Eagle Small Cap Growth Fund

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Characteristics

Total Net Assets (billions)	$2.3
Number of holdings	97

Top Holdings

Genesco
Lufkin Industries
Centene
Triumph Group
GNC Holdings
Huntsman
Vitamin Shoppe
BJ's Restaurants
Qlik Technologies
Quality Systems

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 Index reflected solid absolute performance (up 13.3 percent) for the first quarter of 2012. Growth-oriented investing led value for the quarter (the Russell 2000 Value was up 11.6 percent). With the exception of utilities, all sectors within the Russell 2000 Growth posted positive returns for the first quarter, led by consumer discretionary, healthcare and information technology.

Portfolio Review

On a relative basis, the Eagle Small Cap Growth Fund outperformed in the energy, information technology, consumer staples and consumer discretionary sectors due to stock selection. Our top-performing stocks for the quarter were OYO Geospace, Lufkin Industries and Shuffle Master. OYO Geospace makes seismic instruments used in monitoring oil and natural-gas reserves. The company's new wireless seismic system has met with strong acceptance and is driving earnings growth. Lufkin Industries is a manufacturer of pump jacks utilized in the enhanced oil-recovery process. The firm's artificial-lift segment is expected to see increased applications in part due to the continued rise in the U.S. oil-rig count as well as a favorable pricing environment in oil-based energy. Shuffle Master develops and manufactures technology-based products for the gaming industry. Shuffler and slot-machine revenue growth continue to impress, while the firm is also improving its balance sheet through the reduction of debt. Also, penetration into new gaming jurisdictions bodes well for continued strong results.

Every sector within the Small Cap Growth portfolios generated positive absolute returns for the quarter but we lagged benchmark returns in healthcare and slightly in industrials. Our worst-performing stocks were FTI Consulting, Polypore International and Acme Packet. FTI Consulting provides business-advisory services to clients looking to improve or protect their firm's enterprise value. FTI's restructuring-services segment appeared to experience relatively light revenue results in recent periods. However, management is confident revenue levels in this segment have stabilized and also referenced the potential to take advantage of an improving mergers-and-acquisition environment to support firm growth going forward. Polypore is a specialty filtration company that makes separation membranes used in lithium-ion batteries, which have seen significant growth from both consumer electronics and hybrid electric vehicles. The stock underperformed due to concerns about waning sales for the all-electric Chevy Volt, which was the subject of a well-publicized investigation into engine fires that had occurred following crash tests. The investigation has since been resolved and high gasoline prices have helped boost sales of the Volt. Acme Packet is a communications equipment and software firm with a primary focus on real-time communications solutions. Shares encountered some pressure on lighter-than-expected mobile-carrier expenditures, although Acme's prospects to benefit from Voice over Long Term Evolution (VoLTE) network traction appear to us to remain intact for the near to mid-term.

Outlook

The first-quarter's rally was broad-based with virtually every sector participating. Corrections are likely but historically, the sharp first-quarter rally suggests 2012 will prove to be a strong year for equities. The rally reflected a positive change in most economic data as autos were strong, housing has at least finally bottomed, unemployment is trending modestly down and gross domestic product (GDP) forecasts have been moving modestly higher. Sovereign-debt remains a big long-term issue but some resolution of the Greek situation also helped. We believe the European crisis interrupted a strong bull market that began off the March 2009 bottom. Retail investors stung by the 2008 financial crisis remain, for the most part, on the sidelines but we believe there are signs indicating asset flows into fixed income could reverse as interest rates trend higher. Some of that money likely will flow into the equity market. And as we move closer to the presidential election, government policy should continue to be pro-growth. The possible reversal of the restrictive healthcare law as well as the increasing probability both houses of Congress will go Republican should serve as positive catalysts.

During the first quarter of 2012, energy commodity prices diverged sharply as natural gas and coal plunged while oil prices firmed. Natural-gas inventories reached record levels due to weak demand resulting from extremely mild winter weather and continued growth in supply from shale operations. In response to extremely depressed natural-gas prices, utilities have begun switching away from coal to natural-gas-fired power generation where possible, causing thermal coal inventories to reach multi-year highs. With natural-gas prices falling well below break-even levels for the vast majority of gas operations, the natural-gas direct-rig count has fallen sharply. Similarly, coal producers also have begun to sharply curtail production levels.

