Eagle Insight

EAGLE Asset Management
AN AFFILIATE OF CARILLON TOWER ADVISERS

Mid Cap Growth

First Quarter | 2018

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Market Overview

Mid-cap stocks posted varied results in the midst of substantial volatility during the first quarter as the Russell Midcap® Growth Index[1] (up 2.2 percent) outperformed the Russell Midcap® Value Index (down 2.5 percent). Sector-level returns in the Russell Midcap Growth were led by strong results within information technology (up 7.2 percent) as well as the healthcare (up 5.4 percent) and financials (up 4.7 percent) sectors. Relative laggards were materials (down 7.4 percent), energy (down 6.9 percent) and real estate (down 4.2 percent), which all weighed on the broader benchmark returns.

Portfolio Review[2,3]

Eagle Mid Cap Growth portfolios led (on a gross basis) the benchmark Russell Midcap Growth Index in the first quarter. Outperformance primarily came from strong results within the portfolios' information technology, consumer discretionary and healthcare sectors and, to a lesser degree, the energy sector. Our holdings within the consumer staples sector lagged those of the benchmark and somewhat tempered relative returns.

ABIOMED, which sells cardiac medical devices, reported strong quarterly operating results and raised earnings guidance. The firm has a strong pipeline of new technologies as well as enhancements to its existing platforms.

Square, a mobile-payment service, is experiencing rapid growth due to its easy-to-use hardware and strong capabilities in software.

NVIDIA manufactures graphics processors used in traditional computers as well as tablets, smartphones and gaming devices. NVIDIA continues to see increased adoption in datacenter markets through the application of its graphics-processing units used in artificial intelligence, machine learning and other heavy-duty computing.

Shares of satellite radio provider Sirius XM Holdings rose as the firm continues to generate solid subscriber trends.

Edwards Lifesciences manufactures medical devices used to treat heart disease. Robust demand for the firm's products has led to profitable growth that has, in turn, generated solid returns.

Coherent makes systems used in the fabrication of organic light-emitting diode (OLED) displays increasingly used in smartphones. Shares fell in the wake of an underwhelming launch of Apple's iPhone X. Despite the near-term setback, we believe Coherent is oversold at current levels given the potential for applications of its Smartbeam system (e.g., in tablets, autos and television), which we believe provides compelling upside over the longer term.

Ameriprise Financial said the combination of significant market volatility and outflows from its asset-management arm led shares downward. We believe Ameriprise's wealth-management segment will continue to perform well; also, the firm also appears poised to benefit from a rising-interest-rate environment.

Energy-drink company Monster Beverage slightly missed estimates in its U.S. segment, which weighed modestly on the stock. We continue to believe the firm will benefit from Coca-Cola's global distribution opportunities.

Shares of global managed-care provider Cigna traded off as investors grappled with the implications of the firm's intent to acquire a pharmacy-benefits management company. We believe the acquisition would be beneficial over the long term but we will monitor developments as the deal unfolds.

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Hain Celestial Group distributes a variety of natural and organic grocery and personal-care products. The firm reported mixed quarterly results: Its international segment performed well but domestic segment results were softer than expected. We maintain a cautiously optimistic view on the name because ongoing consolidation in the organic-foods space has the potential to be a boon for Hain Celestial.

Outlook

Fears of a trade war, compounded by relatively high valuations, led to extreme volatility at the end of the first quarter that has continued into the current quarter. Ultimately, we believe there is a high probability that the trade situation will resolve itself without significant consequences. After all, President Trump cares very much about the economy and the stock market; similarly, the Chinese government has incentive be rational. This is not Republicans vs. Democrats.

