported higher stock prices. Encouragingly, the market broadened out from the "Magnificent Seven" – the largest seven companies in the S&P 500 Index by market capitalization – that drove much of the index's gains in 2023. During the first quarter, price momentum proved to be a notable factor driving outperformance. The shares of companies exposed to the AI investment theme continued to post strong gains as their acceleration in growth became more evident. The pause between the Fed's last hike and its first cut has historically been a sweet spot for strong equity market returns. In this context, we believe the consternation of market strategists over the precise timing and magnitude of the Fed's first cut is largely misplaced. A longer Fed stay "in limbo" will likely extend the current rally. In our opinion, a slower-moving Fed would prove supportive for the market as a resilient economy will further confound market skeptics.

Despite this constructive outlook, we remain acutely aware of the risks associated with a momentum-driven market. We are actively managing our exposure to the momentum factor in the portfolio and remain alert to risks associated with high-fliers during market drawdowns. The slope and the duration of the AI investment cycle are crucial variables that will determine whether many of the current winners can continue to lead the market higher. We are closely monitoring the adoption of newly developed AI applications to determine the sustainability of the AI investment cycle, which will play a key role in determining market leadership from here. Cyclically oriented sectors also have posted solid gains on the prospects of continued economic expansion but could be vulnerable if inflationary pressures are rekindled and the Fed is forced to change course. Against this backdrop, we remain focused on companies with strong secular growth prospects that we believe can outperform over the course of an economic cycle.

Cyclically oriented stocks in the energy, industrials and materials sectors posted solid gains during the first quarter. Interest rates, the dominant driver of share price performance in 2023, were subdued due to largely favorable trends in economic growth and inflationary data. Oil prices were also supported by improving demand trends from China, heightened geopolitical risks, and supply discipline from the Organization of the Petroleum Exporting Countries (OPEC). Notably, Saudi Arabia continues to hold excess supply off the market, which has actually proven to be a net benefit as the impact of higher oil prices has more than offset lower volumes. Multiples have expanded as investors gravitated toward the industrial sector given solid growth prospects due to re-shoring and automation initiatives, infrastructure stimulus, and a significant ramp-up in spending to support AI-driven data centers. Broadly speaking, the profit outlook for industrials has been supported by sticky price increases supporting revenue growth combined with margin improvement opportunities due to higher labor productivity as well as improved supply chains. In particular, the planned build-out of AI data centers is expected to drive a step change in energy demand that will require significant investments from utilities on both renewable power and transmission infrastructure. Despite this attractive investment backdrop, we remain cognizant of the current risks associated with bullish investor sentiment in light of the current strong stock price momentum. Specifically, we believe that industrial stocks may consolidate recent gains as investor focus shifts to the uncertainty surrounding the presidential election as well as to the risk of a potential backup in interest rates.

The first quarter of 2024 showed some improvements in sentiment toward the healthcare sector. That certainly was not the case in 2023, when healthcare significantly lagged several of the most important growth benchmarks, including the S&P 500, the Russell Midcap Growth and the Russell 2000 Growth indices. Last year saw several unanticipated headwinds affect multiple parts of the healthcare industry and caused many investors to stay away. In the early weeks of the first quarter, we were encouraged by a strong uptick in biotechnology financings, healthcare initial public offerings (IPOs), which were mostly in biotech, and even mergers and acquisitions. As the quarter went on, however, it was clear that a return to normal for the healthcare sector was going to be bumpy at best. As we look back over the last five years, it is clear that COVID was both a huge boost to healthcare but, unfortunately, left the sector with a "hangover" it is still working off as certain subsidies have been removed. Additionally, labor costs are finally coming down to pre-COVID levels, Americans are once again seeing their doctors on a more regular basis, and finally, hospital and medical procedures are returning to normal levels. Two of the more important bellwether indicators for the healthcare sector, especially in the Russell 2000 Growth Index, are the amount of investment dollars flowing into the biotech industry, and the level of interest that major pharmaceutical companies show for the biotech industry through the pace of mergers and acquisitions. Both are returning to pre-COVID levels, if not higher. With the recent surge in the level and number of financings for the biotechnology industry, one group of healthcare stocks that benefited was the clinical research organizations (CROs). These CRO companies are contracted mostly by small to mid-sized pharmaceutical and biotechnology companies to manage the clinical trials of the drugs the pharmaceutical companies are developing. Certain of our investments benefited from these trends. We also had exposure to GLP-1 weight-loss drugs, which have been found to be very effective in treating Type 2 diabetes and obesity. Our investment in Viking Therapeutics (discussed above) paid off when on Feb. 27, the company announced the results of a trial for its drug VK2735. The trial showed solid efficacy with manageable adverse events relative to competitors and, as a result, the stock rose dramatically that day. On March 26, Viking reported results of the oral version of VK2735. Again, the results were better than expected with relatively few side effects. We are optimistic that as headwinds subside and trends normalize, healthcare will once again take a rightful seat as a sector filled with innovation, growth, large moats, and solid profit margins. The combination of these characteristics is pivotal in producing strong stock returns.

