Quarterly Commentary

EAGLE Asset Management

Small Cap Strategy

First Quarter | 2024

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Market Overview

The first quarter of 2024 produced solid results for small-cap stocks, with the Russell 2000 benchmark advancing 5.18% in the quarter, albeit trailing larger cap indices. Gains were strongest in more economically sensitive sectors, including industrials, energy, and consumer discretionary. Interest rates climbed modestly as economic data surprised to the upside, and thus investors tempered the extent to which the U.S. Federal Reserve (Fed) can cut interest rates in 2024.

Beneath index- and sector-level activity, we noted a more tenuous market. Returns continued to be concentrated into a smaller number of names and in stocks with positive momentum. The two largest contributors to Russell 2500™ Index returns were a server manufacturer – with a $50 billion market capitalization – recognized as an artificial intelligence (AI) play and a software company whose principal value derived from its expanding Bitcoin holdings.

The tendency to favor names with momentum expanded beyond information technology and across most sectors. According to Bloomberg, momentum was the top-performing style factor. We believe this trend is the result of investors who are becoming more positive on the market and worrying about missing future upside, but who still harbor concerns about higher interest rates affecting company earnings. We hope that continued signs of strengthening economic activity may drive an improvement in market breadth, but we remain mindful of the risks associated with chasing momentum.

Although a smaller subset of small-cap companies has driven much of the recent gains, we steadfastly believe that price is a meaningful determinant of long-term returns. Furthermore, we believe the impacts of AI are real, but the beneficiaries will be far more than a handful of infrastructure providers, ultimately aiding a wide swath of companies that understand how complex data analytics and machine learning can drive efficiency and improve the customer experience. As such, we continue to look for great capital-compounding businesses with sound management teams who understand and have prepared for accelerating technological change, but we see greater value in companies that have not been caught up in the latest stock market craze.

Portfolio Review[1,2]

The Eagle Small Cap Strategy portfolio underperformed the benchmark Russell 2000 Index on a gross and net basis during the first quarter, impaired by poor stock selection in industrials and information technology. Our meaningful underweight to stocks with the most momentum had a negative impact across virtually every sector.

Energy was one of the strongest-performing sectors during the first quarter, primarily due to strength in the underlying commodity markets. Our underweight position detracted from performance, but our strong stock selection improved the returns generated by our energy holdings. Although we are generally wary of commodity-driven sectors, energy companies have done an admirable job of maintaining capital discipline and prioritizing returns rather than growth over the past several years.

10 Largest Holdings

ChampionX
Enerplus
RBC Bearings
Texas Roadhouse
U.S. dollar
Selective Insurance
Innospec
Cohen & Steers
Prestige Consumer Healthcare
Altair Engineering

As of March 31, 2024. The information provided herein 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.

We continue to focus on companies in this sector with differentiated business models, strong management teams, and reliable cash flow dynamics.

Our consumer discretionary holdings were assisted by solid stock selection, particularly in consumer services (Texas Roadhouse, discussed below) and autos and components. We remain aware of the rapidly changing consumer landscape – the ongoing resilience of consumer spending could be affected by slowing job growth, elevated debt levels, and signs of increased price sensitivity – while focusing solely on franchises with unique and differentiated business models.

Our performance in the industrial sector was disappointing during the quarter, primarily due to poor stock selection centered around companies in the aerospace industry. Aerospace and defense remains an attractive industry, but companies were negatively affected by adverse news stories concerning a major aircraft manufacturer. Although sector valuations look stretched in spots, we continue to find attractive opportunities in this diverse sector.

The portfolio's information technology investments generated disappointing returns from several holdings. Endava, a significant investment, declined substantially after it reported new project pushouts that resulted in a meaningful reduction in earnings guidance. (See below for details.) Our returns in this sector were also negatively affected by our exclusion of two large constituents that are part of the benchmark index. These companies lack the durability characteristics that necessitate consideration for our portfolio.

