Eagle Small Cap Growth & Mid Cap Growth

THIRD QUARTER | 9/30/11

EAGLE | Asset Management

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

Small Cap Growth (SMA) Representative Holdings:

Genesco
Lufkin Industries
Vitamin Shoppe
BJ's Restaurants
Quality Systems
Huron Consulting Group
Sirona Dental Systems
Thoratec
EZCORP
Coherent

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

Pressured by global economic concerns the Russell 2000 Growth Index had one of its worst quarters ever down 22.3 percent during the third quarter, and is now down 15.6 percent on a year-to-date basis. Meanwhile, the Russell Midcap Growth Index was down 19.3 percent during the third quarter, and is now down 11.6 percent on a year-to-date basis. Growth-oriented investing finished slightly behind value for the first time in the last six quarters (the Russell 2000 Value Index was down 21.5 percent and the Russell Midcap Value was down 18.5 percent) but still leads value for the year (the Russell 2000 Value was down 18.5 percent while the Russell Midcap Value was down 13.0 percent).

Small Cap Growth Portfolio Review

Eagle Small Cap Growth portfolios finished in line (on a gross basis) with the benchmark Russell 2000 Growth Index for the quarter. On a relative basis, we outperformed in healthcare and consumer discretionary due to strong stock selection. Our top-performing stocks for the quarter were NetLogic Microsystems, Radiant Systems and BioMarin Pharmaceutical. NetLogic develops high-performance processors and circuits for communications and wireless networks. The firm was acquired by Broadcom during the period at a significant premium. Radiant Systems provides hardware and software solutions to the hospitality, retail and entertainment industries. NCR purchased portfolio holding Radiant at a substantial premium. BioMarin Pharmaceuticals is a developer of drug treatments for rare medical conditions and genetic disorders. The firm is benefiting from the success of products currently on the market as well as a substantial pipeline of drugs that shows promise for other conditions.

We lagged in materials in part because of an overweight posture in the space. Our worst-performing stocks were OYO Geospace, Huntsman and Lufkin Industries. OYO Geospace makes seismic instruments used in monitoring oil and natural-gas reserves. Earnings were strong but the stock traded down due to the sharp decline in oil prices. Huntsman manufactures chemical formulations such as adhesives or coatings used in the aerospace and automotive industries. The stock encountered downward pressure on concerns over global growth forecasts. Lufkin produces pump jacks used in enhanced oil recovery. The firm is experiencing pricing pressure on margins from a competitor in addition to a close correlation with the energy sector and its associated pullback.

Mid Cap Growth Portfolio Review

Eagle Mid Cap Growth portfolios finished behind the benchmark Russell Midcap Growth Index. We trailed in consumer discretionary and industrials due in part to stock selection. Our worst-performing stocks included Sotheby's, Walter Energy and Huntsman. Sotheby's operates auction houses dealing fine art, antiques and other collectibles. An increasingly competitive auction environment has put some pressure on Sotheby's margins, although the fine-art market is showing signs of resiliency as investors look for alternative safe havens from an uncertain monetary environment. Walter Energy is a producer of metallurgical coal used in steel production. The firm is seeing some hangover in operational performance due to weather-related events in the previous quarter as well as a slower-than-expected export-facility upgrade in Canada. Huntsman manufactures chemical formulations such as adhesives or coatings used in the aerospace and automotive industries. The stock encountered downward pressure on concerns over global growth forecasts.

On a relative basis, we outperformed in healthcare and telecommunication services through strong stock selection. Our top-performing stocks were Cerner, Dollar Tree and Church & Dwight. Cerner, a provider of healthcare information technology solutions, is well-aligned with the federal HITECH Act and is expected to see continued growth given the legislation's focus on electronic health-records security. Church & Dwight is a manufacturer of various household, personal-care and specialty products. The stock has done well largely due to the success of its value brands, which represent a significant portion of the firm's revenue.

