# CARILLON CLARIVEST INTERNATIONAL FUND *

(formerly Carillon Scout International Fund)

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FIRST QUARTER | 2022

## Investment Team

David Vaughn, CFA
Lead Portfolio Manager

Gashi Zengeni, CFA
Portfolio Manager

Alex Turner, CFA
Portfolio Manager

## Characteristics

Total Net Assets (millions): $428.9

Number of holdings: 124

## Top 10 Holdings

Toyota

Nippon Telegraph & Telephone

Diageo

LVMH Moët Hennessy Louis Vuitton

Roche

Novo Nordisk

ASML

Itochu

Fujifilm

Canon

***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 first quarter of 2022 was marred by tragedy on a global scale. Against this backdrop, investors encountered three months of volatile trading induced by persistently high inflation, rising rates, and Russia's invasion of Ukraine.

The U.S. stock and bond markets appear to be conveying different assessments of the outlook, leaving investors to decide which view will prevail. The S&P 500 Index came roaring back from a near-13% decline and finished the quarter off 4.6% after a rebound that defied worries over tighter monetary policy and geopolitical concerns. Many stock investors shrugged off a brief inversion of the U.S. Treasury yield curve: a phenomenon that has predicted past recessions.

The biggest economic development in March came from the U.S. Federal Reserve (Fed), which raised interest rates for the first time in almost four years after slashing them to near-zero at the onset of the pandemic. The move was expected as Fed Chairman Jerome Powell had signaled a March rate hike, and investors took it in stride. The Fed envisions hiking rates throughout 2022 and reducing its record $9 trillion balance sheet in an effort to tame inflation. Fixed income markets currently expect the Fed will lift rates another 2.25% in 2022. The concern, though, is that it may go too far and spark a recession.

Similar to the Fed, in response to rising inflation, the European Central Bank outlined plans to end bond purchases by the end of September. Bank President Christine Lagarde indicated that a first interest rate rise could potentially come this year, saying rates would rise "some time" after asset purchases had concluded. Data showed annual eurozone inflation at 7.5% in March, up from 5.9% in February.[1]

Canada stands to benefit from rising commodity prices, particularly energy prices. The International Monetary Fund's gross domestic product growth forecast for 2022 is 4.1%, but commodities inflation adds uncertainty to this outlook. The Bank of Canada has begun rate normalization, raising its overnight target rate by 0.25% in March to 0.50%, and has signaled that additional hikes are forthcoming. Markets are pricing a further six to seven hikes in 2022. Household debt, however, has risen since the pandemic and households are now more susceptible to aggressive rate hikes.

Share prices in China were sharply lower in the quarter while shares in Hong Kong, South Korea, and Taiwan also fell. The number of COVID-19 cases spiked despite the Chinese government pursuing one of the world's strictest virus elimination policies. The city of Shanghai, with a population of 25 million, went into a partial lockdown at the end of the quarter in a bid to curb a surge in cases, prompting fears that other parts of the country also could go into lockdowns.

Despite their geographical proximity, Russia is a relatively small trading partner for Japan, accounting for around 1% of exports and 2% of imports.[2] Imports are primarily energy from Russia, especially natural gas, while exports are predominantly auto-related, and most auto makers are now moving to suspend those trade channels. The yen weakened sharply against all major currencies in March, reaching a six-year low against the U.S. dollar. Although interest rate differentials have widened this year, the scale and timing of the yen's weakness is surprising given the currency's typical historical role as a safe-haven asset at times of uncertainty.

Commodities jumped in the first quarter, driven by sharply higher prices for Brent crude oil and natural gas following Russia's invasion of Ukraine. The energy sector outperformed amid rising global demand and fears of supply curbs. Within agriculture, wheat and corn had sharp price gains on fears that supplies could be hit by the conflict as Russia and Ukraine account for around 30% of global wheat exports.[3] Within industrial metals, the prices of nickel, aluminum and zinc were sharply higher in the quarter. Not surprisingly, in precious metals, gold and silver achieved gains over the quarter.

