CARILLON SCOUT INTERNATIONAL FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

THIRD QUARTER | 2021

Investment Team

Michael Stack, CFA
Lead Portfolio Manager

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Portfolio Co-Manager

Characteristics

Total Net Assets (millions): $479.4

Number of holdings: 66

Top 10 Holdings

Great-West Lifeco

Volkswagen

AXA

Allianz

Grupo Financiero Banorte

Royal Dutch Shell

TotalEnergies

London Stock Exchange

Aflac

Pan Pacific International

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

After starting the quarter strong, the MSCI EAFE® (Net) Index weakened at the end of September amid continued concerns around the delta variant of SARS-CoV-2 and concerns that the U.S. Federal Reserve (Fed) may begin tapering. Emerging markets took a beating as the Chinese market dragged down performance. In September, Evergrande, one of China's biggest property developers and Asia's largest junk bond issuer, inched very close to default and missed a scheduled interest payment to overseas bondholders, spooking markets and raising concerns about the company's $300 billion in liabilities. The company, and the property market in general, are so intertwined in the country's economy that the People's Bank of China injected around 100 billion yuan to assuage fears as preparations were made for a huge restructuring. China's corporate debt levels are very high after growing rapidly over the last decade and have become a worry for authorities. China has been trying to find a way to prompt orderly defaults without jeopardizing its financial system, but this is a difficult challenge.

To add insult to injury in China, a new ruling bans people under the age of 18 from playing online during the school week and allows only one hour a day on Fridays, weekends, and holidays. Although kids will surely find loopholes to circumvent some of these restrictions, the government is intent on imposing its will. But attempting to adjust children's behavior is only the tip of the iceberg when it comes to Chinese interference, as many investors have discovered. Authorities have hampered large domestic technology companies with repeated fines for violating anti-trust laws. The government shut down a major Chinese ride-hail initial public offering in the United States in what many see as a fight for the upper hand in data resourcing. Even education has not been spared as China clamped down on the after-school tutoring industry with regulations that inhibit companies' abilities to offer their services. The objective may be to reduce China's widening social inequality, which advantages the wealthy and causes parents to expend huge amounts of money on education, often limiting the incentive to have more children. At the end of the day, the Communist Party is clipping some wings and showing everybody who is boss to the disadvantage of many shareholders.

Best Securities	Average Weight (%)	Contribution to Return (%)
MTN Group	2.01	0.56
Bancolombia	1.47	0.27
Royal Dutch Shell	1.69	0.25
Novo Nordisk	1.70	0.24
ORIX	1.77	0.23
Worst Securities		
Largan Precision	1.76	-0.51
AAC Technologies	1.06	-0.47
Adecco Group	1.59	-0.46
BHP Group	1.70	-0.38
Kering	1.51	-0.30

As of September 30, 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, Scout Investments, 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.

The third quarter saw elections in the major global economies of Japan and Germany. The former involved the selection of a new party leader, and therefore prime minister, while Germany went to the polls in a general election at the end of September. Yoshihide Suga replaced the long-standing Shinzo Abe about a year ago but really failed to connect with voters and witnessed his popularity rating halve in that space of time in spite of the successful completion of the Tokyo 2020 Olympics. The main culprit was likely the government's slow roll out of the COVID-19 vaccine even though Japan experienced one of the lowest mortality rates in the developed world. Suga's resignation sparked an equity market rally in Japan, which helped narrow the gap somewhat on the country's underperformance this year. The new prime minister, Fumio Kishida, was an establishment candidate and will take the Liberal Democratic Party into a general election at the end of October.

Angela Merkel, one of Germany's longest-serving chancellors, retired after almost 16 years in that office. Viewed more as a pragmatist than a visionary, she is credited with keeping the Eurozone intact during periods of crisis but did not win fans in some member nations, which were forced to endure severe austerity measures imposed on them by Germany. Merkel's Christian Democratic Union party lost some ground at the polls to the Social Democratic Party, but it still looks like the new government will be a another coalition although one of the smaller parties, possibly the Green Party, will have a large say in the final outcome. Also at the end of the month the main German equity index (DAX) was reconstructed to include 40 large-cap companies – 10 more than previously. In terms of the number of stocks, healthcare will grow from four to seven, but, in spite of this, the index will still retain much of its historical cyclical bent.

Portfolio Review

Country allocation resulted in a positive effect on relative performance with an underweight allocation in Hong Kong and exposure in Turkey, South Africa, and Colombia providing the greatest positive effect. Yet, stock selection in Japan, Germany, Switzerland, and China resulted in a drag on relative performance. From a sector perspective, strong stock selection within communication services, energy, and financials provided a positive effect on relative performance, while selections in information technology, industrials, and consumer staples provided a drag.

