

Eagle Small Cap Growth & Mid Cap Growth

First Quarter | 3/31/11

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:

Lufkin Industries
Informatica
Huntsman
Varian Semiconductor
Genesco
Riverbed Technology
OYO Geospace
Sotheby's
BJ's Restaurants
Ansys

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 posted its best first-quarter return in five years (up 9.2 percent) while the Russell Midcap Growth Index posted its best first-quarter return in more than a decade (up 7.9 percent). Both were up based on solid earnings and generally better-than-expected economic data. We also saw very strong fund flows into small-cap funds (including exchange-traded funds, or ETFs).

Growth finished the quarter ahead of value (the Russell 2000 Value was up 6.6 percent while the Russell Midcap Value was up 7.4 percent), due in large part to a higher relative exposure to information technology, which did well, and a lower relative exposure to financials, which lagged.

All sectors in the Russell 2000 Growth Index finished the quarter in positive territory, while energy, information technology and materials up most significantly while consumer discretionary, consumer staples and healthcare posting a somewhat weaker showing.

In the Russell Midcap Growth Index, all sectors but telecommunications, one of the smallest, finished the quarter in positive territory with energy, consumer staples and healthcare up most significantly. Information technology, consumer discretionary and industrials posted somewhat weaker showings.

Small Cap Growth Portfolio Review

Eagle Small Cap Growth portfolios had solid absolute returns for the quarter but slightly underperformed the benchmark Russell 2000 Growth Index.

We had positive absolute returns across all sectors but we lagged on a relative basis in industrials and technology. Our worst-performing stocks were Monster Worldwide, MedAssets and Meritor. Monster Worldwide provides online recruitment services. The company recently missed earnings expectations and reduced guidance but we believe the stock is oversold at current levels. MedAssets provides software solutions that help hospitals and health systems improve their operating margins by lowering supply costs and increasing revenue capture. The company's consulting services division has grown so quickly that it did not have the infrastructure in place to deliver on targets that would have earned it certain bonuses. However, management

has taken actions to slow the growth of this business until it has the proper infrastructure in place. Like Monster, we believe the stock is oversold. Meritor is a supplier of automotive components, including drive trains used in commercial trucking. The trucking cycle is picking up steam, which we believe will create strong long-term growth opportunities; however, profitability in the short-term has not increased as quickly as we would like due to increasing steel prices. There is a lag between when steel prices increase and when the company can pass those costs through to customers but we believe the situation will soon work itself out.

We outperformed the index in energy and healthcare. Our top-performing stocks were Lufkin Industries, TIBCO Software and Varian Semiconductor. Lufkin makes pump jacks used in enhanced oil recovery. The stock continues to benefit from strong oil prices and an increase in the number of active drilling rigs. TIBCO, a provider of enterprise middleware software, has delivered solid execution as demand for its middleware, business-process-management and predictive-analytics software has remained robust. Varian Semiconductors, an equipment supplier to semiconductor manufacturers, is benefitting from a favorable semiconductor capital-equipment spending environment and is also seeing bright prospects for its new solar business, whereby Varian equipment improves cell efficiency and lowers its solar customers' manufacturing costs.

Mid Cap Growth Portfolio Review

Eagle Mid Cap Growth portfolios lagged the benchmark Russell Midcap Growth Index for the quarter.

Like the index, we had positive absolute returns across all sectors except telecommunications. Also, we trailed the index in information technology and materials. Our worst-performing stocks were Dolby Labs, NVIDIA and Carnival. Dolby Labs develops audio and surround-sound technologies. The stock traded down after the company revised downward its full-year earning guidance to reflect slower growth in the personal computer (PC) market. We sold the stock. Chip designer NVIDIA produces a processor that goes in tablet PCs. The stock traded down somewhat on speculation there could be a supply glut of the processors. However, we believe the stock is attractively valued at current prices. Carnival shares traded lower due to increasing fuel costs.

Portfolios had very strong absolute and relative returns in industrials, energy and healthcare. Our top-performing stocks were ARM Holdings, Chicago Bridge & Iron and Continental Resources. ARM Holdings, a beneficiary of smartphone and tablet adoption, announced that a future version of the Windows operating system will run on ARM-based processors, enabling the company to expand its market to include Windows-based tablets and potentially servers, notebooks and desktop PCs. Chicago Bridge & Iron is an engineering and construction firm with significant exposure to liquefied natural gas. Increase in the stock price is correlated to the rising price of oil. In addition, we believe the recent nuclear power issues in Japan may cause Japan to increase use of natural gas in power generation, which could ultimately benefit the company. Continental Resources is an oil and gas producer and the largest acreage owner in the Bakken shale region. This stock has also benefited from rising oil prices.

Eagle is increasing the range of the number of holdings in the Mid Cap Growth portfolio from 50 to 70 stocks to 60 to 80 stocks. This slight change is designed to increase our flexibility and will not affect our investment process.

Outlook

The prospects of economic recovery appear to be on firmer footing and based more on corporations spending to meet last quarter's demand rather than anticipatory spending driven by rosy forecasting. Job growth is gradually improving. Average weekly work-hours have almost made their way back to pre-recession levels. With this slack gone, additional productivity needs should translate into new jobs. However, inflationary pressures reflecting continued massive federal budget deficits and their upward pressure on interest rates bear close scrutiny.

With the economy improving, interest rates still near historic lows, an accommodative Federal Reserve, benign political pressure until the 2012 election, positive fund flows as investors reenter equity markets, and still reasonable valuations, we believe the rally should continue. Small- and mid-cap valuations have become more expensive relative to large caps but we believe both size segments should show solid gains for the full year.

We remain overweight the energy sector with a continued strong bias toward oil over natural gas. The escalating unrest in the Middle East has significantly exacerbated the extremely tight supply/demand balance in the oil market. Against this backdrop of tight supply, we expect oil prices to remain robust for the foreseeable future and expect our oil-levered holdings to continue to perform well.

Within the industrials sector, we favor stocks with exposure to commercial truck and aerospace cycles. After three challenging years, the recovery in the commercial truck industry is well under way. We believe the backlog of planes at both Airbus and Boeing bode well for the suppliers of original equipment used in the construction of new aircraft.

In the technology sector, business spending has remained robust and we believe it is likely that the cyclical recovery will continue. We remain cognizant of the possibility that potentially rising oil prices and other macroeconomic forces may curtail consumer sentiment and spending in the space, and businesses may delay technology investments if there is a perception of negative sentiment ahead. We are focused on stocks that have secular rather than cyclical growth drivers.

In the healthcare space, we continue to find opportunities despite the challenges of sluggish utilization trends; pricing and margin pressures; and the unpredictability of government action. To do so, we look to areas where the government has created a tailwind, such as incentive payments for physicians who adopt electronic medical records.

In the consumer space, we believe year-over-year earnings comparisons will become a higher hurdle toward the back half of 2011, and higher energy prices and interest rates could start to put pressure on consumer spending. We are selectively decreasing our weightings in the group to address our concerns.

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.

Mid Cap Growth

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Mid Cap Growth SMA Representative Holdings

Chicago Bridge & Iron

Mylan

Ameriprise Financial

Citrix Systems

Cerner

Cummins

Ansys

Gentex

Continental Resources

AmerisourceBergen

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