Eagle Quarterly Commentary

EAGLE Asset Management

SMID Cap Select Strategy

Third Quarter | 2022

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Market Overview[1]

The third quarter of 2022 was tumultuous for SMID-cap equities. After rallying approximately 17% in the first half of the quarter, the benchmark Russell 2500™ Index declined and finished the quarter near its June lows. The index remains firmly in bear market territory with year-to-date declines of 24.0% and declines from the market peak of nearly 30%.

Sector and style preferences were seemingly erratic. Top-performing sectors included energy, followed by healthcare, which was led by the speculative biotechnology industry. The worst-performing sectors included real estate, a historically more defensive sector, and communication services. Additionally, wild swings in style preference between volatility, momentum, and other macroeconomic factors resulted in very few notable trends. SMID caps, as measured by the Russell 2500 Index, modestly outperformed large caps.

As the market continues to churn, investors are wrestling with mixed messages from reasonably solid employment and economic data and persistently elevated Consumer Price Index (CPI) and inflation figures, but meaningful declines in leading indicators such as commodity prices and sentiment. Given central bankers' continued emphasis on lagging indicators (both early in the cycle and now), we see a heightened risk of policy error amid what could be a reasonably sound economic environment. In such an environment, we continue to believe our process is well-served to take advantage of heightened volatility. We continue to look for the most resilient franchises with strong balance sheets and adaptable management teams with the resources and aptitude not only to survive but to generate incremental value for stakeholders throughout.

Portfolio Review[1,2,3]

The Eagle SMID Cap Select Strategy portfolio outperformed the benchmark Russell 2500 Index on a gross basis but underperformed it on a net basis during the third quarter, with weak stock selection in the communication services and consumer discretionary sectors detracting from returns. Conversely, stock selection in industrials and real estate (along with being underweight the sector) drove outperformance.

Our communication services holdings underperformed the benchmark as a result of stock selection among media names that include Cable One, which is discussed 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 preferences change.

Our consumer discretionary holdings underperformed the benchmark due to stock selection among consumer services, including Bright Horizons Family Solutions, which is discussed below. We continue to be aware of the rapidly changing consumer landscape and remain focused solely on franchises with differentiated, stable, and unique business models.

Our industrial sector holdings performed well during the quarter relative to the benchmark. While our overweight positioning in this underperforming sector acted as a modest headwind, strong stock selection drove the solid results. The industrial sector is among the most economically sensitive and as such has been in the crosshairs of investor concerns surrounding a potential recession. Our holdings are centered around market-leading businesses with strong balance sheets and cash flows. We believe we are well-positioned to weather economic softness

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Top 10 Holdings

RBC Bearings
Reinsurance Group of America
Repligen
NICE
Inter Parfums
IDEX
Medpace Holdings
Globus Medical
SPS Commerce
LKQ Corp.

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and continue to look for attractive ideas that would benefit from an eventual recovery.

Our real estate sector holdings performed well during the quarter relative to the benchmark due to solid stock selection along with being underweight the sector. 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.

RBC Bearings designs and manufactures numerous types of bearings for various end markets including aerospace, defense, and industrial. The company's shares performed well during the third quarter. The company has posted solid financial results in recent quarters. We believe the shares' strong performance is due to investor recognition of the opportunities afforded by RBC's acquisition of DODGE last year. We like the acquisition as it opens up numerous areas to grow profitably in the years ahead.

Repligen is a bioprocessing-focused life sciences company centered on delivering cost and process efficiencies via innovative technologies and system solutions. In August, the company reported strong and accelerating first-half business trends despite facing a quicker fade to its COVID-related business. Filtration and chromatography drove the business results, and the company raised its base business growth outlook for the year. The stock responded favorably throughout the quarter. We believe 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 tailwinds.

National Instruments develops test and measurement equipment primarily for the semiconductor, aerospace, defense, government, and transportation industries. Shares outperformed this quarter as earnings came in slightly higher than expectations and management reaffirmed a robust backlog with strong order trends. In addition, the company continues to execute on margin expansion through operating leverage and expense reduction. We believe National Instruments will continue to benefit from secular trends in electric vehicles and 5G, which will result in faster top-line growth and margin expansion.

SPS Commerce provides hosted on-demand supply chain integration software ("EDI") to help retailers and suppliers place, fill, and track orders. Its products are cloud-based and new customers can be on-boarded remotely. The company continues to execute solidly, reporting another quarter with strong revenue growth and margin expansion. We believe that investors are becoming increasingly attracted to software companies that generate strong and growing profitability.

IDEX shares performed well during the quarter. IDEX designs and manufactures highly engineered dispensing and pumping equipment for numerous end markets including healthcare, process control, industrial, and safety. Company financial performance has been consistently strong in recent quarters. Further, the company's leadership in its markets, pristine balance sheet, stable cash flows, and experienced management represent attractive attributes for an industrial investment in such an uncertain economic environment.