MTN Group, the South African telecom company, reported strong operational results in South Africa and started to repatriate cash from Nigeria. It has also made progress in its asset disposal plans, including the initial public offering of a telecom infrastructure company in which MTN holds a stake.

Bancolombia, the Colombian financial conglomerate, announced better than expected provisioning expenses and loan volumes during the second quarter. Additionally, a pickup in vaccination rates in Colombia, as well as the rest of Latin America, brightened investors' outlooks.

Royal Dutch Shell, an energy and petrochemical company, benefited from a surge in the price of oil combined with better than expected capital expenditures, cash flow, and expense guidance by management.

Novo Nordisk develops and markets pharmaceutical products. The company benefited from a strong uptake of new obesity drug Wegovy.

ORIX is a Japanese diversified financial services company primarily focused on credit services. The company's stock price has been driven to its highest level in well over a decade on the back of solid fundamentals, a surge in renewable energy asset prices, and a clear path towards recovery from the pandemic in Japan.

Largan Precision supplies camera lenses for a range of applications including smartphones. The company's stock was under pressure due to softer smartphone demand in China as well as supply chain disruptions and pricing pressures.

AAC Technologies, a Chinese manufacturer of cellular phone components, declined due to concerns over pricing pressure from one of the company's largest customers and lower utilization at the Vietnam factory due to the of the pandemic.

Adecco Group provides a variety of human resource services. The company's stock fell to a year-to-date low in the middle of September after the company announced some weeks earlier that it was purchasing a global engineering and technology consulting group for 1.5 billion euros, one of its largest acquisitions in decades. The transaction raises Adecco's risk profile even though the company will expand its expertise in digital engineering and revenue, and cost synergies will lead to improved earnings and margins even in the first year.

BHP Group engages in the exploration, development, and production of natural resources. The company suffered a sharp drawdown in August after announcing it would be selling its oil and gas assets into a new venture with a leading Australian liquefied natural gas company in exchange for shares that would be distributed to shareholders, a move some analysts took as evidence of slower growth. Iron ore prices also fell significantly during the quarter as Chinese steel mills promised to cut production in line with government guidelines to reduce pollution. At the same time, BHP said it would abandon its dual listing in London and have its primary listing in Australia.

Kering, a French luxury products designer and manufacturer, sold off heavily along with the rest of the luxury goods industry in August due to concern about Chinese demand. Among a series of regulatory moves, the Chinese government introduced a Common Prosperity initiative that caused some investors to worry about demand for luxury goods in the industry's most important market. We think these concerns are overblown since Common Prosperity is aimed at curbing incomes and wealth at the very top of society and bolstering the middle class, which account for the largest share of luxury goods purchases.

Outlook

Markets have struck a more nervous tone recently as global flash Purchasing Managers' Indexes for September showed that the pace of growth, although not contracting, has slowed. Supply constraints and component shortages are still a problem with some companies stating that the issues may last well into next year. Additionally, a rapid increase in the price of oil during the last few weeks of the quarter has not given investors reason for optimism. Eurozone firms' input prices are at their highest level in more than two decades. Thus, it came as little surprise this time around when Federal Reserve Chairman Jerome Powell, with much circumlocution, intimated that tapering is imminent. Perhaps to be on the safe side he should take a lesson from his European counterpart, Christine Lagarde, and claim it is merely a "recalibration" of stimulus efforts. Whatever the language, not many misunderstood when Powell said he was "frustrated" at current inflation pressures. He has to be hoping that investors do not get frustrated, too.

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.

The return of principal in a fund that can also invest in fixed income securities is not guaranteed. Fixed income investments have interest rate, inflation, issuer, maturity and credit risks.

Because the fund normally will hold a focused portfolio of stocks of fewer companies than many other diversified funds, the increase or decrease of the value of a single stock may have a greater impact on the fund's net asset value and total return.

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.

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The DAX, or Deutscher Aktien Index, is a stock index that represents 40 of the largest and most liquid German companies that trade on the Frankfurt Exchange. DAX member companies represent about 75% of the aggregate market capitalization that trades on the Frankfurt Exchange.

Purchasing Managers' Index™ data are compiled by IHS Markit for more than 40 economies worldwide. The monthly data are derived from surveys of senior executives at private sector companies. PMI data features a headline number, which indicates the overall health of an economy, and sub-indices, which provide insights into other key economic drivers such as gross domestic product, inflation, exports, capacity utilization, employment, and inventories.

Benchmark Index:

The MSCI EAFE® (Net) 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.

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

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