The recent volatility appears to us to be a normal correction and not the beginnings of a bear market. Gross domestic product (GDP) growth is strong, the benefits of the tax cuts are just beginning, unemployment is approaching all-time lows and both consumer and business confidence are positive. With the recent retrenchment, some excesses were quickly corrected and valuations appear reasonable to us with the 2018 broad S&P 500 Index price currently projected at about 16 times earnings. The U.S. Federal Reserve's tightening has caused a slight uptick in interest rates but we don't believe 10-year Treasuries at 2.85 percent are anywhere near high enough to derail the economy. We also believe the Federal Reserve is very sensitive about overshooting on its rate increases. We expect strong first-quarter earnings from the majority of our companies with mostly positive guidance. We believe we are still in a secular bull market and view the recent weakness as a normal correction and, as such, remain bullish.

Despite a tumultuous start to the beginning of the year, we believe the outlook for the energy sector remains positive. The dramatic year-to-date underperformance represents a sharp disconnect with the continued tightening in oil markets. Investor sentiment toward the sector remains very subdued as oil production from North American shale continues to show strong growth. This myopic view overlooks a number of positive factors that more than offset concerns that North American oil production will overwhelm the market. Importantly, demand for oil continues to be extremely robust due to strong growth in the global economy. On the supply side, the Organization of the Petroleum Exporting Countries (OPEC) continues to adhere to its quotas while important oil-producing nations (e.g., Venezuela) are seeing sharp production declines. Against this backdrop, we continue to have a positive bias toward exploration-and-production (E&P) operators with attractive leasehold positions in the Permian Basin. Many of the stocks in the energy sector offer – in our view – the potential for an acceleration in earnings growth along with attractive valuations.

The outlook for the industrials and materials sectors appears positive to us with the global economy showing signs of broad-based strength. Most stocks in both sectors pulled back in the first quarter as investors grappled with rich valuations while further calibrating the expected impact of tax reform and considering the possibility of a trade war. Raw materials have risen considerably and will likely pressure profit margins; however, we believe that will be a short-lived concern. In the intermediate term, most companies successfully will pass higher costs to customers and, in many cases, companies will more than offset higher costs through price increases. On an industry level, we remain positive on the building-materials group. The steady recovery in residential housing continues to build

Top 10 Holdings

Waste Connections
Sirius XM
Progressive
Burlington Stores
Align Technology
SBA Communications
Liberty Interactive
Ameriprise
Royal Caribbean
Martin Marietta Materials

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. Please contact your financial advisor to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall composite's performance during the measurement period.

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Top Securities	Average Weight (%)	Security Contribution to Portfolio Return
ABIOMED	1.37	0.57
NVIDIA	1.96	0.45
Square	1.18	0.40
Sirius XM Holdings	2.36	0.34
Edwards Lifesciences	1.59	0.33

Bottom Securities	Average Weight (%)	Security Contribution to Portfolio Return
Coherent	1.65	-0.64
Ameriprise Financial	2.00	-0.25
Monster Beverage	1.90	-0.20
Cigna	1.01	-0.17
Hain Celestial Group	0.60	-0.17

*As of March 31. The information provided above should not be construed as a recommendation to buy, sell or hold any particular security. The data are shown for informational purposes only and are 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. Please contact your financial advisor to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall composite's performance during the measurement period.

Investments in mid-cap companies generally involve greater risks than investing in larger capitalization companies. These companies often have narrower commercial markets and more limited managerial and financial resources than larger, more established companies. As a result, their performance can be more volatile and they face greater risk of business failure, which could increase the volatility of a fund's portfolio. Additionally, small-cap companies may have less market liquidity than larger companies.

Growth companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply.

momentum and should help support mid- to high-single-digit revenue growth for companies in that industry.

