



## Investment Team

**David Blount, CFA**  
Portfolio Co-Manager

**Brad Erwin, CFA**  
Portfolio Co-Manager

**Jeffrey D. Bilsky**  
Portfolio Co-Manager

## Characteristics

Total Net Assets  
(millions): \$558.15

Number of holdings: 40

## Top 10 Holdings

Microsoft

Broadcom

JPMorganChase

Goldman Sachs

PNC Financial  
Services Group

Procter & Gamble

BlackRock

Chevron

McDonald's

Eaton

## Market Overview

The S&P 500 Index rose 2.4% in the fourth quarter, ending 2024 up a total of 25.0%. The past two years have been the best stretch for the stock market since the 1990s, and excitement around artificial intelligence (AI) continued through the entire year. Roughly half of 2024's returns were due to continued expansion of multiples in the market — the S&P 500 Index now reflects its highest multiple this century, excluding COVID years — and the other half was due to strong earnings growth.

Top Holdings	Average Weight (%)	Contribution to return (%)	Bottom Holdings	Average Weight (%)	Contribution to return (%)
Broadcom	4.34	1.15	Eastman Chemical	2.11	-0.41
Goldman Sachs	3.94	0.57	Mondelez	1.87	-0.38
JPMorganChase	3.99	0.52	Best Buy	1.91	-0.38
Williams	2.39	0.46	Target	1.79	-0.36
BlackRock	3.20	0.26	Prologis	1.93	-0.34

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Like last year, the market remained narrow and focused on large-cap growth; Magnificent Seven companies were up more than 65%. The communication services and technology sectors, which include the Magnificent Seven companies, were once again the two best-performing sectors in the market.

The worst-performing sector, and the only sector that was negative for the year, was materials, which was somewhat surprising in such a strong market. This was mostly due to a weak global economy, particularly in China, which had been responsible for a lot of the recent growth in raw materials. Classic defensive sectors — healthcare, real estate, and consumer staples — lagged the rest of the market.

## Portfolio Review

### Top securities

Broadcom had a strong quarter, mostly from the two days that followed its earnings release announcing a significant expansion in the addressable market for its custom AI silicon offerings. As a leader in

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## Portfolio Review (continued)

data center connectivity and custom silicon, the company is now considered to be one of the biggest beneficiaries from the growth in AI spending.

Goldman Sachs contributed to performance due to renewed optimism for deregulation and increased capital markets activity in the wake of the U.S. presidential election. This company can benefit directly from increased mergers and acquisitions (M&A) activity, and the incoming presidential administration is generally expected to be more permissive with M&A transactions.

JPMorganChase also contributed to performance due to optimism regarding the election outcome. Investors expect a wave of deregulation, and a more permissive stance on M&A could bode well for JPMorgan's capital markets businesses.

Williams performed well because investors expect it to benefit from growing demand for natural gas over the next several years or even decades. Liquid natural gas exports, onshoring, and data center buildouts could place upward pressure on the company's volumes across its midstream portfolio. We believe that the company's share price continues to discount this future benefit due to a very challenging overall energy backdrop.

BlackRock was another company boosted by optimism over election results. Deregulatory, business-friendly policies could deliver positive results for markets, which are the primary focus of BlackRock's business.

### Bottom securities

We believe that Eastman Chemical's performance, which detracted during the quarter, is more macro-related than company-specific. At its investor day in late November, the company issued favorable intra-quarter commentary and provided a bullish long-term financial outlook. However, sentiment for the broader chemicals industry softened in December. Investor concerns emerged over sluggish end-market demand and potential risks associated with policy changes under a new presidential administration.

Mondelez continued trading lower after cocoa prices remained elevated. The company has struggled with higher import costs, and the incoming presidential administration could tighten standards on processed foods, increasing cost pressures.

Best Buy pulled back after its second-quarter earnings release exceeded expectations. Investor sentiment grew tepid over concerns that election outcomes could impact the company's business. Sales also may have been hindered by a compressed holiday season and a lack of innovative new products.

