CARILLON EAGLE SMALL CAP GROWTH FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FIRST QUARTER | 2019

Investment Team

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Characteristics

Total Net Assets (billions) $4.6

Number of holdings: 108

Top 10 Holdings

- Quaker Chemical
- Planet Fitness
- Chart Industries
- RealPage
- Cornerstone OnDemand
- Trex Company
- Entegris
- Woodward
- Cognex
- Hexcel

Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Call 800.421.4184 or your financial advisor 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

Small-cap stocks rebounded during the first quarter as the Russell 2000® Growth Index (up 17.2 percent) and the Russell 2000® Value Index (up 11.9 percent) both posted double-digit gains in the wake of what had been a tumultuous market environment towards the end of 2018. All sectors across the Russell 2000 Growth Index posted positive returns during the quarter, led by information technology (up 24.5 percent) and energy (up 23.4 percent) while real estate (up 19.7 percent) and healthcare (up 18.0 percent) also contributed to growth's strong positive performance in the period. While still posting positive absolute returns, consumer staples (up 7.1 percent), nominally weighted utilities (up 9.1 percent) and financials (up 10.8 percent) all trailed the broader benchmark's strong returns.

Portfolio Review

Best Securities	Average Weight (%)	Security Contribution to Portfolio Return
Chart Industries	2.16	0.73
Planet Fitness	2.58	0.68
Loxo Oncology	0.70	0.67
Everi Holdings	0.75	0.56
RealPage	1.91	0.46
Worst Securities		
Green Dot	1.49	-0.40
Weight Watchers	0.31	-0.28
Evolent Health	0.58	-0.27
AMN Healthcare Services	0.27	-0.13
Haemonetics	0.86	-0.12

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Chart Industries manufactures equipment used primarily in the production and storage of liquid natural gas (LNG). The firm is benefitting from an expected build-out of LNG export facilities and continued shift to natural-gas powered vehicles and vessels.

Planet Fitness is engaged in the operation and franchising of fitness centers across the United States. The firm's strong value proposition via clean and well-maintained fitness centers providing members with "judgment-free zones" at an affordable price has generated strong membership growth in recent periods; which has continued to drive shares of Planet Fitness higher in recent periods.

Loxo Oncology is a biopharmaceutical firm engaged in the development of treatments for a variety of cancer indications. The firm was announced to be acquired by Eli Lilly at a substantial premium during the quarter.

Everi Holdings develops and manufactures casino gaming systems as well as cash-access solutions and related technologies for the gaming industry. Shares of Everi bounced back early on in 2019 as the firm reported solid results within both of its core operating segments, while providing encouraging full-year 2019 guidance as well as additional clarity on progress towards deleveraging its balance sheet, which investors have continued to monitor.

RealPage, which sells apartment-management software, demonstrated healthy growth and solid profitability during the quarter, while we remain confident in management and continue to view RealPage as a provider of value-added software, analytics and insight to an ever-changing real-estate market.

Green Dot is a provider of prepaid, debit and secured credit cards as well as wage disbursement provisions and tax refund processing services. Shares declined as the firm encountered moderating revenue growth as well as concern surrounding its relationship with Wal-Mart, which is up for renewal in 2020. We would expect prospects to improve for Green Dot as more clarity arrives on the Wal-Mart relationship, while the company has demonstrated an ability to consistently generate positive results in recent periods.

Weight Watchers International, which provides a comprehensive offering of weight-management services, saw shares decline during the quarter as the firm's recent marketing campaign failed to resonate with its intended audience, resulting in further moderation of subscriber growth in the quarter. We closed our position in light of the poor results.

Evolent Health provides software and consulting solutions to healthcare provider networks and health plans. Shares have waned recently as uncertainty arose surrounding the continued operation of one of Evolent's largest customers in the state of Kentucky. Ultimately contract negotiations were resolved. We remain cautiously optimistic on the name as the industry evolves toward a more value-oriented focus where there exists a critical need for information and analytics to improve efficiency and results.

AMN Healthcare Services provides workforce solutions and staffing services to healthcare facilities. One of the firm's core business segments, which contracts registered travel nurses with healthcare facilities in need, saw a key client unexpectedly reduce its service utilization, which tempered AMN's results in the period. Longer-term we maintain a favorable view on the demand environment for AMN's services, where we believe the firm provides substantial value to meet the needs of a sizable and expanding healthcare industry.

Haemonetics develops and distributes hematological (blood-related) products and solutions. Shares declined as a lack of clarity on Haemonetics' forward guidance, as well as a slightly slower-than-expected rate of adoption for one of its key product releases, disappointed investors. We will continue to monitor the development in the approaching periods; however, we maintain a cautiously optimistic outlook on Haemonetics given its diverse and expanding set of compelling product offerings.

Outlook

Equity markets rebounded strongly during the first quarter as the U.S. Federal Reserve (Fed) reversed its hawkish October 2018 comments to now take a position with at most one and more likely no interest rate hikes forecast for 2019. The other large overhang on equity markets – tariffs – seems to be in the rear-view mirror, although it is not resolved. Even a recent inversion of the yield curve, a frequent recession forecaster, appears to have had a negligible impact on sentiment.