Outlook

The market was hit in the third quarter by a triple play that began with lower estimates of domestic growth, followed by the financial crisis in Europe and, most recently, growth forecasts slowing in China. We believe the lower estimates in domestic growth and associated financial issues already have been discounted in the current pricing environment. It is too early to handicap the extent of the slowdown in China and its effect on global markets but we believe equity markets should do well from current levels. Valuations are very attractive, lower gasoline prices are a positive, interest rates will remain at historic low levels and pessimism is rampant.

Our outlook for the energy sector has been tempered by mounting evidence of slowing economic growth in both developed and emerging economies. Oil prices appear biased to the downside in the near-term as demand concerns dominate market sentiment but we believe the favorable supply dynamics should provide a supportive force in the oil markets. Specifically, we believe Libya will struggle to restore its oil production back to prior levels and OPEC nations will be vigilant in cutting production to defend prices at current levels, which are needed to finance the generous social programs announced to quell social unrest during the Arab Spring.

In the industrials and materials sectors, we are focused on specific end markets we believe will grow even in a weakening economic environment. The long-awaited first delivery of Boeing's 787 wide-body airplane has set the stage for the most ambitious growth in commercial aerospace history. Specifically, Boeing is seeking to raise its current monthly production rate from 2.5 planes per month to 10 planes per month by year end 2013. Against this backdrop, we believe suppliers with significant content on the plane will report a sharp acceleration in earnings growth in the coming quarters. Titanium producers also should benefit.

Most financial-services companies are operating in an environment that currently is less conducive to rapid earnings growth than what otherwise might have been hoped for earlier this calendar year. Due to recent equity market volatility, capital-markets transaction volumes have dropped off in areas such as mergers and acquisitions and initial public offerings, which are high-margin businesses. Regulatory reforms have increased compliance costs for many companies and limited the fees that certain financial firms can charge their clients. Concerns over the state of the U.S. economy and the debt dilemma facing countries and banks in Europe make it seem unlikely that the operating environment for domestic financial-services companies will improve in the near term. Pawn shop companies should thrive in the current economic environment.

Myriad market and governmental forces are changing the healthcare industry and its defensive characteristics. Those forces include healthcare reform, a reluctance to approve new drugs and devices by the U.S. Food and Drug Administration, sluggish utilization of healthcare resources by patients due to the economy and constant pressure on profit margins. Business trends have been accelerating for those vendors that can offer a certified electronic health record to the physician and hospital markets. Additionally, healthcare reform looks to offer healthcare coverage to everyone but partially offset the costs of covering these additional individuals by reducing reimbursement to providers. Many of these otherwise uninsured individuals will be covered under state Medicaid programs beginning in 2014. Those companies that provide Medicaid managed-care services to states stand to be big winners as many states convert their Medicaid programs from fee-for-service to managed care. In the mid-cap space, we also continue to be bullish on the generic-drugs supply chain. The wave of patent expirations is expected to create tremendous opportunities for accelerating profits among firms involved in those pharmaceuticals.

In the technology sector, we continue to be cautious on the global macro-economy, due primarily to pockets of weakness within the United States, Europe and China. However, many of our companies are still seeing good demand for their products, which often help customers reduce costs, make their businesses more efficient and increase revenue. In other cases, such as with security software, demand should stay resilient as these products can be somewhat non-discretionary. Stocks have pulled back a great deal in the past quarter and much of the broad economic weakness already may be priced in. As such, we are increasing the position sizes of our favorite names that have sagged recently and may increase our cyclical exposure during this next quarter.

Our consumer stocks have fared well considering the aforementioned economic woes. Genesco, currently our largest position, continues to thrive in a challenging economic environment. We will continue to reduce our consumer exposure, particularly on market rallies, given continued high unemployment.

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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Mid Cap Growth SMA Representative Holdings

Cerner
Herbalife
Dollar Tree
Titanium Metals
AmerisourceBergen
Ansys
SXC Health Solutions
Gentex
SBA Communications
Sally Beauty Holdings

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