CARILLON REAMS CORE BOND FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FOURTH QUARTER | 2018

Investment Team

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Portfolio Co-Manager

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Characteristics

Total Net Assets
(millions) $110.1

Number of holdings: 80

Top Holdings

US TREASURY N/B T 2 7/8 04/30/25

US TREASURY N/B T 1 5/8 10/31/23

US TREASURY N/B T 2 3/4 08/15/47

US TREASURY N/B T 2 1/2 01/31/25

US TREASURY N/B T 2 1/4 11/15/27

TSY INFL IX N/B TII 0 3/4 07/15/28

FNCL 3.5 1/19 FNCL 3.5 1/19

FNCL 3 1/19 FNCL 3 1/19

FNA 2016-M7 AV2 FNA 2016-M7 AV2

JACKSON NATL LIFE GLOBAL JACLIF 0 04/27/20

Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Contact Carillon Fund Services at 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

The Bloomberg Barclays U.S. Aggregate Index® returned 1.64 percent for the three months ending Dec. 31, 2018. Spread sectors steadily underperformed during the quarter. High-yield credit weakened the most, widening 210 basis points (bps). Investment-grade credit widened 47 bps. In structured products, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and mortgage-backed securities (MBS) widened 27, 15, and 14 basis points, respectively. The Treasury curve shifted lower and intermediate maturities outperformed as the 2-, 5-, 10-, and 30-year Treasury yields declined 33, 44, 38, and 19 basis points, respectively.

Treasury rates experienced a sharp push to the upside in October after Federal Reserve Chairman Powell commented that we are "a long way from neutral." His remark highlighted the potential for an extended rate-hiking cycle, which the bond market thought was winding down. Higher rates also unnerved the equity market, which experienced several days of heightened volatility just as quarterly earnings season began in earnest. A few notable earnings disappointments, particularly in technology, further soured the market's mood.

Federal Reserve Chairman Powell reversed course in late November, declaring that rates were "just below neutral." This comment contributed to the subsequent reduction in interest rates and fueled criticism that the Fed has been reacting to market movements as much as economic data.

Meanwhile, prospects for strong economic growth in 2019 continued to wane. Lack of fiscal stimulus coupled with global political turmoil dampened expectations for the new year. U.S. midterm elections resulted in a Democratic-led House and a Republican-controlled Senate, creating the potential for at least two years of Washington gridlock. The government shutdown sparked by President Trump's demand for border wall funding suggested that heightened discord may become the new normal, further exacerbating the problem

Internationally, political tumult in the United Kingdom and the ongoing U.S.-China trade dispute intensified global uncertainty. British Prime Minister May was forced to withdraw her negotiated Brexit deal to avoid an embarrassing defeat. May was able to survive a subsequent no-confidence vote, but prospects for eventually passing a Brexit deal through Parliament appear remote.

A contemptuous ceasefire between the U.S. and China was negotiated late in the year, but significant trade issues remain. China offered the U.S. an olive branch in December, agreeing to reduce tariffs on autos and certain auto parts to 15 percent from the recently elevated level of 40 percent. However, a clear path to substantial improvement in the relationship has not yet become apparent and further pain is likely. China's capital markets have already suffered sharply, and while this sentiment took a little longer to hit the U.S., we saw the result in increased fourth-quarter volatility.

Portfolio Review

Macro factors were somewhat positive, as the Fund's yield curve position was additive due to an underweight in the underperforming long end of the curve, while its duration[1] position had a minimal impact on performance.

Fund performance was largely positive at the sector level. Investment-grade credit outperformed due to strength in the Fund's shorter-duration holdings. Gains in multi-family agency securities led to outperformance in the MBS sector. The Fund also benefited from its underweight position in the relatively weak government-related sector. In contrast, the Fund's Treasury Inflation-Protected Securities (TIPS) modestly detracted from relative performance. All other sectors had a minimal impact.

