EAGLE SMALL CAP GROWTH & MID CAP GROWTH

Fourth Quarter 2010

EAGLE | Asset Management

Small Cap Growth

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Small Cap Growth SMA Representative Holdings

Lufkin Industries

Rovi

Informatica

Genesco

OYO Geospace

Huntsman

Riverbed

DTS

Ansys

TIBCO Software

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Market Overview | The Russell 2000 Growth and Russell Midcap Growth indices were both up (17.1 percent and 14.1 percent respectively) during the fourth quarter, with growth outperforming value (the Russell 2000 Value Index finished up 15.4 percent while the Russell Midcap Value Index was up 12.2 percent). All sectors in the benchmarks posted positive returns for the second consecutive quarter.

Small Cap Growth Portfolio Review | Small Cap Growth portfolios outperformed the benchmark Russell 2000 Growth Index for the quarter. Portfolios had very strong absolute and relative returns in consumer discretionary, energy and information technology. The top three stocks for the quarter were Lufkin Industries, OYO Geospace and Riverbed Technology. Lufkin manufactures pump jacks with a focus on products with enhanced oil recovery. The stock has benefited from strong oil prices and an increase in the number of active drilling rigs. OYO Geospace makes seismic equipment used by oil companies. The company announced strong earnings and several substantial new contracts for its latest wireless technology. Riverbed, which sells hardware and software appliances that help reduce network-bandwidth costs, is seeing very high growth rates with an exceptionally strong competitive position.

We had positive absolute returns across all sectors; however, healthcare was our most significant underperforming sector on a relative basis. We also lagged slightly in industrials. Our worst-performing stocks during the quarter were Thoratec, Dean Foods and Titanium Metals. Shares of Thoratec, the pioneer in left-ventricular-assist devices (LVADs), traded off when a competitor released clinical data that suggested a slightly better adverse-event profile than Thoratec's device. We believe the resulting downward movement in the value of Thoratec's shares was an overreaction as the LVAD market, in our view, can grow large enough to support more than one competitor. We believe Thoratec likely will remain the leader in a market that could reach $3 billion to $5 billion over the next five to 10 years. We had expected Dean Foods, the largest U.S. processor and distributor of milk, to improve profitability; however, this turnaround has yet to materialize. The company's cost structure is highly sensitive to dairy prices, and milk prices have remained extremely competitive. We sold the stock. Titanium Metals traded down a bit, likely due to further setbacks in test flights for the titanium-intensive Boeing 787. Continued delays in the program are frustrating but Boeing has a firm backlog of more than 800 planes that will eventually be built. Additionally, the chairman of Titanium Metals recently made several significant purchases of stock in the open market that reinforces our conviction in the long-term prospects for the company.

Mid Cap Growth Portfolio Review | Our portfolios significantly outperformed the benchmark Russell Midcap Growth Index for the quarter. Portfolios had very strong absolute and relative returns in consumer discretionary, materials and information technology. The top three stocks for the quarter were Las Vegas Sands, CF Industries and Freeport-McMoRan Copper & Gold. Las Vegas Sands, which owns and operates casino hotels, recently opened a resort in Singapore that has had significantly better-than-expected results. CF Industries makes fertilizers. Grain prices moved higher in the fourth quarter as dry weather in South America lowered expectations for the soybean crop, which should further tighten global supplies. Freeport did well as copper prices surged 33 percent in 2010 on concerns that supply will fall well short of demand in a stronger global economy.

We had positive absolute returns across all sectors except consumer staples, a relatively small component of the index where we have an underweight posture. Our worst-performing individual stocks during the quarter were Thoratec (see above), McMoRan Exploration and Avon Products. McMoRan Exploration (no current relation to Freeport-McMoRan Copper & Gold above) is an oil and gas producer in and around the Gulf of Mexico. The company recently raised capital to fully fund its drilling activity through 2011; however, management since then has tempered expectations when it announced the company's most promising prospect has water in the well, which will complicate extraction. Avon is a multilevel marketing company. It was speculated that the company could be the target of an acquisition. The stock traded off when this failed to materialize.

Mid 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

Mid Cap Growth SMA Representative Holdings

Rovi

CF Industries

Kansas City Southern

AGCO

Coach

Chicago Bridge & Iron

Mylan

ARM Holdings

Ameriprise Financial

Cummins

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Outlook | Small- and mid-cap equities continued the sharp rally that began in late August, broadly reflecting a surge in takeover activity; a rebound from overly pessimistic sentiment earlier in the year; and a capitulation by the Obama administration on effective tax increases. Notably, the rally seemed to begin following the Federal Reserve's announcement of a second round of quantitative easing (QEII). We believe the positive benefit to the stock market was an intended consequence of the Fed's decision. With interest rates already so low, the Fed may believe pushing people out on the risk curve and bringing money back into the equity markets could lead to improved consumer net worth and confidence.

Corporate America remains flush with cash; the bar for economic growth has been reset at lower levels; and investor sentiment remains generally pessimistic. With that said, a short-term correction – particularly in small caps – would not surprise us given the strength of the rally. However, we have no reason to believe most major indices won't show solid gains for the full year.

Our overweight position in energy reflects our positive view on the sector as well as our recent strong stock selection that effectively boosted weightings. Within the sector, we maintain our positive bias toward oil vs. natural gas, which remains oversupplied as the industry has fallen victim of its success in exploiting unconventional reservoirs to boost production. Within the industrials and materials sectors, we continue to favor companies with exposure to aerospace and agriculture markets.

In the technology sector, we are cautiously optimistic that the macroeconomic recovery will continue. However, we do expect stock price volatility to increase due to global economic concerns and more difficult year-over-year comparisons. We continue to focus on secular growth themes including: "cloud computing" (on-demand applications and infrastructure delivered over the internet); increased workforce mobility (via smartphones and tablets); security software; and more sophisticated network-hardware appliance and software-management tools to cope with increasing amounts of data and video traffic.

Given a difficult backdrop of lower healthcare-utilization growth, we have a modest underweight in the group. However, we still believe there are several areas within healthcare that should show better-than-expected growth as we move into the first quarter of 2011, such as healthcare IT companies with unique medical technologies that provide cost-effective solutions to unmet medical needs. In financial services, we are currently biased toward names that have strong balance sheets; a history of operational competence; and/or a positive demand outlook.

Mature consumer stocks generally generate high levels of free cash flow, making them attractive targets for leveraged buyouts. High-end hotels are beginning to see increased occupancy and pricing. Casual restaurants are seeing higher traffic due to a shrinking industry as well as modest improvements in consumer confidence. Also, continued expansion of gaming argues for strong performance for the group.

Lastly, Eagle Asset Management and Portfolio Manager Bert Boksen are very pleased to announce that Eric Mintz, CFA, has been appointed co-manager of our Small Cap Growth and Mid Cap Growth strategies. Eric joined Eagle in 2005 as a special situations analyst. He has capitalized on his 16 years of investment experience, making very positive contributions in energy, materials and industrials, which he continues to cover as well as other areas. Bert named Eric assistant portfolio manager in 2008 based on his strong alpha generation and passion for investing. Our very strong performance over the past five years is a testament to his contribution to the team. This promotion represents a natural evolution of Eric's role and an organizational strengthening. It does not reflect a change to our investment process or portfolio leadership.

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.