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Portfolio Co-manager

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Portfolio Co-manager

**Top Holdings**

USTN 4.75% 8/15/17  
 USTN 4.25% 11/15/14  
 USTN 4.5% 2/15/16  
 USTN 0.875% 2/29/12  
 John Deere Capital 2.875%  
 6/19/12  
 General Electric Capital 3%  
 12/9/11  
 USTN 2.125% 5/31/15  
 Citibank TLGP 1.75% 12/28/12  
 Fannie Mae 5% 4/15/15  
 USTN 4% 8/15/18

*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.*

**The Investment Grade Bond Fund opened to investors March 1, 2010.**

**Market Overview** | U.S. Treasuries (earning a 4.68 percent total return) were the preferred investments in the second quarter due to a global flight to quality. The current feeling in the market seems eerily similar to that of late 2008. Bonds outperformed stocks in the first half of 2010 by the widest margin in nine years with Treasuries outpacing all bond-market sectors in the second quarter. A key contributor to Treasury performance was the ongoing sovereign-debt crisis in Europe. Fear in the euro zone continued to dominate trading despite a \$1 billion debt backstop from the European Central Bank. The credit-default-swap market is now effectively pricing in a high probability of orderly debt-restructuring in the European Union (EU). After much debate, it appears EU nations are choosing austerity over stimulus in the face of mounting debt and a declining euro. Investors likely will continue to monitor the euro zone closely because austerity will almost certainly curtail near-term economic growth.

Elsewhere, the Gulf of Mexico oil spill added additional stress to the capital markets and damage estimates are increasing on a weekly basis. The resulting uncertainty constricted liquidity in the market and that likely will persist until the leak is plugged. The market also paid close attention to economic releases, looking for confirmation of a sustained recovery. First-quarter gross domestic product (GDP) initially met expectations but was revised down twice to a 2.7 percent annualized rate. Employment numbers appeared encouraging until accounting for U.S. Census hiring and were also subsequently revised lower. Even more concerning, the housing market began declining once the home-buyer tax credit ended in April. The government since has extended the closing deadline to the end of August. In summation it appears that, absent continued economic stimulus, the economy remains quite fragile.

**The Federal Reserve Still Watching the Recovery, Holding Rates Steady**

The Federal Reserve maintained its short-term interest-rate target of 0 percent -0.25 percent throughout the quarter and the yield curve flattened materially due to the tremendous rally in Treasuries. Any speculation of a rate increase was put to rest by renewed weakness in the economy, fears of deflation and heightened stress in the capital markets. Instead, the tone has turned from removal of liquidity to potentially injecting more liquidity via the purchase of securities in the open market. The Fed ended its mortgage-purchasing program at the end of March, yet its balance sheet continues to hold record amounts of securities. Our view is that the Fed will expand its balance sheet further if the market seriously deteriorates in the latter half of 2010. We believe that, all things considered, inflation probably is not a serious concern for the market in the near term. Currently the market believes deflation is the larger threat; however, the Fed will not likely allow a broad-market sell off without intervention.

**The Corporate Bond Market**

The corporate-bond market meaningfully broke the tightening trend of late 2009 and early 2010 in the second quarter. The option-adjusted spread of the Barclays Capital U.S. Credit Index widened by 55 basis points, signifying to us the return of risk premiums to the market. Still, the majority of the widening took place in May. Spreads actually stabilized in June despite a continued rally in Treasuries: a somewhat uncommon occurrence. In addition, lower-rated bonds only slightly underperformed

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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.

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less-risky bonds (BBB bonds underperformed AAA bonds by just 36 basis points). Historically, higher-risk bonds generally have more drastically underperformed those with lower risk in flights to quality. This divergence is most likely due to a lack of sufficient liquidity in the market. Our view is that while Treasury yields may not remain at their 2010 lows, corporate-bond spreads likely have further to widen in the future. The new-issue market slowed considerably in May and June: another development that worries us. That may create a back-log of new bonds that will need to come to market sooner rather than later. We will continue to search the new-issue market for quality names at discounted prices.

Our stance remains defensive. We continue to maintain our underweight in financial institutions, given what we view as the substantial uncertainty surrounding financial regulation as well as a flattening yield curve. Our focus remains on high-quality industrials with recurring cash flows and sufficient liquidity to weather another downturn in the economy.

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.