## Portfolio Review

At the start of the quarter, as compared to its MSCI EAFE® (Net) Index benchmark, the Carillon ClariVest International Fund (the "Fund") was most overweight the healthcare and information technology sectors, and most underweight materials and consumer staples. By the end of the quarter, the portfolio remained most overweight the information

[1] *Source: Reuters*

[2] *Source: Reuters*

[3] *Source: Bloomberg*

***Effective June 1, 2022, the Carillon ClariVest International Fund (formerly the Carillon Scout International Fund) will no longer accept purchases of Fund shares or exchanges into the Fund as it is scheduled to be reorganized into the Carillon ClariVest International Stock Fund (the "Acquiring Fund") effective on or about July 16, 2022. Please see the current prospectus for further information.**

| Best Securities | Average Weight (%) | Contribution to Return (%) |
|---|---|---|
| Nippon Yusen Kabushiki Kaisha | 1.64 | 0.46 |
| South32 | 1.17 | 0.33 |
| Sumitomo | 1.09 | 0.24 |
| Marubeni | 0.95 | 0.24 |
| Pacific Basin Shipping | 0.65 | 0.23 |
| Worst Securities | | |
| iShares MSCI EAFE ETF | 2.57 | -0.75 |
| Deutsche Post | 1.39 | -0.32 |
| Volkswagen | 1.37 | -0.29 |
| Merck | 1.48 | -0.28 |
| Fujifilm | 1.62 | -0.27 |

*As of March 31, 2022. 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, its 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.*

technology and healthcare sectors and was most underweight financials and real estate. Regarding countries, at the start of the quarter, the portfolio was most overweight Japan and Denmark, and most underweight France and Australia. By the end of the quarter, the portfolio was most overweight Japan and the Netherlands and most underweight Australia and Switzerland. The most positive sector returns in the MSCI EAFE (Net) Index were in the energy and materials sectors, while the information technology and consumer discretionary sectors lagged. For countries, Norway and Australia outperformed all others, while Ireland and Austria underperformed.

As determined by sectors, stock selection contributed the most while sector allocation was negative. Stock selection was strongest within industrials and information technology and weakest within energy. An underweight to consumer discretionary and an overweight to industrials contributed to performance, while an underweight to materials and an overweight to information technology detracted. With regards to countries, stock selection was the main driver of outperformance, while country allocation was also positive. Underweights to France and Ireland contributed positively, while an underweight to Australia and an overweight to Japan detracted from performance. Stock selection was strongest within Japan and Switzerland and was weakest within the United Kingdom and Germany.

Nippon Yusen Kabushiki Kaisha is a Japanese marine transportation and services company. The company posted an earnings beat and revised guidance higher on the back of strength in shipping container rates.

South32 is a metals and mining company based in Australia. The company benefited from a rise in commodity prices amid fears of a supply shock driven by the war in Ukraine.

Sumitomo is a general trading company headquartered in Japan. The company raised guidance and dividend projections amid strength in commodity prices.

Marubeni is a Japanese trading company. The company raised guidance and hiked its dividend after benefiting from a rise in commodity prices.

Pacific Basin Shipping is a marine transportation and services company based in Hong Kong. The company reported a profit beat driven by high freight rates on the back of an uplift in commodity demand.

The iShares MSCI EAFE ETF security was the portfolio's worst-performing security in the quarter.

Deutsche Post is a Germany-based postal services provider. Air freight was under pressure amid rising inflation and oil prices as well as a reduction in available airspace following Russia's invasion of Ukraine.

Volkswagen, the German-based vehicle manufacturer, was negatively impacted by the sudden cessation of business in Russia and the hit on supply of vital parts from Ukraine.

Merck is a global pharmaceutical and chemicals company based in Germany. Shares fell along with other vaccine-linked names after the U.S. Supreme Court blocked a rule mandating that businesses with more than 100 employees require those employed to either be vaccinated or tested weekly.

