EAGLE Asset Management

SMID Cap Strategy

Fourth Quarter | 2022

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Market Overview[1]

The fourth quarter of 2022 saw a modest rebound with SMID-cap equities, as measured by the benchmark Russell 2500™ Index, rising by +7.4%, bringing the year-to-date decline to -18.4%. The rebound was broad-based with every sector posting positive returns for the quarter.

Top-performing sectors included materials, energy, and consumer discretionary. The worst-performing sectors included healthcare (driven by largely by biotech), communication services, and information technology. Notably, value, profit, and momentum, as defined by Bloomberg, worked well in the quarter while volatility and leverage trailed. SMID caps, as measured by the Russell 2500 Index, slightly lagged large caps, as measured by the S&P 500 Index.

Optimism that the United States had hit peak inflation helped drive gains in October and November. But economic concerns re-emerged as investors assessed the impact of rapidly restrictive monetary policy and the lagged effect it has on the broader economy. While there appears to be a growing consensus that 2023 will bring some type of mild recession, we still note heightened uncertainty regarding the timing, severity, and longevity of such a recession. Given the unprecedented policy response (both stimulative and now restrictive) and accelerating technological and social change, we believe the dispersion of potential scenarios is wider than normal and could lead to increased volatility. Therefore, we are focusing on companies with conservative management teams, wide economic moats, and strong balance sheets that can navigate and take advantage of various operating environments.

Portfolio Review[1,2,3]

The Eagle SMID Cap Strategy portfolio outperformed the benchmark Russell 2500 Index on a gross and net basis, led by strong stock selection in the industrials and healthcare sectors. Conversely, stock selection in the information technology and communication services sectors drove underperformance.

Our industrial sector holdings performed well during the quarter and helped drive strong portfolio performance versus the benchmark. While the positive results were anchored by the announced takeover in October of Altra Industrial Motion, which is discussed below, strong stock selection was broad-based. The sector performed well as investors rewarded positive third-quarter results and were attracted to the healthy backlogs and order rates prevalent throughout the space. Our holdings posted solid results and also benefitted from their quality attributes such as healthy cash flows and balance sheets. We remain positive on the industrial sector but are closely watching for signs of order deceleration or backlog cancellations as the global economy slows into 2023.

Our healthcare sector holdings bested benchmark returns. The benchmark's healthcare sector was its worst-performing, gaining a modest +1.3% in the quarter, while our portfolio's healthcare names posted better results gaining +8.5%. After outperformance in the third quarter, biotechnology trailed in the fourth. Our underweight to this group aided our relative returns. Positive stock selection drove quarterly results with life sciences tools and services and certain medical technology names leading the way. We understand the general volatility of this sector and remain mindful of valuation metrics.

Our information technology holdings underperformed the benchmark, due in large

Top 10 Holdings

Reinsurance Group of America
NICE
Inter Parfums
LKQ Corp.
Globus Medical
Cohen & Steers
RBC Bearings
Mesa Laboratories
ChampionX
Bio-Techne

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.

part to our continued overweight to software and stock selection within that industry. While investors continued to revalue longer-duration securities, including software companies, the fourth quarter also was affected by concerns about demand in specific markets. We continue to maintain an overweight and are focused on companies with long-term durable business models that will persist throughout even a weakened demand environment. We are also acutely focused on either more profitable franchises or business that have strong long-term economics and management teams that are accelerating the realization of such profitability.

Communication services holdings underperformed the benchmark as a result of stock selection in Cable One, which we discuss below. We continue to focus on niche parts of the market where we believe our holdings have differentiation and scale, and thus are poised to thrive as media consumption changes.

Altra Industrial Motion is a diversified manufacturer of motion control equipment for the industrial marketplace. The company's shares performed well following an announcement in October that it would be acquired at a substantial premium. Altra was a long-term holding of ours, and we were pleased to see a fair value realized through this all-cash offer. We sold our position near the takeover price and redeployed the cash to other opportunities.

ChampionX is a diversified oilfield service company. Shares in the company performed well following strong third-quarter results that included a significant expansion of its buyback program and a pledge to return more than half of free cash flow to shareholders through a combination of buybacks and dividends. The company realized strong pricing in the most recent quarter along with improved activity in both North America and internationally. We believe ChampionX is well-positioned to take advantage of healthy commodity markets and we remain shareholders.