As inflation seems to be stabilizing, we also are seeing interest rates normalize while the economy continues to grow at a healthy pace. Corporations seem to have put behind the excesses of COVID-related spending, and consumer spending has held up given healthy employment figures. This seems to be a nice set up for investment in the information technology sector. After a dearth of mergers and acquisitions as well as a lack of IPOs over the last few quarters, activity has picked up and is likely to increase further as the year progresses. Within technology, we will strive to 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 has improved and is now more balanced than in prior quarters. With the next move in interest rates likely to be down, the headwind of rising rates appears to be waning. We suspect economic growth is poised to moderate moving forward but remain positive. In this environment, we see the most interesting opportunities outside of the typical banking space. Some areas we are currently excited about are boutique advisory firms poised to benefit from an increase in M&A activity that will accompany the decrease in interest rates. In addition, while inflation remains above long-term averages, we are constructive on pawn shops helping lower-end customers access credit. Lastly, we see opportunities in the payments space as large invoice-based payments are being digitized.

While consumers still face a number of headwinds, the continued moderation in inflation and steady job market are welcome positives. Against this backdrop, we find a few different dynamics at play:

- Consumers continue to prioritize travel and experiences,
- Consumers are interested in overall health and wellness, and
- Lastly, consumers are, at the same time, quite discerning when looking for value in certain areas.

Some of the areas we are currently excited about and see attractive opportunities in include companies offering unique experiences such as cruise vacations, spa treatments while on cruises, and trips to amusement parks. Also, we are interested in companies selling food, drinks and fitness products as part of the health and wellness trend. In addition, we are excited about restaurants and specialty retailers offering discount value products.

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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

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.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Factor investing is an approach to investing that selects securities based on characteristics associated with higher returns. These characteristics, or factors, can be macroeconomic factors or style factors. Macroeconomic factors are focused on broad risks across asset classes and include the rate of inflation: growth in gross domestic product; and the unemployment rate. Style factors include differences in growth versus value stocks; market capitalization, and industry sector. Factor performance refers to a focus on performance of securities within a particular factor or between groups of different kinds of factors.

Fast-casual restaurants serve the market segment between fast food and casual dining.

Forward earnings per share is an estimate for the next period's earnings per share for a company's profit divided by the outstanding shares of its common stock.

Glucagon-like peptide 1 (GLP-1) agonists comprise a class of type 2 diabetes drugs that improve blood sugar control and may also lead to weight loss. The drugs mimic the action of a hormone called glucagon-like peptide 1 by stimulating the body to produce more insulin when blood sugar levels start to rise after someone eats. The additional insulin helps lower blood sugar levels, which helps in controlling type 2 diabetes. How GLP-1 agonists lead to weight loss is less clear.

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.

The Magnificent Seven refers to the seven largest stocks by market capitalization in the S&P 500 index. As of March 28, 2024, they were Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

A moat, in finance, refers to a business's ability to maintain competitive advantages in relation to its competitors and thereby to safeguard its market share and long-term profits. Investor Warren Buffett popularized the term.

Momentum investing is a strategy that aims to capitalize on the continuance of an existing market trend. It is a trading strategy in which investors buy securities that are already rising and look to sell them when they look to have peaked. It entails taking long positions on financial instruments with prices trending up and short positions on instruments with prices trending down.

A multiple, sometimes referred to 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.

Organic growth is the growth that companies achieve through using their own internal resources to increase production or sales. It does not include growth or revenues from mergers, acquisitions, or other external methods of adding to sales or profits.

The Organization of the Petroleum Exporting Countries, also known as OPEC, was founded in 1960 and is a permanent organization of 13 oil-exporting developing nations that coordinates the petroleum policies of its member countries, which are Iran, Iraq, Kuwait, Saudi Arabia, Venezuela, Libya, the United Arab Emirates, Algeria, Nigeria, Gabon, Angola, Equatorial Guinea, and Congo.

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.

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

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.

Shrink, also known as inventory shrink, in retail sales refers to inventory that has been stolen, lost, damaged, or is otherwise not physically available despite having been recorded as inventory for accounting purposes.

A step change is a term used to describe changes that are sudden, large, and/or represent an improvement in existing conditions.

Sticky is a term used to describe measured data that is slow to change, in contrast to faster-changing or more variable data.

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.

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.

The Russell Midcap® Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth 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.

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

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