Fujifilm is a Japanese company that develops, sells, and services imaging, information, and document solutions. Shares were under pressure amid concerns over the impact on business units of increasing raw material costs and a slow return of workers to offices.

## Outlook

The realities in Ukraine are horrific, making investing seem trivial. However, focusing on how it affects markets, the war also is a concern for global growth and a source of volatility as the highly uncertain situation evolves. Russia is a major exporter of oil and natural gas, particularly to Europe, and a removal of that supply from the system (formally through sanctions and/or informally through private curtailment) would put further upward pressure on energy prices and inflation. Perversely, the situation could favor U.S. stocks, as they are more insulated than their European counterparts from energy price spikes and the direct impacts of the war and its economic ramifications.

Growth-oriented stocks were at the epicenter of the pain amid fears of rising rates and a slowing economy. Growth stocks are considered long-duration assets because their cash flows are realized further into the future. Higher rates drag on the present value of these future cash flows. Value stocks, meanwhile, are shorter duration with cash flows that are front-end loaded. The period of extremely low interest rates was very good for growth stocks and very challenging for value investors. From here, the question is how much of this is reflected in stock prices.

One commonly cited benefit of investing across the globe (instead of just in your local market) is the diversification benefit given low correlations across countries and regions. While much of the last decade has seen an increase in the globalization of markets, one potential impact of the pandemic is the reversal of this trend as companies and also countries seek to become less subject to external shocks. Less globalization could translate to less global competition, fewer productivity gains, more inflationary pressure, and lower global growth.

The very rapid run-up in energy and food prices could impact the emerging market countries in Africa and Asia that are highly dependent on energy and food imports. China's economy was already under pressure from the real estate downturn and weak credit growth. Even before Russia's invasion, the World Bank warned that some emerging market economies were at risk of a hard economic landing on the basis of increased indebtedness built up as a result of the COVID pandemic. Over the past decade, emerging markets have proved to be a major engine for world economic growth, and any major setback would constitute a meaningful headwind for the world economic recovery.

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." Over the last 12 months many investors anchored to the long-term growth trends while discounting value's recent strength, and more importantly the reasons behind it. This gives us considerable confidence in our positioning for the remainder of 2022 and beyond.

*Risk Considerations: International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards, and potential political and economic instability. These risks are further accentuated in emerging market countries, where risks can also include possible economic dependency on revenues from particular commodities or on international aid or development assistance, currency transfer restrictions, and liquidity risks related to lower trading volumes.*

*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.*

*Groups of stocks, such as value and growth, go in and out of favor, which may cause certain funds to underperform other equity funds.*

*Investments in the securities of other investment companies, including money market funds and exchange-traded funds ("ETFs") (which may, in turn invest in equities, bonds, and other financial vehicles), may involve duplication of advisory fees and certain other expenses.*

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

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The information provided 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.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. Investors and market analysts watch certain yield curves for signs of inversion, when yields for longer-term debt instruments fall below yields on short-term debt with the same credit quality. Inversions are watched as potential signs of a weakening economy and in certain cases, a harbinger of recessions.

Growth investing is a stock-buying strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

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

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 of dividend to price.

Indices

The MSCI EAFE® (Net) Index, the Fund's benchmark index, measures the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The MSCI EAFE® (Net) Index subtracts any foreign taxes applicable to U.S. citizens but not applicable to citizens in the overseas country.

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. The S&P 500 represents approximately 75% of the investable U.S. equity market.

Investors cannot invest directly in an index and, unmanaged index returns do not reflect any fees, expenses, or sales charges.

Carillon Tower Advisers is the investment adviser for the Carillon Family of Funds and ClariVest Asset Management is the subadviser to the Carillon ClariVest International Fund. Eagle Asset Management (a sub-adviser to certain of the Carillon Family of Funds) owns 100% of ClariVest Asset Management. Carillon Fund Distributors is a wholly owned subsidiary of Eagle Asset Management and Eagle Asset Management is a wholly owned subsidiary of Carillon Tower Advisers. All entities named are affiliates.

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