Top-performing securities

Enerplus is an oil and gas producer operating in North America. The company's shares performed well following a merger announcement in February. We support the proposed merger because it not only represents a fair premium for Enerplus shareholders, but it is also strategically sound. The merger could create a formidable scale operator in North America's Williston basin.

Medpace is a global, full-service contract research organization providing clinical development services to biotechnology, pharmaceutical, and medical device companies. It specializes in working with small biopharmaceutical drug developers that generate the majority of the company's revenues. In early February, company management announced strong fourth-quarter results and struck a bullish tone regarding net new business and the improving funding backdrop for its small biopharmaceutical customers. Medpace has gracefully navigated a volatile period for small-cap biopharmaceutical companies, and its resilient business model positions the company to serve this dynamic industry without concentrated exposure to binary outcomes.

ChampionX is a diversified oil and gas service company with operations in numerous basins globally. The company's shares performed well following another solid quarterly result and its announcement of a strategically sound acquisition plan. The company continues to execute well against its stated targets, and the shares are being rewarded for this consistency.

Texas Roadhouse is a full service, casual dining restaurant business that owns,

Small Cap Strategy

First Quarter l 2024

Performance[2] as of March 31, 2024

		First Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (Aug. 1, 2012)
Eagle Small Cap Strategy	Gross	1.88%	1.88%	12.30%	3.55%	10.50%	9.49%	11.76%
Eagle Small Cap Strategy	Net	1.12%	1.12%	9.01%	0.49%	7.25%	6.27%	8.48%
Russell 2000® Index		5.18%	5.18%	19.71%	-0.10%	8.10%	7.58%	10.38%

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 Strategy 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.

operates, and franchises its core Texas Roadhouse concept along with a growing portfolio of Bubba's 33 and Jagger's concepts. The company's shares performed well due to continued industry dominance in same-store traffic performance and improved 2024 profitability driven by favorable commodity and labor costs. We are impressed by the company's attractive value proposition, consistently strong sales, and considerable high-return long-term unit growth with robust unit economics. The company's partner compensation program also has a strong potential to attract skilled managers.

ESAB Corporation is a leading manufacturer of equipment and consumables used in welding applications. The company's shares performed well during the quarter following another strong period of reported financial results. The management team has communicated clear operational targets and has been executing crisply against these goals. The company is well positioned to benefit from numerous trends including automation, electrification and nearshoring.

Bottom-performing securities

Endava is an information technology services company using a near-shore resource model and agile development philosophy to aid companies in their digital transformations. After experiencing a strong rebound in the fourth quarter, shares performed poorly in the first quarter following an earnings report, plus a material cut to guidance, that cited push-outs of major projects that the company had hoped to close in the quarter. Further complicating results was the announcement of its largest acquisition to date, a U.S.-based information technology service provider with expertise in healthcare and offshore capabilities in India. While we have a strong opinion of management and believe the demand environment is only temporarily subdued, we are closely monitoring the company to ensure that management is not overly distracted and that execution is not waning.

CONMED is a medical technology company that supports a variety of specialties, including orthopedics, general surgery, gynecology, thoracic surgery, and gastroenterology. The company's disappointing first-quarter performance was due to mounting competitive concerns and guidance that anticipated below-trend growth for the quarter. Despite CONMED's distinct functional advantages from intellectual property protection, investors fear that competitor products will ultimately limit the growth potential of the company's AirSeal insufflation franchise. While these concerns have yet to play out, we view this company as a resilient, well-managed small-cap medical device company with a relatively broad portfolio of clinically differentiated offerings.

Columbia Banking System is the parent company of Umpqua Bank, providing a broad range of banking, wealth management, mortgage and other financial services across Arizona, California, Colorado, Idaho, Nevada, Oregon, Utah and Washington. The company's stock suffered due to management credibility issues, lower expected returns on average assets in 2024, and a recent shift into higher-cost certificates of deposit and public funds (primarily at Umpqua) that reduced the company's net interest margin in the first half of 2024. The bank plans to announce an initiative to improve its operating efficiency and profitability. This initiative is expected to include:

- meaningful expense reductions,
- asset, deposit and funding cost evaluations (reducing exposure to lower-yielding assets like multi-family and single-family rental loans, and replacing wholesale funding with brokered deposits and borrowings), and
- underwriting changes at its small equipment leasing business.

