INVESTOR'S BUSINESS DAILY

WEDNESDAY, JULY 6, 2011

MUTUAL FUND QUARTERLY

Tech Helps Eagle Fund Soar

FUND MANAGER Q&A

BY PAUL KATZEFF
INVESTOR'S BUSINESS DAILY

Eagle Small Cap Growth's Bert Boksen, left, and Eric Mintz have done well with retailer Genesco and eatery chain BJ's Restaurants.

Better than most funds, Eagle Small Cap Growth[HRSCX] has put an ugly experience — the 2010 market pullback from late April through late August — in its rearview mirror.

The $1.1 billion Eagle portfolio gained 12.86% for the year through June 30 vs. 9.36% for its small-cap growth peer group and 6.83% for the S&P 500.

The fund has done that with heavy doses of technology and consumer cyclical stocks, its biggest sectors.

Manager Bert Boksen, age 63, and co-manager Eric Mintz, 38, talked shop with IBD from their offices in St. Petersburg, Fla.

IBD: *You are bottom-up investors. Yet sector weights show where you expect to find winners. Why do you expect to find the most opportunities in tech and consumer cyclicals?*

Boksen: We've had tremendous success in cyclicals, and that increases weightings.

One of our biggest positions is retailer **Genesco**[GCO]. That was up about 12% on June 23. It hit new highs (that day and in subsequent trading) on recent acquisitions (like Schuh Group) and terrific earnings. We've also done well on some restaurant stocks. **BJ's Restaurants**[BJRI] in particular.

IBD:*What do you like about that restaurant chain?*

Boksen: They have a nice menu for casual diners. And in that casual dining space, there have been a lot of closures. There's a vacuum. Their three-year growth rate is above 15% annually. They should be able to do at least 15% for each of the next three years.

IBD: *Are you concerned that slower GDP growth will slow consumer spending?*

Boksen: One thing about consumer cyclicals is that it's a stock-picker's sector. But it has crept up on us. Probably going forward we're not going to be wildly bullish. We will probably cut our exposure.

IBD: *Eric, if tech is your bailiwick, what has driven it?*

Mintz: Many have some of the highest growth rates in the portfolio. Many of those companies have great exposure into faster-growing emerging markets. And some are stock-specific stories, where a company is taking market share from slower competitors.

We've also done well on takeouts.

Riverbed[RVBD] has done very well competing with **Cisco**[CSCO].

IBD: *Even after pulling back from its early March peak, Riverbed has more than doubled in the past 12 months. But what about that sell-off?*

Mintz: Riverbed has entered a consolidation phase. Its multiples caught up with its share price. But earnings in its latest quarter were quite strong. We think there's a lot of gas left in their tank. Long term, things look solid even though the valuation got ahead of itself.

IBD: *You mentioned takeouts. Last September you noted that large caps were flush with cash. They would use that to buy up small- and midcaps. Is that trend continuing?*

Boksen: At least as much now, probably more so. Recently, we had **EMS Technologies**[ELMG] taken over. **Varian**[VSEA] is a nice takeover by **Applied Materials**[AMAT].

I want stocks with potential strategic value to someone else. And takeovers are still happening. Interest rates are low. Private equity investors are flush with cash. Corporations have cash. And the economy still has low growth. Takeovers are a way to show growth.

IBD: *How do you run this fund overall?*

Boksen: Basically, we buy accelerating or rapidly growing companies. We try to do it at good prices. We try to find inefficiencies in the small-cap market. And we diversify to reduce risk.

IBD: *Have you altered your tactics in the recent correction?*

Boksen: We haven't changed. We see slowing economic growth as a reflection of the situation in Japan and the overall growth forecast getting ahead of itself.

IBD: *Oil has come down. Do you expect that to fuel GDP growth?*

Boksen: With the election cycle in 2012, the government will continue to stimulate the economy as best they can. Unemployment will be a key issue in the election.

Any measures the government takes to address the deficit will be pushed back to after the election.

IBD: *You've got about 6% of your money at work in energy stocks. What's your outlook?*

Boksen: We did well late last year, early this year. **Lufkin Industries**[LUFK] did terrific. **Brigham Exploration**[BEXP] did well but has pulled back.

We would never get out of it. We went into this year a little overweight. We could move to an even weight.

There will be a global effort to keep oil prices in a reasonable range through the election.

IBD: *Earnings per share at Deckers Outdoor*[DECK] *went to 7% from 30% the past quarter. Is this stock already showing signs of a consumer spending pullback?*

Boksen: Accounting issues in the U.K. pushed back (certain product shipments and) earnings to the next quarter. We think those problems are behind them.

The stock is not expensive and is showing growth. It's trading in the mid-80s. Earnings per share should grow to about $4.60 this year and $5.40 next year from $4.03 last year.

They're starting to sell Ugg Boots to men. We like it.

IBD: *Herbalife*[HLF] *has doubled in the past 12 months. You've added to your stake in recent months. What do you like?*

Boksen: They're growing rapidly in China. It's a multilevel marketing concept. You market to your friends.

If someone in China can pick up an extra $3,000 or $5,000 a year, it's a big deal. We expect that China growth to continue.

IBD: *Informatica's*[INFA] *pretax margin has grown in each of the past six years. It recently bounced off its 10-week moving average. What's your thesis here?*

Mintz: It's a cloud-computing play, which looks like a takeover candidate. Their software helps customers mine their data, understand what they're looking at in an easier format. They have different business lines, but they all involve cloud computing.

IBD: *Veeco Instruments*[VECO] *EPS and sales growth have slowed for three quarters. The stock plunged off its late-May high and bounced off its 40-week line. What do you like here?*

Mintz: They make equipment used in the manufacture of LEDs, light-emitting diodes (and for solar panels and hard drives). It's a very intriguing market. It's effectively a duopoly between Veeco and **Aixtron**[AIXG].

Veeco has great penetration in China, where LEDs are used increasingly for lighting. They have more China share than Aixtron.

And it's a market that Applied Materials has an interest in getting into. So Applied Materials should be looking at acquiring something like Veeco.

IBD: *Quality Systems*[QSII] *is a play on automation of medical offices and digitization of medical records, isn't it?*

Boksen: Information IT is a part of health care that we like a lot. Quality Systems was an early entrant in automating doctors' offices.

Over the next two years, earnings should accelerate sharply as incentives for digitization from the (2009 federal economic) stimulus bill start to kick in. Ultimately, this company will be acquired.

IBD: *Bert, how do you and Eric divide the fund's workload?*

Boksen: I watch the consumer space and work closely with our health care analyst and financial services analyst. Eric covers energy, materials, industrials and works closely with tech.

Investor's Business Daily **www.investors.com** © Copyright 2011

As of June 30, 2011 the average annual total returns of the Eagle Small Cap Growth Fund Class A shares, including sales charge, were: one year, 46.49%; three years, 10.74%; five years, 8.17%; 10 years, 7.86%; and since inception (Aug. 6, 1998), 10.36%. The expense ratio for class A shares is 1.31%.

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance at offer reflects a front-end sales charge of 4.75 percent for Class A shares. Performance data quoted reflects reinvested dividends and capital gains. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 800.421.4184 or visiting eagleasset.com.

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.

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. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply. Growth companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns.

Fund holdings, sector and portfolio composition may change and are not recommendations to buy or sell.

EAGLE | Asset Management

880 Carillon Parkway | St. Petersburg, FL 33716 | 727.567.8143 | 800.421.4184 | eagleasset.com

Eagle Fund Distributors, Inc., Member FINRA