Eagle **Insight**

EAGLE | Asset Management
AN AFFILIATE OF CARILLON TOWER ADVISERS

International **ADR**

First Quarter | 2018

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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 fund may invest in small- and mid-cap stocks, which may involve greater risks than investing in larger, more established companies. These companies often have narrow markets and more limited managerial and financial resources.

Market Overview

Global equity markets, as measured by the MSCI World Index, fell during the first quarter of 2018. January's record highs gave way to fear of a trade war, a more hawkish Federal Reserve and the long-awaited return of volatility. A swift mid-quarter retreat in leading technology names rattled investors and motivated many to shift from a "risk-on" to a "risk-off" approach.

Some investors may be concerned that the U.S. economy is nearing the end of the cycle as valuations become increasingly stretched after eight years of growth. That said, economic growth and earnings still appear strong and many surveys of U.S. investors suggest plenty of optimism, even after the recent market correction. Adding to the already complicated picture, the government has enacted substantial fiscal stimulus at a time when the economy is at essentially full employment.

Much of the rest of the world is still early in the recovery timeline. Overall, the International Monetary Foundation (IMF) expects global gross domestic product (GDP) to increase 3.7 percent in 2018 from 3.6 percent in 2017, with each of the world's major economies firmly positive.

One of the main takeaways from the first quarter is that volatility is back. The VIX index (a volatility metric derived from the price of S&P 500 options) had the lowest annual average on record in 2017i. Many investors were caught off guard as strategies designed to capitalize on the long-standing low-volatility environment were part of a violent unwind. Volatility spiked and the VIX ended the quarter at more than double its 2017 average.

Portfolio Review[1,2]

Eagle's International ADR portfolios outperformed (on a gross basis) the benchmark MSCI EAFE Index. Stock selection was the key driver. Overweight positions in information technology (IT) and consumer discretionary also contributed to performance. Stock selection was strongest within financials and consumer discretionary and weakest within industrials and consumer staples. With regard to countries: an underweight position in Australia and an overweight position in Brazil helped performance, while an underweight position in Finland and an overweight position in South Korea hurt performance. Stock selection was strongest in the United Kingdom and Germany and weakest in Japan and France.

Nintendo benefitted from continued strong sales of its newest gaming console, the Nintendo Switch.

Apparel retailer adidas beat earnings expectations and announced a share buyback. A better product mix and sales helped drive higher-than-expected gross margins.

DBS Group is a financial services company based in Singapore. A stronger macro backdrop and rising-interest-rate environment contributed to a re-rating of the share price.

Electronics giant Sony was helped by strong profits in its music division, as well as better-than-expected sales of high-end TVs.

Fanuc is a Japan-based manufacturer of industrial robots. Strong Chinese demand for factory automation equipment and favorable auto industry conditions drove earnings higher than estimated.

China Southern Airlines missed earnings expectations on weak cost control and lower-than-expected passenger revenue.

A slowdown in industry volumes hurt British American Tobacco. The company is also dealing with narrowing margins due to competition with newer technologies.

HSBC, Europe's largest bank, saw higher-than-expected loan impairments (largely attributed to two European companies), which hurt earnings.

Nestle delivered higher-than-expected margins; however, weak organic growth raised questions about future profitability.

ING Groep, a banking and asset management group, saw its share price fall along with its peers as trade war fears weighed on sentiment.

Outlook[1]

Stocks may face hurdles in the short term, even when macroeconomic news is positive.

President Trump significantly shifted U.S. policy by proposing tariffs on steel, aluminum, and Chinese imports. We see this as a dangerous development for global markets as trade wars tend to be stagflationary: simultaneously slowing growth and stimulating inflation. U.S. businesses source roughly 40 percent of their revenues from overseas i so any disruption in global trade could be very damaging. The tariffs that have been proposed thus far on aluminum and steel imports do not look to have large impacts on their own; however, conditions may escalate. An investigation into Chinese intellectual property theft is also a major concern.

In Asia, the tailwinds of global growth and an expanding middle class in the region are outpacing concerns around high debt levels, particularly in China. The risk of a China slow-down remains; however, the recent consolidation of the government and removal of term limits for General Secretary Xi Jinping suggests this risk has mitigated. The Chinese government expects the economic expansion will continue.

Other global political news has been fairly benign. In Germany, a new "grand coalition" government was formed by two mainstream political parties. There was no outright victory for Italy's Five Star populist party but in the short term we see only limited market risk. The ongoing Brexit negotiations between the United Kingdom and the European Union (EU) are moving forward, albeit at a very slow pace. The recent agreement on a 21-month transition period may help smooth the process.

There may be good news out of Washington: we believe the U.S. economy should have a tailwind due to the tax cuts that Americans are just now incorporating into their budgets. We avoided another government shutdown as a new spending bill passed; while its merits can be debated, it should add to near-term economic growth.

The market of 2017 that let negative news just roll off its back now appears to have given way to one that is more sensitive to a variety of issues. But, as we've noted, last year was the exception; this year is closer to the norm. In our view, sell-offs and increased volatility are indicative of a healthier investing environment that could help extend the current growth cycle. Valuations, which were somewhat extended at the end of 2017, have had the chance to consolidate in part due to the market correction and the strength in corporate earnings. Our outlook for 2018 remains positive.

[1] References to specific securities are intended to illustrate the types of securities Eagle may hold in this portfolio. They are not intended as representations of specific investment recommendations that would have been profitable to an investor. Past performance is not a guarantee of future results. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice as are statements of financial-market trends, which are based on

Top 10 Holdings

Royal Dutch Shell
Novartis
Sony
Canon
FANUC
Tencent
BP
Nintendo
Nestle
HSBC

The information provided above 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. 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 composite. They are provided for informational purposes only. Eagle, its affiliates or their respective employees may have a position in the securities listed. Please contact your financial advisor to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall composite's performance during the measurement period.

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	Top Securities	Average Weight (%)	Security Contribution to Portfolio Return	Bottom Securities	Average Weight (%)	Security Contribution to Portfolio Return
International ADR	Nintendo Co., Ltd.	1.61	0.24	China Southern Airlines	0.45	-0.20
	adidas AG	1.22	0.21	British American Tobacco	0.86	-0.17
	DBS Group	1.60	0.18	HSBC	1.96	-0.15
	Sony	2.24	0.14	Nestle	1.90	-0.15
	Fanuc	2.18	0.09	ING Groep	1.71	-0.14

* as of March 31. 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 composite. They are provided for informational purposes only. Eagle, its affiliates or their respective employees may have a position in the securities listed. Please contact your financial advisor to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall composite's performance during the measurement period.

current market conditions. Investing involves risk, including the possible loss of principle.

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[2] Source: FactSet

[i] Source: Reuters

[ii] Source: Bloomberg