Capital markets moved from what we had considered overly optimistic to more reasonable valuations during the fourth quarter. Having anticipated a pullback for some time, we had been maintaining a high degree of liquidity in the Fund, patiently waiting to exploit attractive investment opportunities when they presented themselves. Widening spreads in the last two weeks of the year enabled us to do just that. We responded to the downward market acceleration by purchasing broad market investment-grade holdings, as well as select investment-grade credits within the financial sector that had finally become fairly valued.

Even with these purchases, however, we maintained the Fund's defensive positioning. Valuations have not yet reached the level where we would be comfortable extending our position on the risk spectrum. For that reason, the Fund's corporate holdings remained focused in very short financials and industrials. The Fund also remained underweighted in MBS pass-throughs, but overweighted in multi-family agency securities, which have exhibited stable cash flow characteristics.

Fund duration was modestly shorter than the benchmark, as we responded to real interest rates moving lower during the quarter.

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Outlook

We expect economic activity to be relatively sluggish in 2019. Continued Fed tightening is finally coming home to roost after flying under the radar for much of 2018, when it was overwhelmed by the fiscal stimulus of tax cuts and government spending increases. Challenges created by the exit from quantitative easing in the U.S., as well as final tapering in Europe, are just beginning to appear and likely will continue to weigh on economic activity.

Rising short rates, pushed higher by the Fed, have steadily tightened domestic financial conditions. With each Federal Reserve rate hike, the chance of policy error increases. The Fed's two projected rate increases in 2019 may prove to be optimistic as Washington gridlock makes further fiscal stimulus unlikely. The flat yield curve, with a long end that appears doubtful of an inflation spike, highlights the lack of consistency in outlook between market participants and the Fed itself. Meanwhile, growing budget deficits are heightening risk as the economy downshifts into a slower pace of economic growth.

In fixed income credit markets, the third quarter's elevated valuations proved to be fleeting. Despite technical tailwinds, corporate spreads widened sharply in the fourth quarter after hitting historically tight levels earlier in the year. We believe valuations in the corporate sector are now close to fair value, but they remain susceptible to sharp declines. Mortgage pass-through valuations have also become slightly more attractive, but have not underperformed as sharply as the corporate sector.

If the Fed continues down its stated path of raising the front end of the yield curve, the danger of further curve inversion increases. (The curve briefly inverted from two to five years late in the fourth quarter.) Any over-tightening by the Fed could have a markedly negative impact on future spread sector performance. For these reasons, we remain defensive, maintaining substantial liquidity in the Fund in order to capitalize on the next big market move when it occurs.

The return of principal in a fixed income fund is not guaranteed. Fixed income funds have the same interest rate, inflation, issuer, maturity and credit risks that are associated with underlying fixed income securities owned by the fund. Mortgage- and Asset-Backed Securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets.

Foreign investments present additional risks due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors.

Derivatives such as credit default swap agreements and futures contracts may involve greater risks than if the Fund invested in the referenced obligation directly. Derivatives are subject to risks such as market risk, liquidity risk, interest rate risk, credit risk and management risk. Derivative investments could lose more than the principal amount invested. The Fund may use derivatives for hedging purposes or as part of its investment strategy. The use of leverage and derivatives investments could accelerate losses to the fund. These losses could exceed the amount originally invested.

The Fund may, at times, experience higher-than-average portfolio turnover which may generate significant taxable gains and increased trading expenses which in turn may lower the Fund's return.

Past performance is not indicative of future results and investing involves risk, including the risk of loss. All information as of December 31, 2018. Opinions expressed are the current opinions as of the date appearing in this material only. This material should not be construed as research or investment advice. No part of this material may, without Carillon Tower Advisers' prior written consent, be copied, photocopied or duplicated in any form, by any means.

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.

[1]Duration incorporates a bond's yield, coupon, final maturity and call features into one number, expressed in years, that indicates how price-sensitive a bond or portfolio is to changes in interest rates. Bonds with higher durations carry more risk and have higher price volatility than bonds with lower durations.

Benchmark Index

The Bloomberg Barclays U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, CMBS, ABS and investment-grade corporates. It is not possible to invest in an index.

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