Target missed earnings dramatically. The company's sales were pos-

itive, but margins were disappointing due to higher expenses. While traffic was up, prices were down; consumers continued to seek value and shop during promotional periods. A one-time decision to re-route inventory ahead of the East Coast port strike also explains a large part of the company's performance.

Prologis detracted from performance because of ongoing challenges facing industrial real estate investment trusts more broadly. The company reported solid results for the third quarter, but the industrial space remains oversupplied — though the problem is abating — and clients chose to delay leasing decisions until after the U.S. presidential election.

## Outlook

As we head into 2025, the market still has plenty to be optimistic about, even after one of the best 2-year return periods in history. While Donald Trump certainly does not fit the mold of a typical president, his preference for fewer regulations and lower taxes (both corporate and personal) seems likely to be a positive for equities. And the AI boom does not show any signs of slowing.

Some believe these positives could be offset by a more isolationist trade policy — consisting of tariffs and increased limitations on the sale of technology to China — and deportations that reduce the available supply of cheap labor. Overall, we believe that the bark will be worse than the bite. A barrage of scary headlines at the start of President Trump's second term in office could spook the market, but we expect that ultimately not much will change. This would resemble his first term.

Outside of Trump-specific concerns, we are paying attention to rising interest rates driven by the return of inflation fears. We have written about this for several quarters, but the market seems to be paying more attention now that the 10-year U.S. Treasury note is trading back above 4.5%.

We remain concerned that rising house prices or another energy price shock could lead to a couple of hot readings from the Consumer Price Index (CPI). That could spook a market that seems to be conditioned for inflation that remains under control.

Regardless of what will work in 2025, we continue to believe that our fundamental research process and focus on a long-term approach to investing can allow our portfolio to do well irrespective of the macroeconomic backdrop. We expect this to be vindicated once we see the market broaden away from the Magnificent Seven, which is a theme we believe we will see more of in 2025. Importantly, dividend growth remained healthy throughout the portfolio; we believe that the potential compounding of income can serve our clients well in the future.

## Risk Considerations:

International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards as well as potential political and economic instability.

Because the fund normally will hold a focused portfolio of stocks of fewer companies than many other diversified funds, the increase or decrease of the value of a single stock may have a greater impact on the fund's net asset value and total return.

As with all equity investing, there is the risk that an unexpected change in the market or within the company itself may have an adverse effect on its stock. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

There are risks associated with dividend investing, including that dividend-issuing companies may choose not to pay a dividend, may not have the ability to pay, or the dividend may be less than what is anticipated. Dividend issuing companies are subject to interest rate risk and high dividends can sometimes signal that a company is in distress.

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.

Investments in mid-cap and small-cap companies generally involve greater risks than investing in larger capitalization companies. Mid-cap companies often have narrower commercial markets, more limited managerial and financial resources, and more volatile trading than larger, more established companies.

Real Estate Investment Trusts (REITS) may be affected by economic conditions including credit risk, interest rate risk and other factors that affect property values, rents or occupancies of real estate.

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## Definitions

Breadth describes the relationship between the median and the mean of a data set, such as 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.

The U.S. Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The U.S. Bureau of Labor Statistics bases the index on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 households and 22,000 retailers.

Defensive sectors provide consistent dividends and stable earnings regardless of 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.

Headwind is a term used to describe events or market forces that hinder the prospects for performance in an individual investment or group of investments.

The Magnificent Seven refers to the seven largest stocks by market capitalization in the S&P 500 Index, as of Dec. 29, 2023. Collectively they made up more than 25% of the market capitalization of the entire index. They are Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla.

Midstream is a term used in the oil and gas industry to describe activities that take place between the production of the raw resource (upstream) and the refining stage of crude oil (downstream).

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.

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

## Index

The S&P 500 Index, the Fund's benchmark 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 an index.

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