Cable One, a provider of high-speed internet and other broadband services in rural markets, underperformed in the quarter. The company continued to sell off with peers on concerns about competition from telecommunication

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SMID Cap Select Strategy	Top Securities	Average Weight (%)	Contribution to Return (%)	Bottom Securities	Average Weight (%)	Contribution to Return (%)
	RBC Bearings	5.52	0.74	Cable One	4.10	-1.41
	Repligen	5.49	0.72	Mesa Laboratories	2.35	-0.83
	National Instruments	3.09	0.55	Bright Horizons Family Solutions	2.35	-0.78
	SPS Commerce	3.24	0.29	Omnicell	2.89	-0.77
	IDEX	3.63	0.28	Duck Creek Technologies	3.26	-0.71

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companies (both fiber overbuilds and fixed wireless), potential for elevated capital expenditures, 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 it to continue to add incremental high-speed internet users. Furthermore, 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 as built a franchise that we believe can continue to compete effectively against other industry participants. We modestly added to our position during the quarter.

Mesa Laboratories develops, manufactures, and markets diversified quality control instruments, consumables, and services for niche applications in highly regulated markets including healthcare. In recent years, a seasoned and highly respected management team has introduced additional rigor around measurement and efficiencies and reshaped the portfolio, adding expertise and developed businesses in biopharmaceutical development and clinical genomics.

Unfortunately, the company's fiscal first-quarter results, reported in August, disappointed as the company struggled against a backdrop of supply chain issues, inflationary headwinds, and China's zero-COVID lockdowns, which impacted the company's Asian hub in Shanghai. While we appreciate steps that Mesa has taken to address these issues, near-term fiscal 2023 earnings have been reset lower. Longer term, we believe that Mesa enjoys nearly unassailable competitive positioning in its legacy divisions and is well-positioned to grow its highly profitable newer divisions as well. We are engaged with management and monitoring improvements relating to supply chain and inflationary headwinds.

Bright Horizons Family Solutions helps employers recruit and retain talent and improve employee productivity, while helping families better address work/life challenges. The company primarily provides services through multi-year contracts with employers that provide childcare, early education, and other dependent-care benefits (back-up care) to employees via benefits packages. The shares underperformed due to ongoing labor expense and supply challenges, lagging full-service center enrollment trends (the company is struggling to back-fill aging out preschoolers with new families), and concerns over work-from-home trends. We remain shareholders given the company's scale in employer-sponsored childcare (several times bigger versus the nearest competitor); strong track record; profitable and predictable business model; and growth opportunities through enrollment growth, tuition price increases, back-up care, educational advisory services, and acquisitions.

Omnicell is working to transform the pharmacy care delivery model, improve outcomes, and lower costs through a combination of automation, intelligence, and technology-enabled services. The stock underperformed in the quarter following an unfortunate "ransomware" attack that negatively impacted second-quarter business, temporarily disrupting a variety of operational matters including order delivery and invoicing. Details surrounding this breach, as well as a reduction to the company's 340B services revenue forecast, were revealed on the company's August business update. Although the company touted current backlog and customer demand, second-quarter delays increase execution risk in the back half of the year, particularly against a backdrop of a slowing economy. This combination pressured the stock in the near term. Nevertheless, we believe that Omnicell is well-positioned as pharmacy management evolves. The leader in a concentrated duopoly, we believe Omnicell is arguably years ahead of its main rival in the web-enabled services that will automate medication management. As such, we see Omnicell as a core holding and durable franchise.

Duck Creek Technologies develops cloud-based core systems software for the property and casualty insurance industry. Shares continued to decline as quarterly results again showed slower than anticipated improvement project signings. Despite the anticipated volatility in order patterns and slower than anticipated market adoptions, we believe Duck Creek is well-suited to deliver cloud-based insurance core systems, which we believe will be of increasing value. Furthermore, we believe management has invested heavily in both its products and people, which positions the company well for share gains in coming years.

Outlook[2]

In 1965, Martha and the Vandellas recorded their hit “Nowhere to Run.” In the third quarter of 2022, if you listened carefully, you could hear investors and asset managers globally humming this venerable tune together. Equities in the United States, other developed markets, and emerging markets all fell. Aggregate bond indices, gold, and broad commodity indices all posted negative returns. Nowhere to run to baby. Nowhere to hide.

The carnage should come as no surprise. The COVID-fueled growth boom is behind us. Central banks globally are making a concerted effort to rein in inflation by dramatically driving up global short-term interest rates, causing financial conditions to tighten. Global gross domestic product has clearly slowed along with most measures of manufacturing activity. War continues to rage in Ukraine, and the resulting energy crisis in Europe is becoming more serious by the day with winter rapidly approaching. Further, the potentially toxic brew of higher rates, commodities and a strong U.S. dollar, combined with unprecedented bond market volatility, should drive investors toward heightened vigilance for black swan events.