Medpace Holdings is a global, full-service clinical contract research organization (CRO) providing Phase I-IV clinical development services to the biotechnology, pharmaceutical, and medical device industries. With a customer profile heavily weighted to small biopharma drug developers, the stock underperformed in early 2022 as investor concerns, spurred by cautious management disclosures regarding slowing "award notifications" for future business, mounted over biotech funding. On Medpace's third-quarter call in October, management struck a materially more bullish tone regarding award notification trends and offered detailed future growth expectations. Investor earnings expectations were abruptly reset, with the stock posting a large double-digit gain in a single day. Despite volatile stock gyrations during 2022, Medpace's underlying business volatility remains persistently subdued and offers non-binary exposure to the dynamic biotechnology industry.

AAON manufactures custom heating, ventilation, and air-conditioning (HVAC) equipment for commercial and industrial markets. The company's shares performed well following strong results for the third quarter. AAON is executing well. The company continued to invest in its business and employees through the pandemic. This has allowed the company to take increased market share because of its increased capacity and efficiency. We believe the company remains well-positioned and continue to own the shares.

Inter Parfums is a global marketer, manufacturer, and distributor of well-known prestige fragrance products. During the fourth quarter, the company announced third-quarter results that exceeded consensus estimates. While announcing record planned marketing spending in the fourth quarter, the company raised 2022 guidance by more than

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	Top Securities	Average Weight (%)	Contribution to Return (%)	Bottom Securities	Average Weight (%)	Contribution to Return (%)
SMID Cap Strategy	Altra Industrial Motion	0.91	1.53	Omnicell	1.55	-0.96
	ChampionX	2.11	0.82	Cable One	1.78	-0.38
	Medpace Holdings	1.66	0.81	nCino	0.92	-0.27
	AAON	1.96	0.69	Repligen	1.84	-0.21
	Inter Parfums	2.56	0.62	Endava	1.32	-0.11

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the third-quarter beat, citing a record start in sales in the fourth quarter with notable strength at some of its newer licensees. New CFO Michel Atwood impressed investors as he took a more visible profile. Moreover, in late December, the company announced a new license agreement with a fashion sportswear firm that we believe represents an incremental opportunity for profitable growth. We view Inter Parfums as a durable franchise and a core holding with a clean balance sheet, an attractive capital-light business model, and management focused on long-term value creation.

Omnicell works to transform the pharmacy care delivery model, improve outcomes, and lower costs through a combination of automation, intelligence, and technology-enabled services designed to empower pharmacists and clinicians. In the fourth quarter, the stock stumbled badly when, only a few weeks after a very optimistic "Investor Day," the company announced an abrupt and dramatic deterioration in sales and installations resulting in a significant reduction in 2022 product bookings guidance. While the reduction in bookings and a subsequent reduction in force were jarring and raised concerns regarding management execution, we continue to believe that Omnicell remains well-positioned as pharmacy management evolves. A leader in a concentrated duopoly, Omnicell is arguably years ahead of its main rival in the development and deployment of web-enabled "advanced services" to automate medication management. Over time, we expect Omnicell will create and capture significant value from the high return-on-investment services that it is bringing to the healthcare system.

Cable One, a provider of high-speed internet and other broadband services in rural markets, continued to underperform in the quarter. Shares sold off with peers on concerns about competition from telecommunications companies (both fiber overbuilds and fixed wireless), potential for elevated capital expenditure, and slowing net subscriber additions. While acknowledging the risk to many industry peers, we note that Cable One has a far lower competitive overlap and lower household penetration rate, both of which should enable the company to continue to add incremental high-speed internet users. We have long admired this business model and management team, which has focused first on building healthy relationships with its customers and employees and as a result has built a franchise that we believe can continue to compete effectively. We modestly added to our position during the quarter.

nCino provides cloud-based banking software for onboarding new commercial loans, residential mortgages, and other banking services. Shares continued to languish, in part due to significant declines in mortgage activity that may impact the company's recently acquired SimpleNexus business. Further, concerns remain about the demand environment and competitive rivalry, particularly among smaller bank customers. While we share some concerns regarding the demand environment, we believe that nCino has established itself as an attractive platform, particularly for commercial loan origination. Furthermore, while still unprofitable, we believe that the business has attractive long-term economics, and that management is serious about achieving significantly improved cash flow and profitability over several years.

