CARILLON SCOUT MID CAP FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

THIRD QUARTER | 2021

Investment Team

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Characteristics

Total Net Assets (billions): $4.60

Number of holdings: 174

Top 10 Holdings

Horizon Therapeutics

Stag Industrial

Devon Energy

Darling Ingredients

Teradata

Quanta Services

Centerpoint Energy

Pioneer Natural Resources

Signature Bank

Evergy

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

Despite significant volatility, equities ended the quarter slightly lower, led by growth stocks. Inflation was a hot topic as many commodities continued to rise, especially natural gas and oil. Hurricane Ida struck a bull's-eye on the oil platforms off of Louisiana, and problems with Russian gas supplies and a lack of wind power generation in the U.K. all contributed to a spike in natural gas prices. Meanwhile in China, changes to coal mining labor rules hampered coal production in the No. 1 coal-producing country, which caused China to import more energy. Labor inflation was a concern for many companies along with general labor availability and lack of reliable supplies of parts, inventory, and finished goods. U.S. Federal Reserve (Fed) commentary was slightly more hawkish, with the Fed signaling a taper to begin in the fourth quarter of 2021 and possibly ending by summer 2022, but with rate hikes possibly delayed after that. The COVID-19 delta variant spread rapidly in many parts of the world despite aggressive vaccination campaigns, putting further pandemic pressures on the economy, mainly through inflation and supply chain issues. Toward the end of the quarter, the pandemic started to ease again, aiding beleaguered travel stocks. Interest rates bounced off a near-term bottom as the bond market paid more attention to the growing inflationary pressures. Lastly, debate continued on another federal stimulus and infrastructure package as the third quarter closed.

Portfolio Review

Best Securities	Average Weight (%)	Contribution to Return (%)
Horizon Therapeutics	2.36	0.36
Quanta Services	1.32	0.29
Teradata	2.11	0.26
Devon Energy	0.35	0.23
Chart Industries	0.77	0.20
Worst Securities		
Roku	1.02	-0.37
Freeport-McMoran	1.35	-0.25
EOG Resources	1.64	-0.24
Zynga	0.66	-0.21
Twilio	1.05	-0.21

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, their 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.

Sector allocation was a negative factor, with overweights in energy, materials, and consumer staples the biggest detractors, partially offset by favorable positioning in healthcare and consumer discretionary. Cash drag also held back performance due to the timing of cash holdings. Within sectors, stock selection was most challenged in the technology, communications, and real estate sectors, while industrials, consumer staples, and healthcare sectors experienced good stock selection effects for the period.

Pharmaceutical company Horizon Therapeutics topped the portfolio contribution list as investors continued to appreciate the sales potential of its approved treatments for thyroid eye disease and severe gout, and its deepening pipeline of potential new drugs.

Utility and telecom construction contractor Quanta Systems rallied as investors supported the acquisition of a leading renewables engineering company as well as the anticipation of strong future growth for renewable energy and electrification that would require significant investment in the U.S. power grid.

Database management company Teradata was also a top quarterly performer as competitive concerns eased regarding their improved cloud database solution and go-to-market changes.

Devon Energy benefitted from rising oil and natural gas prices that accelerated its free cash flow generation. Devon plans to use this free cash flow to strengthen its balance sheet and increase its dividend — two things shareholders are anxious to see.

Chart Industries rose over prospects for its broad portfolio of clean energy technologies for hydrogen, carbon capture, and water treatment, as well as from business for new potential liquefied natural gas projects.

Streaming television provider Roku was the bottom contributor as investors focused on a loftier valuation and as attention shifted to companies that benefit from the economy reopening after the latest pandemic wave.

Copper and gold producer Freeport-McMoran slid as concerns mounted over slower growth in the Chinese construction industry due to financial problems at Evergrande, one of China's largest developers, and other builders.

Oil and gas producer EOG Resources pulled back from a rally sustained earlier in the year. The stock finished strong into the end of the quarter as Hurricane Ida damaged offshore Gulf of Mexico oil production platforms, causing oil and natural gas production in the U.S. to be curtailed until repairs are completed.