In the current environment, the burgeoning healthcare sector remains the largest in the U.S. economy in the form of a $3.5 trillion industry that continues to grow in the 4 percent-5 percent range. Given its sheer size, one would expect the law of large numbers to begin to impact the industry's growth rate. However, the combined tailwinds of an aging population, longer lifespans and new medical innovations remain poised to support greater-than-GDP growth rates within the healthcare industry. However, as has largely been the case recently, it remains in a state of organized chaos. A great deal of uncertainty remains regarding the status of Obamacare as only a minor adjustment to the legislation has been achieved after two previous failed attempts for overhaul, leaving major players such as health systems, providers, manufacturers and distributors to wonder what – if any – further industry reform is possible. The adoption of high-deductible health plans, coupled with health savings accounts (HSAs), has forced employees to shoulder a much larger burden of their insurance premiums and other out-of-pocket healthcare expenses, ultimately encouraging patients to curtail their medical utilization.

In light of the sustained uncertainty in the healthcare space, we maintain our favorable disposition toward healthcare companies providing "cash-pay" products and services (e.g., aesthetics, veterinary products and services as well as dental and orthodontic procedures). The products and services that these types of companies provide are targeted directly at the consumer. Those firms generally have little regulatory or reimbursement impact from the federal government but, rather, are largely influenced by consumer confidence and other broad economic factors. Telemedicine has arrived and is gaining traction with managed care and healthcare systems as they realize its benefits, namely access to quality care at a much lower cost. The U.S. healthcare system's transformation from volume- to value-based will – in our view – favor organizations with scale, which likely will be driven by strategic mergers and acquisitions (M&A). Finally, advancements in biotechnology are increasingly yielding therapies that are curing patients of otherwise chronic, expensive or fatal conditions. The ongoing innovation of these firms should continue to draw interest from investors as they develop cost-effective treatments that show meaningful results and serve large markets.

The outlook for the financials sector remains constructive – in our view – with healthy levels of economic growth coupled with a gently rising interest-rate environment. The backdrop of multiple rate increases projected this year should drive quality earnings growth at those banks with asset-sensitive balance sheets. We believe loan growth across the financials sector will see improvement as we move through 2018; however, it has yet to gain substantial traction thus far. In addition to the macro-economic-level drivers within financials, we continue to pursue opportunities in companies that are utilizing technology to improve the performance and value-added proposition of their offerings as institutions and consumers alike are evolving in the way they purchase and utilize many financial products. We are also pursuing companies at the forefront of changes in the consumer-payment landscape that we believe will see meaningful market-share gains.

Despite the recent increase in stock-market volatility, we continue to believe that global macroeconomic trends remain generally positive. That, in turn, should help technology spending remain healthy as we move further into 2018. For example, consumer confidence appears steady while improving small-business sentiment and lower corporate-tax rates offer optimism. We would expect M&A activity to continue given fairly palatable interest rates, healthy balance sheets and a seemingly sympathetic political environment in Washington, D.C. We remain focused on what we view as high-quality companies with strong management teams that are well-positioned to gain market share. Additionally, we are striving to identify names that we believe will benefit from long-term secular growth trends with themes that include cloud computing, artificial intelligence, mobility, e-commerce/digital payments, factory/industrial automation, security software, e-gaming and alternative energy.

Consumer stocks trailed the market during the first quarter as several interest-rate-sensitive groups underperformed based on fears of higher interest rates. We believe those fears are overdone and don't view nominal rate increases from current historically low levels as a threat to the economy. Even some long-beleaguered mall-based retailers are seeing signs of recovery. Housing is strong and should continue gradual recovery for at least the balance of this year. Additionally, auto sales have remained resilient. On balance, tax reform was a big positive for consumer companies since they tend to be full taxpayers. Finally, much of the "millennial" generation continues to exhibit its preference for experiential activities such as cruises, fitness and gaming.

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[2] References to specific securities are intended to illustrate the types of securities Eagle may hold in this portfolio. They are not intended as representations of specific investment recommendations that would have been profitable to an investor. Past performance is not a guarantee of future results. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice as are statements of financial-market trends, which are based on current market conditions. Investing involves risk, including the possible loss of principle.

[3] Source: FactSet, Frank Russell Co. Statistics represent an aggregate of all Mid Cap Growth portfolios.