Against this backdrop, we believe both coal and natural gas appear to have begun a bottoming process that could set the stage for a cyclical rally given overwhelmingly negative investor sentiment. We have recently initiated modest positions that would benefit from any upside while limiting our downside risk in the event we are premature.

This shift represents a slight departure from our longstanding preference for companies with exposure to oil. Importantly, this does not diminish our conviction in the outlook for "oily" names (e.g., Lufkin) in the space, which should post accelerating earnings growth as business picks up commensurate with the sharp rise in the oil-rig count.

Within the industrials space, we see several attractive end markets that are in the midst of cyclical upturns. The outlook for aerospace, a longstanding overweight, remains robust due to record backlogs at both Boeing and Airbus. Our favored names designed to take advantage of this this theme are Triumph Group and Hexcel. Improving consumer confidence – bolstered by lower unemployment and signs of stabilization in housing – may help spur a long-awaited upgrade cycle for residential air-conditioning units. An estimated 70 million of the 100 million installed residential AC units are in excess of 10 years old. Early indications suggest the selling season is off to a brisk start helped by warm weather, which bodes well for representative holding Regal Beloit. Finally, we are encouraged about the prospects for a budding recovery in commercial and residential construction. In fact, construction-equipment rental companies are already benefitting from increased utilization and rental rates. As a result, the rental companies have announced plans to replace their older fleets with newer equipment, which should drive significant growth for equipment manufacturers (e.g., Terex) going forward.

Healthcare is now in the midst of a period of great uncertainty as the U.S. Supreme Court reviews the constitutionality of the Affordable Care Act by President Obama in early 2010. Almost irrespective of the Supreme Court's decision, we believe the healthcare industry is undergoing massive transformation as it prepares to shift from a fee-for-service to a value-based model. There may be volatility around some sectors of healthcare – managed care and hospitals – but we continue to believe that those companies focused on reducing costs for the healthcare industry will enjoy strong demand and solid profits for their products and services. As such, we continue to hold companies that offer healthcare information systems to physicians and/or hospitals. Healthcare firms are investing feverishly to upgrade their systems, in part due to the availability of federal grants supporting information-technology adoption. Representative holdings that fit this picture include Quality Systems and MedAssets.

We also believe the Medicaid managed-care companies are well-positioned to capitalize on the $50 billion pipeline of potential state contracts that are currently percolating. States realize they can save millions by moving their Medicaid programs from fee-for-service to managed care. Without expertise in this area, they are outsourcing their Medicaid programs to companies like representative holding Centene. The key to making money in healthcare going forward will be to locate firms that are benefiting from government-mandated initiatives, such as those identified above, or to focus on consumer-oriented parts of healthcare, such as dentistry or aesthetics (e.g., Sirona Dental).

We believe we are in the "first inning" of what will be a gradual rise in interest rates. The Federal Reserve figures to keep rates low through the presidential election; however, equity markets should begin anticipating this later in the year. Stocks we believe will do well in this environment include representative holdings Stifel Financial and Two Harbors Investment. We also continue to favor pawn-shop operators (e.g., Cash America International).

A strong performance driver in technology has been acquisition activity, which not only moves the acquired company's stock sharply higher but tends to raise all ships. The ingredients for continued acquisition activity – such as a relatively low-growth environment, strong balance sheets and low interest rates – remain in place. Specific takeovers are hard to predict so we focus on companies that have strong fundamentals and operate in spaces that we believe are likely to see acquisition activity. We continue to focus on growth opportunities such as security software, which is mission-critical for both commercial and government customers, along with analytics software, which can generate a strong return on investment for customers. Examples of such holdings are Qlik Technologies, TIBCO Software and Informatica.

Consumer stocks led the charge in the strong first quarter. We have two themes within our consumer space: health/nutrition and the continued expansion of gaming. Within health and nutrition, we own Vitamin Shoppe and The Fresh Market. Both stocks have been strong performers benefitting from favorable demographics and consumer preferences for a healthy lifestyle. In gaming we are represented by Bally Technologies and Pinnacle Entertainment. The continued expansion of gaming globally is sure to continue, in our view, as states scramble to balance budgets.

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. 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.

Eagle Small Cap Growth

Benchmark Index:
The Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values. It is not possible to invest in an index.

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