Repligen is a bioprocessing-focused life sciences company centered on delivering cost and process efficiencies via innovative technologies and system solutions. In the fourth quarter, the stock relinquished some of its mid-year gains as investors focused on a variety of near-term headwinds that might limit the company's ability to beat and raise guidance. Specifically, increased foreign exchange headwinds, a rapid retreat of COVID-related revenues, a bump in the operating expense base, and the potential for COVID-related destocking all may conspire to slow the company's growth rate over the next few quarters. While short-term growth may decelerate, we remain confident that this well-managed, fast-growing, and highly profitable industry leader is a durable franchise well-positioned to succeed against a bioprocessing backdrop with abundant longer-term tailwinds.

Endava is an information technology services company using a near-shore resource model and agile development philosophy to aid companies in their digital transformations. The company, based in the United Kingdom, derives more than half of its revenues from the United Kingdom and Europe, and a significant majority of its revenues are related to financial payments. A substantial portion of its delivery capabilities is based in Central Europe. While demand for its services remains strong, there are increasing worries given exposure to parts of the market that may be impacted by declining activity in these areas. Furthermore, currency fluctuations, proximity of delivery centers to Ukraine, and the decline in higher growth and highly valued companies likely has pressured shares. Despite the concerns, the company appears to be doing a good job of attracting and retaining new employees, while maintaining a strong culture. Endava is known as an employer of choice and has been effectively diversifying its business both geographically and among end markets.

Outlook[2]

The task of writing an investment outlook is always an interesting and challenging exercise albeit one fraught with significant uncertainty. That has never been truer than today: 2022 was truly a year to forget with meaningfully negative returns in both equities and fixed income, war in Ukraine, slowing growth, and soaring inflation. Most important, the U.S. Federal Reserve (Fed) last year embarked on an aggressive campaign to tighten financial conditions in an effort to slow inflation and, in the process, all but promised a sluggish job market and recession.

While the calendar may be new, the issues that drove negative returns in 2022 persist. Some are improving. Inflation seems to have peaked. China appears to be re-opening following a three-year COVID lockdown. And the Federal Reserve is likely closer to the end than the beginning of its tightening cycle.

Uncertainty, however, remains high, and it is driving a particularly wide set of potential outcomes for 2023. The Federal Reserve has clearly communicated its intention to tighten financial conditions to slow inflation. With the job market and wage growth squarely in its sights, a recession is probable. The severity and duration of that recession remains in question. Capital markets clearly began discounting the looming slowdown last year, but we believe more pain may be ahead as earnings contract through 2023.

The bigger question in our opinion is the fate of the "Fed put" itself. For the past 15 years, investors have bet correctly on the Fed coming to the rescue with easy monetary policy every time financial and/or market conditions become concerning. If central bankers succeed in taming inflation by engineering a weak job market and recession, will they then come to the rescue to jumpstart growth and a new market cycle? Or are we witnessing a true paradigm shift in which the Fed allows market forces to drive natural financial outcomes?

We believe the former is more likely than the latter. We do not, however, anticipate a near-term aggressive Fed pivot toward easing conditions. Inflation is a global problem and central banks are right to focus on it. This effort will take time and undoubtedly raises the likelihood of a policy mistake. From a portfolio perspective, we believe this translates to a potentially volatile year where differentiated business models are rewarded. In the event of a recession without an immediate central bank bailout, we want to be invested in quality businesses with pricing power and the ability to sustain positive cash flows. Disciplined management teams and strong balance sheets will be critical. We believe this environment suits our investment philosophy well and we look forward to the challenges and opportunities that await us in 2023.

As always, we will maintain balance across sectors and remain confident that we can identify opportunities throughout the economy. We remain overweight the technology sector and continue to see opportunities in the space. During 2022, the technology sector was weak as multiples contracted and investors avoided the earnings volatility endemic to some parts of the sector. However, the sector is at the center of several secular forces such as digitization, electrification, automation, and artificial intelligence. We believe we will find opportunities here through 2023.

