

# Eagle Investment Grade Bond Fund

FIRST QUARTER | 3/31/12

---

## Management

### James Camp, CFA

Managing Director  
and Portfolio Co-manager

### Joseph Jackson, CFA

Portfolio Co-manager

## Characteristics

Total Net Assets (millions) \$126.1  
Number of holdings 99

## Top Holdings

USTN 9/30/16  
USTN 2% 4/30/16  
USTN 2.375% 7/31/17  
TVA 5.5% 7/18/17  
AID-Egypt 4.45% 9/15/15  
USTN 1.25% 8/31/15  
Private Export Funding 2.25%  
12/15/17  
Adobe Systems 3.25% 2/1/15  
Celgene 2.45% 10/15/15  
Anheuser-Busch InBev Worldwide  
FRN 1.20365% 3/26/13

---

*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 bond market in aggregate was modestly positive in the first quarter, despite the first meaningful shift higher in interest rates since the third quarter of 2010. As measured by the Barclays Capital U.S. Aggregate Index, the bond market earned 0.30 percent for the quarter. We noted last quarter, “The Long U.S. Treasury bond now has outperformed stocks (as measured by the S&P 500) at essentially every interval from one to 30 years. We like to highlight this development but we stress it is hard to see this trend continuing in perpetuity.” It certainly did not take long for that trend to reverse.

As interest rates moved higher across the yield curve, longer bonds underperformed those of earlier maturities. The Barclays Capital Long U.S. Treasury Index lost 5.8 percent during the period and Treasuries in general (as measured by the Barclays Capital U.S. Treasury Index) fell 1.29 percent. Two main factors were responsible for the market movement in the quarter: Europe and the domestic economy. The details of a \$100 billion Greek-debt swap were agreed upon. The debt swap is not by any stretch a panacea but it should achieve the near-term objective of solvency. Locally, U.S. economic releases showed positive momentum on several fronts. However, there are those with suspicions that the unusually warm winter biased the releases higher. Still, both of those factors allowed the market to move through the first quarter with a little less nervousness than we have experienced in recent years. Moving to corporate debt, financials outperformed industrials and utilities in both total and excess returns. Government-related issues underperformed Treasuries by 1.88 percent. Securitized-products returns were positive across the sector with commercial mortgage-backed securities (CMBS) leading the way, followed by asset-

backed securities and agency mortgage-back securities (MBS).

## The Federal Reserve and inflation

The Federal Reserve maintained its target of 0 percent to 0.25 percent for its benchmark short-term interest rate during the quarter. Further, it extended its prediction of near-zero rates from mid-2013 to late 2014. The move came as the Fed unveiled a more comprehensive communication policy that it hopes will provide more policy transparency to market participants. The Fed is including in its communications: post-meeting press conferences, a university lecture series and a more descriptive representation of the various Federal Open Market Committee (FOMC) member opinions and expectations.

In our view, this is simply an attempt by the Fed to support the markets without actually creating additional money and thus increasing the risk of runaway inflation. It is no surprise that this process alteration occurs at a time when various measures of inflation are at or above the level at which the Fed is comfortable. Should the economy stumble and these measures of inflation decline, we believe that additional easing is likely.

## Corporate Bond Overview

Credit spreads – the difference between Treasuries and lower-grade credits – moved tighter in the first quarter on the momentum of serviceable bank earnings and economic releases that surprised to the upside. It was little surprise to see financial institutions lead the charge as we have observed this scenario at various times during each of the past three years. Financials spreads tightened 110 basis points during the period and earned a 5.07 percent total return as a group. Industrials and utilities spreads were firmer as well, showing 36 basis points and 27 basis points

of improvement, respectively. The industrials sector earned a total return of 0.76 percent while utilities lost 7 basis points. Finally, consistent with a rally in risky assets: Baa-rated securities outperformed higher-rated securities by a comfortable margin in the first quarter.

Our stance remains defensive and we maintain our sector weightings from the beginning of the quarter. We are slightly underweight the financial sector, including a bias against money-center banks. Credit, especially finance, has rallied in the early stages of the year and we would expect that, in the absence of negative headlines, this will be a common trend. That said, we still believe significant headwinds remain for the large banks with regard to the housing market and regulatory environment. In addition, the majority of the low-interest temporary liquidity guarantee program (TLGP) borrowings are maturing and the banks will

have to refinance at appreciably higher rates. We remain overweight utilities and industrials and place emphasis on businesses with predictable cash flows and modest leverage. Again, we see the trend of narrowing risk premiums continuing in the absence of negative economic releases and poor developments in Europe. However, we are positioned to outperform when this trend breaks.

*Investing in bonds involves risks that may adversely affect the value of your investment such as inflation risk, credit risk, call risk, interest rate risk and liquidity risk, among others. There are many factors which may affect the risk and return profile of a fixed income portfolio. The two most prominent factors are interest rate movements and the credit worthiness of the bond issuer. Investors should pay careful attention to the types of fixed income securities which comprise their portfolios and remember that, as with all investments, there is the risk of loss of capital.*

---

## Investment Grade Bond

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.

**Duration** incorporates a bond's yield, coupon, final maturity and call features into one number, expressed in years, that indicates how price-sensitive a bond or portfolio is to changes in interest rates. Bonds with higher durations carry more risk and have higher price volatility than bonds with lower durations.

**Credit quality** is a measure of credit-worthiness of the issuing organization that reflects the likelihood that it will be able to pay its debt (credit risk). Investment grade refers to securities rated [BBB-] or better by Standard & Poor's Rating Services or an equivalent rating by at least one other nationally recognized statistical rating organization or, for unrated securities, those that are determined to be of equivalent quality by the fund's portfolio managers.

**Benchmark Index**  
The Barclays Intermediate Government/Credit Bond Index includes U.S. Government and investment grade credit securities that have a greater than or equal to one year and less than ten years remaining to maturity and have \$250 million or more of outstanding face value. It is not possible to invest directly in an index.

EFD-0412-895, Exp. 7/31/12