Following a stunning whipsaw in oil prices over the past six months, we hold a cautiously optimistic view on the energy sector. Oil prices plunged over 40 percent in the final months of 2018 – only to snap back over 30 percent to near $60 per barrel in the first quarter of 2019. E&P management teams, no strangers to oil price volatility, have been tasked by equity investors with a strict mandate to generate positive shareholder returns and generate free cash flow. We continue to believe that $50 per barrel is a key threshold for activity in the Permian Basin, as it is the marginal cost per barrel in the global oil market. In this challenging environment, management teams are struggling to plan their budgets and manage drilling operations. The combination of management discipline and investor apathy has left stock prices languishing despite the recent recovery in oil prices. With more muted expectations for production growth from North American shale, Saudi Arabian-led OPEC remains the key factor in the oil market. In contrast to the ramp in production ahead of Iran sanctions that were never enforced in late 2018, OPEC has shown discipline by aggressively cutting production to support oil prices necessary to balance sovereign budgets. Additionally, geopolitical turmoil in Venezuela has provided additional support for oil prices. As such, we believe the current oil market fundamentals are stronger than the equity market valuations imply – absent a sharp downturn in the global economy – and see room for outperformance from the energy sector in the future.

The outlook for the industrials and materials sectors appears balanced with both visible headwinds and tailwinds on the horizon. The combination of (1) a continued deceleration in global economic growth, (2) uncertainty surrounding global trade policy and (3) a flattening yield curve that is close to inverting present a challenging environment for relative outperformance in the most economically sensitive areas of the stock market. On the positive side, central banks have quickly pivoted into easing mode and monetary and fiscal policies in many regions are now supportive of future growth. In fact, the current fed funds future curve now predicts that the Fed will lower interest rates by the end of 2019. This is a dramatic about-face from October when Fed Chairman Powell hawkishly proclaimed that the fed funds rate was "a long way from neutral." In the current environment, we remain committed to investing in companies that have secular growth opportunities that can outperform through the course of the cycle.

In our view, the environment within healthcare remains poised to support greater-than-GDP growth rates given the combined tailwinds of an aging population, longer lifespans, the crippling impact of chronic conditions and new medical innovations. 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 more closely scrutinize their care-related decisions. We also believe that consolidation through mergers & acquisitions (M&A) activity is likely to continue throughout the healthcare industry.

We strive to identify healthcare companies that offer disruptive technologies or services that will drive significant revenue growth for these companies for years to come. One example of this is the disruptive nature of telemedicine: This care innovation continues to see rapid adoption by managed care and health care systems, particularly due to the convenience of improved access to quality care at a lower cost compared to in-person primary care office visits. In addition, we continue to like companies that provide "cash-pay" products and services (e.g., aesthetics, veterinary products and services, as well as dental and orthodontic procedures) which tend to have little regulatory or reimbursement risk from the federal government. Finally, we continue to seek opportunities within the explosive innovations taking place within the biotechnology industry, where many firms are developing revolutionary therapies to treat diseases and conditions that would have otherwise been chronic, expensive, or fatal.

For the financials sector, the outlook remains mixed. Bank fundamentals are challenged with the current shape of the yield curve and slower loan growth. As we expect the economy to slow somewhat, we would not be surprised to see an increasing occurrence of "credit blips." We remain cautious on the banking space but we are more constructive on some areas of financials outside the banks. The environment for M&A remains relatively favorable as companies look to manufacture growth in a low-growth backdrop. We see opportunities for boutique investment banks to grow and take share from the much larger "bulge bracket" firms. We are also seeing opportunities in the consumer payments space as payment methods evolve in response to millennials' banking behavior. Finally, we believe select domestic U.S. consumer pawn operators possess the potential to leverage their business models abroad, with expansion into Latin America providing growth prospects to complement their more mature core domestic operations.

We remain optimistic regarding information technology-related spending as unemployment rates remain at multi-decade lows, and consumer confidence and small business optimism indicators remain healthy. With interest rates pulling back, technology spending should remain robust both at the enterprise and consumer levels. We have seen M&A activity pick up in the first quarter. We expect that with strong balance sheets at the very large technology companies, and a sympathetic political environment in Washington, there will be more to come. We remain focused on high quality companies with strong management teams that are well-positioned to gain market share. Additionally, we are pursuing investment opportunities in companies that benefit from long-term secular growth trends with themes that include cloud computing, artificial intelligence, mobility, e-commerce/digital payments, smart home, factory/industrial automation, security software, e-gaming, as well as alternative energy.

Consumer stocks appear to be well-positioned to continue their recent strong performance. Larger macro issues like employment and wage gains are a positive tailwind; although somewhat offset by higher labor and freight costs. Beyond the strong economy, restaurants are benefitting from online ordering as well as a multitude of new delivery options. Retailers have downsized when necessary and now possess meaningful omni-channel offerings to combat ongoing online completion. Low interest rates augur strongly for a recovery in housing with household formations accelerating as millennials are belatedly having families. The long-projected slowdown in autos may also have been put on hold; benefitting from the lower interest rates.

Despite the market volatility in the last quarter of 2018 into the first quarter of 2019, we believe that U.S. economy will continue to grow at a healthy pace in 2019. The economy remains strong, unemployment is at historic lows and the Fed has remained accommodative. Also importantly, valuations are attractive particularly when compared to the low returns available in fixed-income alternatives. However, given the length to the economic recovery, a recession is inevitable. While corrections can be violent and occur without warning, currently the environment for equities to continue their recent gains appears favorable.

Investments in small-cap companies generally involve greater risks than investing in larger capitalization companies. Small-cap 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.

Investing in small- and mid-cap stocks may involve greater risks than investing in larger, more established companies. These companies often have narrow markets and more limited managerial and financial resources. 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.

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Benchmark Index:

[1]The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

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