We like the bank's above-average deposit franchise, well-diversified loan portfolio, and strong balance sheet, but the company is on a short leash.

Cable One, a provider of high-speed internet and other broadband services in rural markets, continued its lackluster performance during the quarter. Despite showing net positive high-speed data subscriber gains, shares fell over concerns that sluggish demand trends are likely to continue and that competition from telecommunications companies (both fiber overbuilds and fixed wireless) are impacting the company's average revenue per user. While we acknowledge the risk to many of its industry peers, Cable One has a far lower competitive overlap and lower household penetration rate. It is also aggressively expanding its target customers to include downmarket accounts that could assist the company in continuing to add incremental high-speed internet users. Further, we do not believe the current valuation adequately reflects the company's assets and unconsolidated investments. We have long admired how this business model and management team has focused on building healthy relationships with its customers and employees. It has built a franchise that we believe is far better than its peer cable companies, allowing it to continue competing effectively against other industry participants.

Integra Lifesciences manufactures and sells medical technologies and products across two business segments: Codman Specialty Surgical and Tissue Technologies. Each unit uses an engineered collagen technology platform to repair and regenerate tissue. In late February, Integra surprised the market with an uninspiring financial outlook and the news that its CEO, Jan DeWitte, will retire in late 2024. This news capped a difficult year, during which manufacturing deficiencies in the Boston tissue technology plant had sapped management's focus and resources. Despite this disappointing news, Integra exhibited clear evidence of progress in Boston and across its portfolio. Guidance appears sufficiently conservative as its products return to commercialization in 2024. Moreover, if its recent premarket approval submissions are successful with the U.S. Food and Drug Administration, it may begin providing differentiated offerings that serve large end markets.

Outlook

It's early spring in Vermont, which means several things are sure to happen. Most of us are putting away our skis and pulling out our wellies to prepare for several weeks of mud as the last of the winter snow melts away. Maple taps are running, and smoke is rising from the sugar shacks as local artisans craft one of our state's most sought-after exports. Bear sightings will be on the rise as hibernation ends and the first meal of spring is eagerly sought out.

But here in our office, bear sightings have been exceedingly rare. In fact, they've been non-existent. Each new day seems to bring record highs for various equity indices, gold and cryptocurrencies. AI-linked stocks are going parabolic, and credit spreads are tight. Bear in mind (pun intended), all this has occurred while the yield curve and leading indicators flash recessionary warning signals. However, the recession that was a near-certainty only a few quarters ago is now considered a low-probability event by most investors. The bears are still sleeping.

The current market environment should awaken the contrarian in every long-term investor. Momentum has driven this market for several months and to a degree not witnessed since the late 1990s. Everyone seems to be on the same side of the AI trade. Market concentration remains at unprecedented levels and now affects more than just the large-cap arena. Valuations look stretched in several sectors and industries. Bullish sentiment continues growing as investors price in calm for the foreseeable future. All the while, as mentioned above, several traditional recession indicators have signaled caution.

While some caution is clearly warranted, we do not think a bearish call is as straightforward as it may seem. Despite traditional recessionary signals, the economy seems to be on solid ground. Gross domestic product (GDP) growth is healthy, inflation is ebbing, jobs are plentiful, consumer spending is brisk, housing is solid – despite higher mortgage rates – and the manufacturing sector seems to be recovering, as evidenced by recent Institute for Supply Management data.

