CARILLON CLARIVEST CAPITAL APPRECIATION FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FOURTH QUARTER | 2021

Investment Team

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Characteristics

Total Net Assets (millions): $657.2

Number of Holdings: 77

Top 10 Holdings

- Apple
- Microsoft
- Amazon
- NVIDIA
- Tesla
- Meta Platforms Class A
- Alphabet Class A
- UnitedHealth Group
- Home Depot
- Synopsys

Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Call 800.421.4184 or your financial professional for a prospectus, which contains this and other important information about the funds. Read the prospectus carefully before you invest or send money.

Market Overview

The global recovery continues, but at a slower pace, as investors have increasingly worried about the global pandemic, inflation, slowing corporate profitability, and central bank actions.

The omicron variant has spread rapidly, causing the rollback of reopening in some areas and renewed lockdowns in others. Supply chains were hit particularly hard, adding to growing concerns about input costs and the outlook for economic growth. It is a stark reminder that the coronavirus is a persistent risk. COVID-19 has been, and is likely to remain, unpredictable, with the ongoing potential to upend businesses, markets, and economies. On the positive side, vaccine boosters are now approved for wide distribution and new therapeutics can possibly help us move toward a post-pandemic "normal."

Swift, significant, and globally coordinated fiscal and monetary policy stimulus was delivered early in the COVID crisis and maintained throughout. This served as a powerful force in propping up economies and staving off financial crisis. Central banks are now making strategic moves away from emergency measures.

Powered by massive fiscal and monetary stimulus, a vaccine rollout and pent-up consumer demand, the U.S. gross domestic product (GDP) likely grew about 5.5% in 2021, the fastest pace since 1984.[1] Not surprisingly, the U.S. Federal Reserve's December statement read, "The path of the economy continues to depend on the course of the virus." Policymakers accelerated the tapering of the Fed's bond-buying program, citing inflation that has exceeded its 2% target now for "some time."

Surely 2021 was a year of volatile prices and inflation surprises. In the United States, the Consumer Price Index (CPI) topped 5% for seven straight months, with November coming in at 6.8%: the highest in 40 years.[2] Amid material and labor shortages, supply has struggled to keep pace with the rapid rebound in demand for goods, driving prices higher.

The Fund does not invest in securities traded in markets outside the United States, but, given the interconnectedness of global markets, we monitor macroeconomic developments abroad for potential impacts to the U.S. companies that are our focus. The European Central Bank remains dovish in its policy outlook. Even if European GDP growth slows in 2022, forecasts are still over 4%, significantly above long-term trends. One key near-term risk is the outbreak that has triggered renewed restrictions across much of northern Europe. While vaccination rates are high, there is a risk that growth slows over the winter months.

U.K. equities lagged the global rally in 2021 and their valuations are cheaper than many other developed markets. Brexit has placed constraints on the U.K. labor supply and is putting upward pressure on wages and inflation. It is also encouraging the Bank of England (BoE) to begin considering hiking interest rates. Markets are priced for rates to begin rising in February.

Strong domestic demand and firm commodity prices could drive growth in the Canadian economy in 2022. The Bank of Canada (BoC) is focused on a tight labor market and higher inflation. It has ended quantitative easing and is now preparing markets for a mid-2022 rate hike. Markets are pricing in numerous rate increases, lifting the target rate to 1.5% by the end of 2022.[3]

Like everyone, Australians are looking for a pickup in their economy when the country reopens after the sustained lockdowns of 2021. Consumers still have excess savings, and there remains a large amount of pent-up demand for domestic travel. Australia has not seen the same levels of wage pressure as other regions, with many employers waiting for the reopening of the borders and the return of the flow of migrant workers.[4] This should give the Reserve Bank of Australia (RBA) breathing room from having to raise rates, and markets aren't forecasting rate hikes.

Portfolio Review

At the start of the quarter, the Carillon ClariVest Capital Appreciation Fund (the "Fund"), as compared to the Russell 1000® Growth Index, was most overweight the information technology and healthcare sectors and most underweight communication services and real estate. At the end of the quarter, the portfolio remained most overweight information technology and healthcare and most underweight communication services and real estate. Within the universe of the Russell 1000 Growth Index, all sectors were positive with materials and information technology performing the best.

[1] Source: Reuters

[2] Source: Bloomberg

[3] Source: Bloomberg

[4] Source:Bloomberg

Portfolio Review

Best Securities	Average Weight (%)	Contribution to Return (%)
Apple	9.72	2.27
Microsoft	8.98	1.71
NVIDIA	4.29	1.44
UnitedHealth Group	2.05	0.56
Tesla	2.91	0.55
Worst Securities		
PayPal	1.69	-0.63
Generac	0.82	-0.09
Dropbox	0.49	-0.08
Global Payments	0.43	-0.07
Salesforce	1.55	-0.07

As of December 31, 2021. 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 fund. They are provided for informational purposes only. Carillon Tower Advisers, ClariVest Asset Management, their affiliates, or their respective employees may have a position in the securities listed. Please contact Carillon at 800.421.4184 to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall fund's performance during the measurement period.

Stock selection contributed the most while sector allocation was also positive. An underweight to communication services and an overweight to information technology helped performance, while an underweight to consumer staples and an overweight to healthcare detracted. Stock selection was strong within healthcare and information technology but was weak within industrials and consumer discretionary.

Apple is accelerating development of its electric car and refocusing the project around full self-driving capabilities, targeting a debut as early as 2025.

