CARILLON SCOUT INTERNATIONAL FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FIRST QUARTER | 2019

Investment Team

Michael Stack, CFA
Lead Portfolio Manager

Angel Lupercio
Portfolio Co-manager

Characteristics

Total Net Assets (millions) $757.7

Number of holdings: 64

Top 10 Holdings

Macquarie Group
LARGAN Precision
Volkswagen
Ryanair Holdings
Grupo Financiero Banorte
Tokyo Electron
Caltex Australia
Adecco Group
Continental
Banco Bilbao Vizcaya Argenta

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

Continuing on from the last week in December, most major global markets returned one of the strongest quarters in years with the MSCI EAFE Net Index increasing almost 10 percent in the first three months of 2019. The United States experienced its longest government shutdown in history, but with the Federal Reserve (Fed) pointing to global economic pressures and mild inflation as reasons for not raising rates, markets rapidly increased, at least in the short term. Equities rallied in the face of weakening economic data. U.S. GDP came in at 2.9 percent for 2018, just short of the Trump administration's 3 percent target with the final quarter showing a significant slowdown.

The European Commission slashed its growth projections for the current year to 1.3 percent, down from a projection of 1.9 percent just last November. At the same time, the European Central Bank (ECB) pushed out the timing of an interest rate hike to 2020 at the earliest. China also continued to slow, the National Bureau of Statistics saying GDP rose 6.6 percent in 2018, which was the slowest expansion in almost three decades. However, the Shanghai Composite did receive a boost at the end of February when the United States said it would extend a deadline to escalate tariffs on Chinese imports, citing progress in trade talks between the two nations. Towards the finish of the quarter, the short end of the U.S. Treasury curve inverted, often seen as a recessionary signal, but nobody seemed to mind.

Best Securities	Average Weight (%)	Security Contribution to Portfolio Return
LARGAN Precision	1.72	0.61
Next	1.62	0.61
Tokyo Electron	1.89	0.53
Bancolombia	1.52	0.46
British American Tobacco	1.46	0.43
Worst Securities		
Henkel AG	1.53	-0.10
JGC	1.37	-0.05
WPP	1.69	-0.02
ABB	1.52	-0.01
Volkswagen	2.03	-0.00

As of March 29, 2019. 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.

Portfolio Review

LARGAN Precision supplies camera lenses for a range of applications including smartphones. Recent Chinese flagship smartphone models have launched with multiple built-in cameras on the back whereas in previous generations there was only one camera on the back. This will expand LARGAN's addressable market opportunity. A number of new smartphones are launching with periscope cameras that ich require more expensive lenses supplied by LARGAN.

UK-based Next sells clothing and home goods through a network of stores and its website. Next has held up much better than many other traditional retailers due to strong online sales, which now account for nearly half of sales and more than half of operating income. With the earnings report for the period ending January 26, 2019, management presented a stress test for the business assuming continued weakness in bricks and mortar stores combined with online growth. The results showed a management team and business well prepared for ongoing difficulties, reassuring the market.

Tokyo Electron manufactures semiconductor and display production equipment. Although capital spending by memory semiconductor makers has been weak, the market is looking forward to a recovery in second half of 2019 in order to modernize existing factories.

Bancolombia, the Colombian financial conglomerate, posted earnings that were well ahead of expectations for the fourth quarter of 2018. The company has executed on its cost control initiatives, and expectations are for credit quality to improve in 2019. Additionally, given that a material portion of Colombia's exports are petroleum and petroleum products, the substantial rebound in the price of oil in the first quarter speaks well for Colombia's 2019 economic outlook.

British American Tobacco rebounded somewhat after a dismal 2018, which included a sharp drop in November on heightened United States regulatory risks. The announcement of U.S. FDA director Scott Gottlieb's resignation offered some hope that the next director will offer a less adversarial approach to the industry. In addition, the company and others will contest a proposed menthol ban. A similar ban in Canada showed consumers tended to switch to other products within the same brand, suggesting that the negative stock market reaction was overdone.

Henkel AG joined a growing list of consumer products companies to announce plans to spend more on advertising, promotion, and other product development to help reignite sales growth. Lower profit margin expectations brought earnings per share expectations down by 10-20 percent for 2019 and 2020. In addition, adhesives, long the biggest growth driver for Henkel, has seen growth rates slow with weakness in cars and consumer electronics, two large customers for the business.

JGC offers engineering and construction services for a variety of facilities, including those used in the petroleum and petroleum-based products industry. While the company suffered along with the market at the end of 2018, the stock has not participated in the first quarter bounce back of 2019. Natural gas prices have not increased to the same extent as oil since the end of the year but it is still surprising to see such underperformance given the supply deficit in liquefied natural gas (LNG) that we should see as early as 2022.

After a terrible 2018, WPP, the UK advertising firm, faces a long road of restructuring to make the company more nimble and responsive to changing client needs. Unfortunately, a series of full or partial account losses in 2018 will continue to weigh on guidance and results through 2019.

Although ABB, the Swiss industrial company, agreed to exit its power grids business through a sale to Hitachi, the company struggled during the quarter against sluggish global growth as reflected in the latest PMI data. Investors are also in a wait-and-see mode while the company sets performance targets for the remaining businesses.

Volkswagen is one of the largest automotive companies in the world with a large stable of brands, including Audi, Porsche, Skoda, and Scania trucks. Volkswagen shares gave back gains from earlier in the quarter after the company delayed the planned spin-off of the Traton commercial trucks business. The spin-off was seen as the first step of a necessary restructuring of a huge, complex business and the rationale for the delay was not well communicated. Global auto markets continue to be weak. China in particular has seen year-over-year unit sales declines of over 10 percent for five consecutive months.

Outlook

The outlook for Brexit is as uncertain as it's ever been. The Prime Minister has lost credibility, as has the extended parliament. As one person predicted, "it'll be the first time in British history that the end of May comes before the end of April." But a change in leadership is not likely to progress matters. The extended deadline to 12 April looks too short and Theresa May's gamble that MPs will vote for her plan when their backs are to the wall could backfire. This worry around the deal combined with weakness in Germany, the engine of European growth, has cast a pall over the continent. In fact, the broader global PMI has dropped for 10 consecutive months while equities have surged ahead so far this year. Markets seem to be saying that the slowdown is only temporary and that recent economic stimulus programs, including China's tax cuts and government spending, will generate growth from here on in, but the jury is still out.

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.

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Benchmark Index:

The MSCI EAFE® Net Index measures the performance of 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 US 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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