The crowding in momentum stocks is concerning, but we think that parallels with the late 1990s are tenuous. Many of today's AI-story stocks are far better businesses than their dot-com brethren of the past. It is also challenging to be too negative on risk assets when the Federal Reserve is expected to embark on a series of rate cuts. We believe that many in the market overestimate the frequency and intensity of rate cuts to come, but the stimulative effect of central bank actions is difficult to ignore.

These are interesting times. While we work hard to understand the macroeconomic climate and financial market dynamics, we will not be swayed from our portfolio construction process. We will remain steadfast in our focus on identifying attractive franchises that are able to successfully navigate an ever-changing landscape.

We continue to maintain our overweight exposure to the technology sector, particularly through software companies. Recent AI enthusiasm has driven significant gains in a handful of hardware and semiconductor names that benefit from early buildouts of data center infrastructure, but we are looking more broadly at innovative companies that leverage data analytics and machine learning. We continue to believe that technology companies are at the forefront of many long-term tailwinds – such as AI, automation, productivity, and electrification – and that they are trading at reasonable valuations. Furthermore, we are focused on companies that prioritize profitability by balancing growth with cost discipline.

Given the more normalized environment of positive real interest rates, we are constructive on the financial sector, particularly among high-quality, differentiated franchises in capital markets and insurance. We believe that many insurers are thriving with continued pricing power and stronger returns on their investment portfolios. We also have meaningful positions in advisors for restructuring and merger and acquisition events, which are occurring more frequently after the depressed levels of the past few years.

With that said, we remain somewhat concerned about the impact of higher rates and lower utilization in commercial real estate. It may have a spillover effect on parts of the banking industry where we continue to be underweight. We are monitoring the direction of the yield curve and 10-year Treasuries, because lower rates are likely to reduce commercial real estate losses (the biggest risk to owning banks today) and unrealized bond losses, which would make bank valuations more attractive.

Many cross currents that have buffeted the healthcare sector have recently begun to normalize. Extreme peaks and troughs created by COVID are returning to more natural rhythms. Against a less volatile backdrop, we expect investors to reward durable franchises that have unique products and services, healthy capital structures, and long-visioned leadership. Favorable demographics, a dynamic innovation cycle spurred by new therapeutic modalities, and unchallenging valuations appear aligned to yield better healthcare stock performance.

The industrials sector continues to benefit from strong backlogs, restocking trends, improving supply chains, and continued pricing power (albeit less robust than last year). Aerospace, defense and construction-related industries have performed well and remain well positioned. We continue to think that electrification, power grid hardening, reshoring and automation remain secular growth opportunities. We continue to seek attractive franchises while remaining cognizant of this sector's acute exposure to economic softness.

We are currently overweight the basic materials sector, because we have identified several unique franchises. However, we are aware of the impact that macroeconomic events can have on this sector, remaining vigilant to sector overhangs. We remain focused on specialty businesses that are less levered to commodity forces.

We remain underweight the energy sector, given its commodity orientation, but we are comfortable with the quality franchises that we own. Energy commodities are likely to see heightened volatility in 2024 due to geopolitical turmoil. This volatility may provide opportunities as the year unfolds. Valuations in the sector continue to look reasonable.

We continue to monitor the rapidly changing consumer landscape. Consumer spending remains resilient, helped by low jobless claims and rising consumer sentiment, cash flows, and net worth, although it has the potential to be offset by sticky inflation, rising debt delinquencies, and signs of increased price sensitivity. We remain focused solely on franchises with unique and differentiated business models.

Our real estate investments continue to focus on differentiated businesses with attractive end-market exposures, strong and flexible balance sheets, and tenants with high credit quality. We are mindful of the impact that rates and economic activity can have on this group, but we continue to look for attractive niche opportunities.

We thank you for your trust and confidence in this team. We will continue to execute our process and seek opportunities to drive attractive risk-adjusted returns over the long term.

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3. Source: Bloomberg.

Investments in small-cap companies generally involve greater risks than investing in larger-capitalization companies. Small-cap 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.

Definitions

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.

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.