The healthcare sector last year was driven primarily by volatile biotech companies without positive earnings and underperformed the benchmark. We avoid such investments and continue to find attractive opportunities in healthcare. We believe significant pent-up demand remains for healthcare procedures following two years of pandemic-related sluggishness.

The industrial sector continues to be an area of focus. The sector was a good relative performer in 2022 as earnings held up well. COVID-related supply chain disruptions have left many industrials with healthy backlogs that could help

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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 (July 1, 1997)
Eagle SMID Cap Strategy	Gross	11.13%	-17.46%	-17.46%	10.24%	10.58%	12.30%	10.72%
Eagle SMID Cap Strategy	Net	10.38%	-20.04%	-20.04%	7.02%	7.35%	9.05%	7.50%
Russell 2500™ Index		7.43%	-18.37%	-18.37%	5.00%	5.89%	10.03%	8.76%
Russell 2000® Index		6.23%	-20.44%	-20.44%	3.10%	4.13%	9.01%	7.43%

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 managed SMID 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, 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.

offset some potential recessionary impact. We are focused on businesses that can maintain pricing in this environment and are watchful for any signs of order rate slowdown or backlog cancellations.

We are underweight the financials sector. Company balance sheets remain solid, but lending and credit quality would suffer during a recession or slowdown. We are evaluating opportunities as valuations offer support in some parts of the sector.

Trends for the U.S. consumer are decidedly mixed. While the job market remains tight and wages are higher, inflation has eaten away much of that spending power. Further, the Fed has clearly signaled that the labor market needs to cool to slow inflation. Last, many consumer companies have troubling inventory levels stemming from COVID imbalances that will likely constrain margins going forward. We remain cautious on consumer-related stocks. We are focused on differentiated models with pricing power.

We are overweight in the basic materials sector. The sector is highly levered to global growth and therefore exposed to the current economic softness. Falling commodity prices are a double-edged sword for many companies in the sector as lower prices can represent either lower revenue or lower feedstock costs. Our exposure is mostly focused on specialty areas that benefit from falling feedstock costs. Valuations look attractive in some areas of this sector, and we continue to look for opportunities.

The energy sector was a significant outperformer in 2022 due to healthy commodity prices, disruptions from the war in Ukraine, attractive cash flows, and low valuations. While we remain underweight the sector and still have some concerns about long-term industry dynamics, we did increase our exposure somewhat during the year. Capital discipline among U.S. exploration and production companies has been impressive and is creating interesting valuation opportunities.

Our real estate investments remained focused on differentiated businesses with attractive end-market exposures. While rising interest rates could be a headwind, inflation is likely to act as an offset to support valuation. We continue to believe opportunities exist throughout this sector.

These are clearly trying times, but the team remains steadfast and focused. As always, we are being mindful about current risks while remaining opportunistic. We will maintain our philosophical and process discipline despite the volatility around us. We are confident that our portfolio will negotiate these volatile markets and create long-term value. Thank you for your trust in this team.

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3. Source: Bloomberg

Investments in small-cap companies generally involve greater risks than investing in large-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

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

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

Profit factor investing considers an investment's gross profit divided by the gross loss (including commissions) for an entire trading period. This method assesses profit per unit of risk, with values more than one indicating a profitable system.

Momentum investing is a strategy that aims to capitalize on the continuance of an existing market trend, with investors trying to buy securities that are already rising and 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.

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.

A consensus estimate is a forecast of a public company's projected earnings based on the combined estimates of all equity analysts that cover the stock.

A duopoly exists when two companies dominate the market for a particular product or service. It is the most basic form of an oligopoly, in which a small number of companies dominate a market. A duopoly can effectively reduce choices for consumers, having essentially the same impact as if the two companies colluded on prices or supply.

The term "Fed put" is an adaption of the option term "put," and it describes the belief among market participants that the U.S. Federal Reserve would step in and implement policies to limit the equity market's decline beyond a certain point.

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.

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.

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.

Indices

The Russell 2500™ Index, the strategy's benchmark index, measures the performance of the smallest 2,500 companies covered in the Russell 3000® index and is constructed to measure the small-to mid-cap segment of the U.S. equities market.

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. It represents approximately 75% of the investable U.S. equity market.

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

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