Eagle Small Cap Growth & Mid Cap Growth

FIRST QUARTER | 3/31/12

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Small Cap Growth

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Separately Managed Accounts (SMA):
Mid Cap Growth
Small Cap Growth

Mutual Funds:
Mid Cap Growth Fund
Small Cap Growth Fund

SMA Representative Holdings (Small Cap Growth)

Lufkin Industries
Genesco
Vitamin Shoppe
Coherent
Centene
GNC
Triumph Group
Huntsman
BJ's Restaurants
Shuffle Master

Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Contact Eagle at 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

The Russell 2000 Growth (up 13.3 percent) and Russell Midcap Growth (up 14.5 percent) indices reflected solid absolute performance for the first quarter of 2012. Growth-oriented investing led value for the quarter (the Russell 2000 Value was up 11.6 percent while the Russell Midcap Value was up 11.4 percent). With the exception of utilities, all sectors within the Russell 2000 Growth and Russell Midcap Growth indices posted positive returns for the first quarter.

Small Cap Growth Portfolio Review

Eagle Small Cap Growth portfolios outperformed (on a gross basis) the benchmark Russell 2000 Growth Index for the quarter. Our top-performing stocks for the quarter were OYO Geospace, Lufkin Industries and Shuffle Master. OYO Geospace makes seismic instruments used in monitoring oil and natural-gas reserves. The company's new wireless seismic system has met with strong acceptance and is driving earnings growth. Lufkin Industries is a manufacturer of pump jacks utilized in the enhanced oil-recovery process. The firm's artificial-lift segment is expected to see increased applications in part due to the continued rise in the U.S. oil-rig count as well as a favorable pricing environment in oil-based energy. Shuffle Master develops and manufactures technology-based products for the gaming industry. Shuffler and slot-machine revenue growth continue to impress, while the firm is also improving its balance sheet through the reduction of debt.

Every sector within the Small Cap Growth portfolios generated positive absolute returns for the quarter but we lagged benchmark returns in healthcare and slightly in industrials. Our worst-performing stocks were FTI Consulting, Polypore International and Acme Packet. FTI Consulting provides business-advisory services to clients looking to improve or protect their firm's enterprise value. FTI's restructuring-services segment appeared to experience relatively light revenue results in recent periods. However, management is confident revenue levels in this segment have stabilized and also referenced the potential to take advantage of an improving mergers-and-acquisition environment to support firm growth going forward. Polypore is a specialty filtration company that makes separation membranes used in lithium-ion batteries, which have seen significant growth from both consumer electronics and hybrid electric vehicles. The stock underperformed due to concerns about waning sales for the all-electric Chevy Volt, which was the subject of a well-publicized investigation into engine fires that had occurred following crash tests. The investigation has since been resolved and high gasoline prices have helped boost sales of the Volt. Acme Packet is a communications equipment and software firm with a primary focus on real-time communications solutions. Shares encountered some pressure on lighter-than-expected mobile-carrier expenditures, although Acme's prospects to benefit from Voice over Long Term Evolution (VoLTE) network traction appear to us to remain intact.

Mid Cap Growth Portfolio Review

Eagle Mid Cap Growth portfolios outpaced (on a gross basis) the benchmark Russell Midcap Growth Index for the quarter. Our best-performing stocks included Herbalife, Huntsman and Cerner. Herbalife offers a vast range of weight-management and nutritional supplements through a global direct-sales network. The firm's daily-consumption model and geographically diverse revenue base continue to see positive growth as consumers increasingly pursue healthy lifestyles. Huntsman manufactures chemical formulations (e.g., adhesives or coatings) used in the commercial, aerospace and automotive industries. Pricing strength in the firm's pigments segment has allowed Huntsman to take advantage of a recent boost in demand, as prospects for a budding construction recovery begin to come into view. Huntsman also benefits significantly from low natural-gas prices. Cerner supplies healthcare information-technology solutions. The firm's solid positioning in the healthcare information-technology space has allowed it to benefit from the continued shift of the healthcare industry toward electronic health records and other technology-based systems.

