CARILLON SCOUT MID CAP FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

FIRST QUARTER | 2019

Investment Team

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Characteristics

Total Net Assets (billions) $2.8

Number of holdings: 145

Top 10 Holdings

Arista Networks
Voya Financial
AGNC Investment
ServiceNow
Keysight Technologies
WEC Energy Group
Zebra Technologies
United Rentals
Mid-America Apartment Comm.
Xilinx

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

U.S. mid-cap equities rallied sharply in the first quarter of 2019 following the decline in late 2018, as the Federal Reserve (Fed) swiveled from extreme hawkish to extreme dovish rhetoric in January, the second such 180-degree pivot in policy messaging since August. Remarkably, this 'new' tone was even more dovish than the messaging delivered at the August 2018 Jackson Hole annual Fed meeting, which preceded the Fed's hawkish interest rate rant that started October 3, 2018. This latest change in tone, a reversal from the messaging at the December Federal Reserve meeting, helped to thaw credit markets and propel stocks higher. The Russell Midcap® Index closed the quarter up more than 16 percent, outperforming the large-cap S&P 500® and the small-cap Russell 2000® indices.

Near-term economic conditions weakened considerably due to the Fed's December rate hike combined with unfavorable weather in the first quarter, a government shutdown, and trade uncertainties. Furthermore, the aggressive Fed tone in the fourth quarter had a chilling effect on credit markets, which amplified the weakness. However, we do anticipate a rebound in business activity and corporate earnings as the effects of the shutdown and poor weather diminish over time. We also believe the pause in interest rate hikes and change in language is a game-changer for the equity market outlook in 2019 and possibly into 2020. Long-term interest rates have fallen, which should provide a stimulus to the economy.

Portfolio Review

Best Securities	Average Weight (%)	Security Contribution to Portfolio Return
Arista Networks	2.94	1.33
Keysight Technologies	1.83	0.64
Xilinx	1.54	0.63
Voya Financial	2.44	0.53
Zebra Technologies	1.61	0.46
Worst Securities		
Tenneco	0.47	-0.11
Kirkland Lake Gold	0.24	-0.11
Electronic Arts	0.07	-0.07
Burlington Stores	0.73	-0.07
Take-Two Interactive Software	0.47	-0.06

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, 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.

Arista Networks is a provider of networking solutions for data-centers and computer environments. The stock rallied following a strong earnings report and a constructive outlook as pessimism regarding data center capital spending proved to be misplaced. Arista was our largest position, so therefore had a very positive impact on performance.

Keysight Technologies provides electronic measurement products and services for the wireless telecom, networking, and electronics industries. The company posted another strong quarter in February, as telecom customers around the globe begin rolling out and testing 5G networks.

Xilinx is one of two major designers and marketers of programmable logic devices (PLDs), which are electronic components used for communications, including for 5G wireless networks; medical equipment; computing; aerospace and defense; automotive; and other industrial and consumer applications. The company posted strong earnings in January, boosted by 5G communications spending and increased demand for its newest solutions from automotive, industrial and defense customers. We expect strong growth in data centers as its chips are used in various artificial intelligence use cases.

Voya Financial, the New York-based provider of retirement solutions, investment management, employee benefits, and insurance services, also chipped in with a positive performance. A strong quarterly report was powered by sharper expense controls, pricing actions and share repurchases below tangible book value.

Zebra Technologies rounded out the top contributors as it posted a better-than-expected quarter driven by continued demand for barcode printers, scanners and supplies as well as radio-frequency systems (RFID) readers that help businesses track inventory. The company benefits from market share gains in Android mobile devices for business use.

Tenneco suffered as automotive suppliers became less favored by investors due to trade uncertainties and economic weakness in China, the largest auto market in the world. Also, the company reported a weaker-than-expected quarter subsequent to its merger with Federal-Mogul, another manufacturer of auto parts.

Kirkland Lake Gold, headquartered in Canada and with significant gold mining operations in Canada and Australia, declined on profit-taking and a pause in the gold price rally. The company possesses some of the richest known grades of gold ore reserves at its two largest mines.

Electronic Arts, based in Redwood City, California, underperformed as its latest game, Anthem, received poor reviews, and expectations moved lower for the highly successful Apex Legends free-to-play offering.

Burlington Stores, based in Burlington, New Jersey, declined as the company reported weak sales of women's fashion. The company was underexposed to athleisure wear, which has become more popular. Burlington is addressing the situation but a fix may take a quarter or two.

Video game maker Take-Two Interactive declined as enthusiasm following a successful launch for its new game title, Red Dead Redemption 2, gave way to fears of competition from certain free-to-play titles and issues with rolling out Read Dead Online.

Outlook

Our outlook for U.S. equities has shifted back into the bullish camp due to the dovish shift in Fed policy, and because we do not expect a recession near-term in the United States despite the flattening Treasury yield curve. The tax reform package is expected to boost U.S. GDP growth in 2019, and we are optimistic about the ongoing beneficial effects. The primary positive effects should be increased capital spending in the United States as the return on invested capital rises due to a lower tax rate. Deregulation continues to improve the prospects for economic growth, and potential government-led infrastructure and military spending could add another leg to the expansion, especially since expectations for an infrastructure program are low. Risks of protectionism around the globe remain, although growth in major global economies is expected to improve somewhat as many central banks have started to ease monetary policy. Some argue the damage is already done from mismanaged monetary policy and at minimum earnings will shrink year-over-year, but we disagree. The risk to our outlook is the Federal Reserve removing monetary accommodation too quickly, but since it has paused the interest rate hikes before causing too much damage, and is even talking about an end to quantitative tightening, we see this risk as unlikely. All else equal, the end of quantitative tightening should have the effect of stabilizing volatility in the economy, which is our forecast for 2019 unless the Fed changes course again or inflation picks up meaningfully.

We continue to focus on attractive themes and stock-specific ideas. We are tuned in to changes in consumer behavior, which is more focused on experiences, including travel and entertainment, and are overweight the consumer discretionary sector. We are also overweight the information technology sector and generally favor cyclicals, depending on company-specific factors, due to the new global easing cycle including major stimulus efforts in China, and the latest tone at the Fed. So, we think a more cyclical bent to the portfolio makes sense, even if the U.S. and China fail to reach a meaningful trade agreement. We do hold out some hope that an agreement can be reached, although we remain more skeptical of this than some investors due to the cultural differences between the two nations, and China's emergence as an economic and military rival to the United States. Software and technology companies are prospering, and we are participating in this growth with stocks such as Arista Networks and others, which are leading the shift into corporate cloud computing for various applications including human resources management, financial accounting, IT services, and cloud networking, among other applications.

We remain steadfast in our approach to allocate towards equities that adhere to the quality investment process that has benefited our investors in the past, using what we believe are timeless investment principles to select stocks with sound fundamentals and reasonable valuations, while steering the portfolio away from perceived problems.

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.

only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice.

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

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