Microsoft shares rose following the company's earnings print where revenues and its productivity and business processes, cloud, and personal computing segments all came in ahead of expectations.

NVIDIA designs, develops, and markets 3D graphics processors and related software. The company reported better than expected revenue and earnings per share, citing strong growth in gaming and data center acceleration despite supply constraints.

UnitedHealth Group provides healthcare insurance to individuals and employers and through Medicare. The company reported earnings ahead of consensus, predominately driven by a better than expected medical loss rate and higher than expected revenues.

Tesla, the electric vehicle and clean energy company, reported production and deliveries that were significantly above consensus expectations, likely driven by lower cost vehicles produced in China.

PayPal's platform enables digital and mobile payments for consumers and merchants. Shares traded lower as PayPal's former parent company accelerated plans to move to other payment systems, though PayPal announced a new partnership with a large online retailer.

Generac manufactures automatic, stationary standby, and portable generators. The stock fell as supply chain constraints hurt margins though demand remained strong.

Dropbox, a work collaboration platform, saw shares fall on a deceleration in revenue growth.

Global Payments, a payment technology and software company, reported in-line results and guidance despite the continued impact from pandemic-related closures, as well as a quarter-over-quarter decline in consumer spending.

Salesforce, the software on demand provider, gave disappointing quarterly guidance on weakness in its MuleSoft systems integration platform division.

Outlook

Like many, we are happy to close the book on 2021 and are guardedly optimistic about the prospect of a post-pandemic 2022. At the moment, it definitely feels like there are more questions than there are answers. It likely would not surprise anyone to see continued bouts of volatility and corrections. Investors can expect any forecasts for 2022 to be dominated by (guesses about) the trajectories of COVID and inflation.

There is a sense of déjà vu as the world grapples with a rising number of COVID-19 cases and deaths. However, the global economy feels to be on more solid footing than last year. The Fed felt confident enough to signal plans to raise interest rates and end its quantitative easing (QE) program, as the central bank shifts its focus on dealing with inflation. We acknowledge the risk that inflation may force the Fed to act sooner rather than later. Importantly, however, rates would be rising from a historically low base and are likely to remain negative after inflation, which still feels supportive for stocks.

One serious question mark heading into 2022 is whether some catalyst, possibly pandemic-related, or a slowdown in economic growth, or shifting Fed policy, or something else, will drive a selloff in the stock market.

Investors' forecasts for 2022 ultimately come down to predicting the continued impact of the COVID-19 pandemic, particularly given the late 2021 spike in cases and uncertainty caused by the new omicron variant. It has the potential to cause further supply chain disruptions, impact global demand, and exacerbate inflation.

The International Monetary Fund's latest forecasts, published in October, predict China's GDP growth will slow from 8% in 2021 to 5.6% in 2022.[5] However, many think that outlook is too optimistic and that sub-5% growth next year seems likely. The main unknown is how much economic pain China's leaders are willing to accept to achieve their goal of moving their economy away from an excessive reliance on debt. A reasonable assumption is that there will be stimulus in the first half of 2022 that could help the growth trajectory improve toward the end of the year.

The China downturn complicates the global investment outlook. On one hand, it will take some steam out of global inflationary pressures, particularly commodity prices. On the other, it adds to the headwinds for many economies given China's massive role as a trade partner.

The Japanese recovery remains lackluster, with consumption still below pre-COVID-19 levels. Recently elected Prime Minister Fumio Kishida has announced a large fiscal package of around 5.5% of GDP, which will flow through the economy in 2022. Unlike other countries, inflation has remained very subdued in Japan, due to low demand and fewer issues with supply chains.

Low interest rates reduce the rate at which future earnings are discounted, often supporting higher valuation levels. Median market valuations, while off the highs, remain above the long-term averages. Assuming rates rise over time, the valuation ratio is likely to trend lower. This doesn't mean the market has to plummet, but it raises the importance of valuations as a driver of stock market returns.

ClariVest's investment philosophy is built around the idea that due to behavioral biases, investors tend to anchor to the long-term trend and incorrectly dismiss short-term changes. This is reflected in our signature portfolio characteristics of long-term earnings growth that is typically in line with the benchmark, but recent earnings growth that is higher than the benchmark. That distinct pattern, combined with discounted fundamentals, is what we refer to as "underappreciated growth." In 2021 many investors anchored to the long-term growth trends while discounting value's recent strength, and more importantly the reasons behind it. It was a favorable environment for ClariVest's strategies, and it gives us considerable confidence in our positioning for 2022 and beyond.

Risk Considerations: 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.

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.

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.

Quantitative risk involves the dependence on proprietary quantitative tools for security selection which may not be predictive of a security's value.

Securities in the CarillonClarivest Capital Appreciation Fund are typically selected from investment universes consisting of U.S. Large Cap and U.S. Mid Cap companies, but may invest in the stocks of U.S. companies of any size without regard to market capitalization. The fund does not invest in securities traded in markets outside of the U.S.

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Quantitative easing (QE) is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. Buying these securities adds new money to the economy, and also serves to lower interest rates by bidding up fixed-income securities. It also expands the central bank's balance sheet.

Valuation ratios, also known as market value ratios, are used to determine the relative value of a security (that is, whether it is cheap or expensive) when compared with a fundamental financial metric such as profits or enterprise value.

The 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.

Indice

The Russell 1000® Growth Index measures a growth-oriented subset of the Russell 1000 Index, which tracks approximately 1,000 of the large-sized capitalization companies in the United States equities market.

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

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[5] Source: Reuters