Every sector within the Mid Cap Growth portfolios generated positive absolute returns for the quarter but we slightly lagged benchmark returns in the industrials sector. Our worst-performing stocks during the period were Gentex, Cabot Oil & Gas and Onyx Pharmaceuticals. Gentex develops and manufactures automotive and fire-protection products. Standards proposed to mandate the implementation of rear-camera displays (RCDs), one of the firm's core offerings, on new vehicles have been postponed until the end of 2012. Despite this legislative delay, trends in the automotive industry continue to shift toward the use of backup cameras and technology-enhanced mirrors, which is expected to favor Gentex going forward. Cabot Oil & Gas engages in the exploration and production of natural gas and crude oil from properties near the Appalachian and Rocky Mountains as well as the Gulf Coast. With natural-gas production as the firm's more prominent segment, depressed prices have presented modest headwinds of late. Cabot also possesses oil-based drilling projects that have become more active to take advantage of the currently more favorable oil prospects, as the firm looks to offset reduced activity on the natural-gas side.

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Onyx Pharmaceuticals is a biopharmaceutical company with a focus on the development of drug therapies for kidney, blood-based and other forms of cancer. The stock traded down on reduced expectations for accelerated approval of a new multiple myeloma cancer drug.

Outlook

The first-quarter's rally was broad-based with virtually every sector participating. Corrections are likely but historically, the sharp first-quarter rally suggests 2012 will prove to be a strong year for equities. The rally reflected a positive change in most economic data as autos were strong, housing has at least finally bottomed, unemployment is trending modestly down and gross domestic product (GDP) forecasts have been moving modestly higher. Sovereign-debt remains a big long-term issue but some resolution of the Greek situation also helped. We believe the European crisis interrupted a strong bull market that began off the March 2009 bottom. Retail investors stung by the 2008 financial crisis remain, for the most part, on the sidelines but we believe there are signs indicating asset flows into fixed income could reverse as interest rates trend higher. Some of that money likely will flow into the equity market. And as we move closer to the presidential election, government policy should continue to be pro-growth. The possible reversal of the restrictive healthcare law as well as the increasing probability both houses of Congress will go Republican should serve as positive catalysts.

During the first quarter of 2012, energy commodity prices diverged sharply as natural gas and coal plunged while oil prices firmed. Natural-gas inventories reached record levels due to weak demand resulting from extremely mild winter weather and continued growth in supply from shale operations. In response to extremely depressed natural-gas prices, utilities have begun switching away from coal to natural-gas-fired power generation where possible, causing thermal coal inventories to reach multi-year highs. Against this backdrop, we believe both coal and natural gas appear to have begun a bottoming process that could set the stage for a cyclical rally given overwhelmingly negative investor sentiment. We have recently initiated modest positions that would benefit from any upside while limiting our downside risk if we are premature.

In healthcare, we continue to hold companies that offer healthcare information systems to physicians and/or hospitals. We also believe the Medicaid managed-care companies are well-positioned to capitalize on the $50 billion pipeline of potential state contracts that are currently percolating. States realize they can save millions by moving their Medicaid programs from fee-for-service to managed care.

A strong performance driver in technology has been acquisition activity, which not only moves the acquired company's stock sharply higher but tends to raise all ships. The ingredients for continued acquisition activity remain in place. Specific takeovers are hard to predict so we focus on companies that have strong fundamentals and operate in spaces that we believe are likely to see acquisition activity. We continue to focus on growth opportunities such as security and analytics software.

Consumer stocks led the charge in the strong first quarter. We have two themes within our consumer space: health/nutrition and the continued expansion of gaming. The continued expansion of gaming globally is sure to continue, in our view, as states scramble to balance budgets.

Eagle's Small and Mid Cap Growth team is implementing a research coverage shift. Andy Adebonojo, CFA, who joined Eagle in 2011 for additional coverage of certain healthcare industries, will continue to do so as well as add financials – a sector he also covered prior to joining Eagle – to his research area. Jay Daniel, CFA, who covered financials, left Eagle at the end of March to pursue other opportunities. Eagle anticipates this change will not affect the investment process or clients in any way. We have an evergreen mission to ensure our portfolio-management teams have the appropriate resources they need in their efforts to provide clients strong investment results.

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

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SMA Representative Holdings (Mid Cap Growth)

Cerner
Herbalife
Dollar Tree
Ansys
Huntsman
SBA Communications
Sally Beauty Holdings
priceline.com
Ameriprise Financial
CF Industries