Needless to say, the current environment is challenging. In many ways, the situation would be easier to navigate if all the data looked dire. Despite all the headwinds, however, there are a number of crosscurrents that complicate the current situation. Commodity prices are well off their highs, and some have normalized back to pre-COVID levels. Housing prices have cooled amid the highest mortgage rates in 20 years. The global supply chain is beginning to normalize. Consumer confidence is reasonable, thanks to falling gasoline prices as well as to healthy job and wage environments. While these green shoots would be welcome in normal times, they pose problems for a U.S. Federal Reserve (Fed) trying to control inflation and thereby increase the odds that the central bank overshoots.

The team remains focused on constructing balanced portfolios of high-quality businesses. We are laser-focused on the current headwinds and have worked to allocate capital to our most durable franchises with particular attention on strong balance sheets and predictable cash flows. We believe a well-diversified portfolio of profitable, market-leading businesses will effectively weather any further market turbulence or recessionary fallout.

Finally, while risk assessment and mitigation remain paramount in this current environment, we believe it also is necessary to keep our eyes on the horizon and to continue to look for attractive investment opportunities and to think about positioning the portfolio for when this fog eventually lifts. We believe most companies will see another leg down in earnings expectations as we enter 2023, but some of this is already priced into the market. In fact, if we exclude the energy sector, the rest of the market has already witnessed a significant drawdown over the past three quarters. Further, the opportunity in small-cap stocks looks particularly interesting given the significant valuation discount to large-cap stocks despite a better growth outlook. We will remain focused on balancing risk and opportunity as we move through the final quarter of the year.

We remain overweight the technology sector and continue to see opportunities in the space. During the quarter, the sector underperformed as investors favored both energy as well as low-quality issues with negative earnings. Nonetheless, we believe many businesses’ models in technology remain very attractive. As the economy slows into 2023, we expect that investors will again look for sources of high-quality, profitable growth companies that can be found throughout this sector.

The healthcare sector was a strong performer last quarter, driven primarily by volatile biotech companies without positive earnings. While we avoid such investments, we continue to find attractive opportunities in healthcare, and we opportunistically added to positions in the recent period. We believe there remains significant pent-up demand for healthcare procedures following two years of pandemic-related sluggishness.

The industrial sector is acutely exposed to both slowing economic growth and inflation. The sector is exposed to numerous positive drivers such as automation, electrification, reshoring, defense, and aerospace spending. Pricing has been strong, but many companies continue to struggle to fulfill orders due to supply chain constraints. However, many industrials will be negatively affected by slowing global growth. We already see signs of softness in recent macro-order trends. Our focus remains on earnings quality and pricing power.

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Performance[2] as of Sept. 30, 2022

		Third Quarter	Year to Date	One Year	Three Year	Since Inception (May 31, 2018)
Eagle SMID Cap Select Strategy	Gross	-2.75%	-27.06%	-23.14%	8.19%	8.19%
Eagle SMID Cap Select Strategy	Net	-3.50%	-28.88%	-25.58%	5.01%	5.01%
Russell 2500™ Index		-2.82%	-24.01%	-21.11%	5.36%	3.96%

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 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.

We are underweight the financials sector currently. 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 firmly 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. Lastly, many consumer companies have troubling inventory levels stemming from COVID imbalances that likely will constrain margins going forward. We remain cautious on consumer-related stocks. We are focused on differentiated models with pricing power.

We are overweight the basic materials sector currently. 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 within this sector and we continue to look for opportunities.

The energy sector continues to be in favor given healthy commodity prices, potential 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 quarter. Capital discipline among U.S. exploration and production (E&P) 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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Investing involves risk, including the possible loss of principal.

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3. Source: Bloomberg

Investing in small and mid-sized companies is based on the premise that small and mid-sized companies will increase their earnings and grow into larger, more valuable companies. However, as with all equity investing, there is the risk that a company will not achieve its expected earnings results, or that an unexpected change in the market or within the company will occur, both of which may adversely affect investment results. Historically, small amd mid-cap stocks have experienced greater volatility than larger equity asset classes, and they may be less liquid than larger-cap stocks. Thus, relative to larger, more liquid stocks, investing in small and mid-cap stocks involves potentially greater volatility and risk. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Thus, relative to larger, more liquid stocks, investing in small-cap stocks involves potentially greater volatility and risk. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Not every investment opportunity will meet all of the stringent investment criteria mentioned to the same degree. Trade-offs must be made, which is where experience and judgment play a key role. Accounts are invested at the discretion of the portfolio manager and may take up to 60 days to become fully invested. Past performance does not guarantee or indicate future results.

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.

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.

The U.S. Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services as tracked by the U.S. Bureau of Labor Statistics.

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.

The 340B Drug Pricing Program, as set forth in the U.S. Public Health Service Act, requires pharmaceutical manufacturers participating in Medicaid to sell outpatient drugs at discounted prices to healthcare organizations that care for many uninsured and low-income patients.

A duopoly is a situation where two companies between them dominate the market for a particular product or service. It is the most basis 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.

Growth investing focuses on companies expected to grow at an above-average rate compared to their industry or the market.

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.

Fees and Transaction Costs

As of Sept. 30, 2022, the maximum advisory fees charged for accounts are as follows:

3.00% Highest wrap fee

The Russell 2500™ Index, the strategy benchmark, 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.

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

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