

Eagle Growth & Income Fund

FIRST QUARTER | 3/31/12

Management

Ed Cowart, CFA

Managing Director and
Portfolio Co-manager

David Blount, CFA, CPA

Portfolio Co-manager

John Pandtle, CFA

Portfolio Co-manager

Characteristics

Total Net Assets (millions) \$305.3
Number of holdings 38

Top Holdings

JPMorgan Chase
ExxonMobil
Chevron
Abbott Laboratories
Emerson Electric
Tyco International
General Mills
3M
Home Depot
PNC Financial Services

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 S&P 500 Index continued the rally that began in fourth quarter of 2011 to post a 12.6 percent return in the first quarter of 2012. Sectors that typify the “risk-on” trade – including the beaten-down financials sector, the usually volatile technology sector and the somewhat unpredictable consumer discretionary sector – led the rally. Forgotten were those stocks in the boring, “risk-off” category, such as utilities, telecommunications and consumer staples.

Market participants were encouraged by continuing stabilization in European sovereign-bond markets. The controlled default of Greece removed some of the risk overhang in Europe. In the United States, investors were encouraged by the ongoing healing of the banking system as evidenced by the Federal Reserve’s latest round of stress tests.

Although there were a few exceptions, the Fed’s study showed that banks are back on sound footing. Investors are clearly feeling better about the prospects for the market with volatility down 66 percent since October 2011.

Portfolio Review

The Growth & Income Fund trailed the S&P 500 Index in the first quarter. This is pretty typical in bull markets when the aforementioned “risk-on” stocks have solid runs. Close examination of our strategy’s performance vs. that of the S&P 500 shows why our strategy typically trails in these kinds of markets.

First, the information technology sector was the second-strongest-performing sector in the S&P 500. Generally, we have had little to no direct participation in this sector, which features cyclical stocks whose cash-flow profiles do not necessarily support high and consistent dividend payments, increases and managerial commitment.

Next, the dividend-yield trend we noted a quarter ago (i.e., the market favored high

dividends), reversed itself in the first quarter. Stocks that began the quarter with a dividend yield higher than that of the S&P 500 Index’s weighted-average yield performed about half as well as stocks with below-S&P yield, and about one-third as well as stocks with no dividend at all. For a dividend-focused strategy such as ours, this was a near-impossible headwind to overcome. More than 90 percent of our underperformance vs. the S&P 500 is attributed directly to our dividend-yield positioning relative to the benchmark.

Portfolio Transactions

We sold shares of Verizon as the company had reached our price target. We still believe Verizon is a high-quality company with a vibrant future; however, we believe that at its current valuation, there are other opportunities with better upside potential.

During the quarter we purchased shares of Total Petroleum and PNC Financial Services. Total had been a disappointing international oil producer for years due to the structure of its production agreements with different African countries. The company was not able to increase its production like some of its competitors when oil prices rose. Recently, the company has reset some of its production agreements, and it has diversified its portfolio a little more. The company has a high and consistent dividend yield, and a tradition of returning shareholder wealth through dividends. We believe Total’s liquid natural gas (LNG) assets are attractive as LNG becomes a more viable alternative to nuclear and other sources of energy that are falling out of favor on the Pacific Rim and elsewhere. PNC Financial Services Group is one of the highest-quality U.S. banks based on superior capital levels, profitability and credit quality and yet it trades at a meaningful discount to its peers. The U.S. banking industry will be more dependent on revenue growth to drive earnings growth with the credit-recovery story losing steam. Based on recent and pending

bank acquisitions, as well as PNC's minority ownership stake in BlackRock, we believe PNC is positioned to deliver superior revenue growth vs. its peers over the next couple of years. The company's dividend yield and the potential for dividend growth over the next year are also attractive to us.

Outlook

Many sectors of the economy are showing signs of gaining momentum. Automobile sales have climbed to a new recovery high, albeit still below normalized pre-crisis levels. That has led to forecasts of vehicle production to be up 30 percent in the second quarter. Housing prices may not have turned the corner yet but we are seeing increasing signs of purchase interest from investors and foreigners. This is a very positive development, as any effort to soak up excess housing inventory will go a long way to stabilizing what is for most consumers their largest asset. The employment picture is also looking a little better as new filings for jobless claims dropped to the lowest levels since April 2008 and the University of Michigan jobs surveys have hit a new high.

There remain some headwinds. The second quarters of the past two years have not been kind to investors. In both years, the notion of a double-dip recession reared its ugly head. This year may be no different. Current worries that could lead to recession include increasing gasoline and food inflation, the end of the Fed's "Operation Twist," upcoming presidential and

congressional elections, year-end expiration of certain tax cuts, ongoing eurozone sovereign-debt pressures and accelerating U.S. fiscal deficits and debt. We believe those risks will continue to keep a lid on the stock market.

Despite the market's solid first-quarter performance, we continue to believe there is an on-going valuation case to be made for U.S. equities. One metric that we follow is the ratio of the S&P 500 price index to corporate after-tax profits. Corporate profits have rebounded dramatically from the recent financial crisis but this ratio is currently at historically low levels. In fact, the last time we experienced a ratio this low was the high inflation and soaring interest-rate environment of the late 1970s.

We are not Pollyannas: We realize it is very unlikely for the market to increase in price unimpeded. That is why we still believe that being invested in high-quality, cash-flow-producing, dividend-paying stocks will help cushion downside risk and produce superior returns with lower volatility over the long haul.

Because the fund normally will hold a focused portfolio of stocks of fewer companies than many other diversified funds, the increase or decrease of the value of a single stock may have a greater impact on the fund's net asset value and total return. As with all equity investing, there is the risk that an unexpected change in the market or within the company itself may have an adverse effect on its stock. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Eagle Growth & Income

Past performance is not indicative of future results and investing involves risk, including the risk of loss. All information as of March 31, 2012. Opinions expressed are the current opinions as of the date appearing in this material only. This material should not be construed as research or investment advice. No part of this material may, without Eagle Asset Management's prior written consent, be copied, photocopied or duplicated in any form, by any means.

The information provided should not be construed as a recommendation to buy, sell or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice.

Benchmark Index
The Standard & Poor's 500 Index (S&P 500) is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

EFD-0412-891 Exp. 7/31/12