The debt-to-capital ratio measures a company's financial leverage. It is determined by taking the company's interest-bearing debt, both short- and long-term liabilities, and dividing it by the total capital, which includes all interest-bearing debt and shareholders' equity in the form of common stock, preferred stock, or minority interest.

Destocking describes the reduction in a company's inventory either through market demand or company decisions to reduce or hold less of a particular product or products.

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

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 a measure of profitability.

Factor investing selects securities based on characteristics associated with higher returns. 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.

Fiber overbuild networks use fiber optic cables to transmit information, and fixed wireless access networks use radio frequencies instead of cables.

The U.S. Food and Drug Administration regulates medical products that are sold in the United States.

Forward price-to-earnings (forward P/E) is a version of the ratio of price to earnings that uses forecast earnings for the P/E calculation. The earnings used in this ratio are an estimate and thus are not as reliable as current or historical earnings data.

GLP-1 weight-loss drugs, formally known as glucagon-like peptide 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.

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

Insufflation procedures use gases for medical applications in the human body.

The Institute for Supply Management produces several surveys assessing business conditions and outlooks across a variety of industries. They include the ISM Purchasing Managers' Index (PMI), which measures the prevailing direction of economic trends in the manufacturing sector, and the Services ISM® Report on Business®, which is based on data compiled from purchasing and supply executives and reflects 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.

A liquid biopsy diagnoses or analyzes tumors using blood or fluid samples, which is a departure from older tests that rely on solid tissue.

Long-duration targeted improvements (LDTI) accounting standards, issued by the Financial Accounting Standards Board, govern accounting practices for insurers that issue long-duration contracts such as life insurance and long-term disability policies.

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

Market power, also known as pricing power, refers to a company's ability to manipulate the price of a product or service in the marketplace by controlling the level of supply, demand, or both.

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.

Near-shoring refers to the practice of employing workers living in nearby or neighboring countries, instead of having the work done in a company's home country.

A net interest margin compares the net interest income a bank generates from credit products like loans and mortgages with the outgoing interest it pays holders of savings accounts and certificates of deposit. Expressed as a percentage, net interest margin is an indicator of profitability indicator that reflects the chances of a bank thriving over the long term.

Operating leverage is a cost-accounting formula used to calculate a company's break-even point and measure how much it can increase operating income by increasing revenue, for example, by raising prices.

Operating margin measures how much profit a company makes on a dollar of sales after paying for production costs such as wages and raw materials, but before paying interest or tax. It is calculated by dividing operating income by net sales.

Overhang occurs when investors wait for an expected event or set of circumstances to play out before they are willing to buy a stock.

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.

A pension risk transfer occurs when a company providing a defined-benefit pension plan reduces its obligations to pay guaranteed retirement income or post-retirement benefits to plan participants.

Pricing power refers to a company's ability to manipulate the price of a product or service in the marketplace by controlling the level of supply, demand, or both.

Pushouts occur when the estimated completion date for a company's project is "pushed out" into the future. They can signal that a project will take longer to generate revenue or deliver operational efficiencies.

Quality investing is a strategy that seeks to invest in companies with low debt, stable earnings, consistent asset growth, and strong corporate governance, as reflected in financial metrics such as ratios of return to equity and debt to equity, as well as to earnings variability.

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity.

Return on invested capital (ROIC) is a company's return above its average cost for debt and equity capital.

Risk assets refer to investments such as equities, commodities, high-yield bonds, real estate, and currencies, where the value may rise or fall due to fluctuating interest rates, changes in credit quality, default risks, supply and demand disruption, and other factors.

Spatial biology considers multiple dimensions of biological systems, studying where cells are located and how they influence a tissue's overall microenvironment.

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.

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. An inverted curve is one where yields for longer-term debt instruments fall below yields on short-term debt with the same credit quality.

Indices

The Russell 2000® Index, the strategy's benchmark, measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 10% of the total market capitalization of the Russell 3000® Index.

Indices are unmanaged and has no expenses. You cannot invest directly in the index.

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