Zynga produces video games for mobile phones. Due to privacy updates for the operating system of a main mobile phone manufacturer and players spending less time playing video games, Zynga offered lower than expected revenue and earnings guidance that sent the stock lower. We expect the company to work through the operating system changes and to grow revenue from internal game development and acquisitions.

Twilio, a software-based communication platform, traded lower along with many fast-growing software companies as interest rates moved higher. In addition to a widespread growth stock selloff, investors were concerned that revenue and earnings estimates may not move materially higher as they lap strong digital applications adoption in mid-2020 and margins compress as travel and entertainment expenses rise back toward historic levels.

Outlook

The world continues to deal with the lingering effects of the COVID-19 pandemic even as case counts recede from the latest wave. One such effect is supply shocks: Food and manufactured goods such as autos, appliances, and other retail goods appear to be in short supply due to transportation bottlenecks and parts shortages. Inflation is here, and so far is not as "transitory" as many expected (including ourselves) as supply shortages linger. Furthermore, vaccine mandates are looming and this threatens to make supply and transportation shortages worse as some workers resign or retire rather than get vaccinated. Longer term, we believe burdensome debt levels, technological progress, and demographics will help return inflation and interest rates to lower levels, although higher expected energy prices should help keep a floor under inflation and interest rates.

While the Fed is shifting the narrative on asset purchases, monetary policy should remain accommodative well into 2022. We believe a national infrastructure bill agreement is likely to be reached, supported by news of recent progress, despite the uncertainty created by negotiations. Due to the political makeup in Washington, we think taxes may rise, yet we expect this to be a manageable risk as Congress should compromise. Finally, we see plenty of pent-up demand for goods and services such as travel, entertainment, capital goods, and consumer durables. Inventories have been exhausted and will take time to rebuild – a positive factor for continued economic growth. Despite these positives, energy price shocks and general supply shortages are a threat to living standards.

The portfolio continues to be invested in a balance of companies that should do well in a cyclical recovery as well as with companies we believe to be secular winners. We are most overweight the energy sector as we see demand driven by economic growth, and tight supplies to be supportive of pricing for some commodities, particularly oil. Natural gas prices have spiked recently and may recede near term, but the longer term picture remains bullish as oil drilling is quite restrained in the U.S., and associated gas produced from oil wells is a major source of supply that is somewhat curtailed. We are currently underweight information technology as strong secular outlooks must be weighed against lofty valuations. We balance that near-term concern with long-term optimism for a number of tech-enabled themes such as artificial intelligence, 5G communications, ecommerce, cloud software, digital transformation, and automotive electrification. We are also underweight consumer discretionary, a sector that tends to underperform initially when the Fed starts to tighten monetary policy, and is particularly sensitive to higher energy prices. At the company-specific level, we see attractive risk-reward in a diverse set of companies ranging from those in technology and media, pharmaceuticals and medical devices, industrials and materials, conventional and green energy, and utilities, among others.

Risk considerations: Mid-cap and small-cap stocks may temporarily fall out of favor or perform poorly relative to other types of investments. While stocks of mid-cap companies may be slightly less volatile than those of small-cap companies, they still involve substantial risk.

Real Estate Investment Trusts (REITS) may be affected by economic conditions including credit risk, interest rate risk and other factors that affect property values, rents or occupancies of real estate.

Foreign investments present additional risks due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors. Investments in emerging markets involve even greater risks. Groups of stocks, such as value and growth, go in and out of favor, which may cause certain funds to underperform other equity funds.

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.

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Benchmark Index:

The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The stocks are also members of the Russell 1000 Index.

The S&P 500® Index is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8 percent of the total market capitalization of the Russell 3000® Index.

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Definitions:

Cyclical stocks have prices influenced by macroeconomic changes in the economy and are known for following the economy as it cycles through expansion, peak, recession, and recovery.

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