

HIGH QUALITY TAX-FREE

First Quarter | 2012

EAGLE HIGH QUALITY TAX-FREE

Representative Holdings

Conroe, TX Indpt Sch Dist, 5%, 2/15/19
Iowa St Vision Spcl Fnd, 5.5%, 2/15/18
Utah St, 5%, 7/1/19
Univ of California Revs, 5%, 5/15/20
Energy NW Elec Revs, 5%, 7/1/18
Pennsylvania St, 5.375%, 7/1/18
Nebraska Pub Power Dist, 5%, 1/1/18
NYC Transitional Fin Auth, 5%, 7/15/19
Florida St Dept Wtr Ctrl, 5%, 1/15/20
Missouri St Hwy & Trans, 5%, 2/1/19

Portfolio Characteristics

Average Duration	5.18
Average Maturity	6.06
Average Coupon	4.80%
Current Yield	4.00%
Yield to Maturity	1.67%
Tax Equivalent Yield*	2.57%

Sector Diversification

Treasuries	0%
Agencies	0%
Mortgages/ Asset-backed Securities	0%
Corporates	0%
Commercial Mortgage-backed Securities	0%
Municipals	96%
<i>General Obligations</i>	25%
<i>Revenue Bonds</i>	70%
<i>Pre-Refunded</i>	1%
Cash	4%

Managers:

James Camp, CFA
Burton Mulford, CFA

The Eagle High Quality Tax-Free Fixed Income portfolio relies on the expertise of a professional, experienced fixed-income team to seek tax-optimized benefits and stable income for high-net-worth clients. With a combined 75-plus years of experience, the portfolio managers and analysts provide a wealth of bond expertise and have a track record of successfully managing fixed income through all market environments.

Features

- Portfolios take into account a client's current and future income needs, risk tolerance and tax circumstance, including state of residence, with a focus on maximizing the client's after-tax total returns on a risk-adjusted basis
- Municipal bonds with interest income that is exempt from federal income tax
- Normal cash level: 10 percent or less
- Diversification through sectors, credit ratings and bond structures

Investment Process¹

The Eagle Fixed Income team utilizes an active approach with long-term emphasis.

Client Assessment

- Establish client risk profile
- Assess client's income needs and tax issues, including federal tax bracket, state of residence and exposure to the alternative minimum tax (AMT)

Market Evaluation

- Analyze macro-economic environment, supply and demand factors, credit conditions and interest-rate patterns
- Focused on discovering potential opportunities that are not yet recognized by the market

Portfolio Construction

- Screen new issues and secondary offerings from varied sources
- Examine the detailed characteristics of each offering
- Purchase most attractive bonds to build customized client portfolio

Review and Adjust

- Periodically review portfolio, assessing interest-rate, credit and market risk
- Monitor portfolio diversification
- Monitor performance compared to appropriate benchmark
- Ongoing communication with client to discuss strategy and address any change in client circumstances

Sell Discipline

- A bond no longer meets current portfolio maturity profile
- Credit quality has a significant negative change
- Other sectors become relatively more attractive
- Capital gains can be taken without compromising long-term income returns
- A bond is called

Performance² as of March 31, 2012

		First Quarter	Year to Date	One Year	Three Years	Five Years	15 Years
Eagle High Quality Tax-Free	Gross	-0.07%	-0.07%	8.85%	5.87%	5.43%	4.82%
Eagle High Quality Tax-Free	Net	-0.28%	-0.28%	7.94%	4.96%	4.48%	3.92%
Barclays Capital Seven-Year Municipal		0.26%	0.26%	9.80%	6.72%	6.25%	5.63%

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance information, please call your financial advisor or visit eagleasset.com.

Trailing Standard Deviation as of March 31, 2012

		Three Years	Five Years	Since Inception (April 1, 1986)
Eagle High Quality Tax-Free	Gross	4.33%	3.79%	2.74%
Eagle High Quality Tax-Free	Net	4.33%	3.80%	2.75%
Barclays Capital Seven-Year Municipal		4.16%	3.78%	—

Source: Callan; standard deviation is not statistically relevant for periods less than three years

Manager Outlook

Following tremendous performance of municipal bonds in 2011, the first quarter of 2012 resulted in slight gains across all maturity ranges. The Barclays Capital Seven-year Municipal Index returned 0.26 percent for a quarter characterized by strong demand for municipal bonds and limited “new-money” supply. The relative cheapness and scarcity value of tax-exempt bonds were major factors in keeping municipal yields low during January and February. The Barclays seven-year index returned 1.07 percent in January and 0.11 percent in February. The lackluster returns of February led into the negatively biased March due to tax payments, further compounded by rising Treasury yields. The Barclays seven-year index returned -0.91 percent in March. Eagle views the characteristic weakness of March and early April as a buying opportunity and participated in high-quality new issues of essential-service revenue bonds and large healthcare systems.

The majority of deals during the quarter was used to refund outstanding debt. Less than 35 percent of the \$78 billion of debt issued during the first quarter of 2012 was “new money.” That \$78 billion is nearly 64 percent more than was issued at the same time in 2011 but there were 3 percent fewer “new money” deals this year than the first quarter of 2011. The limited new money and refunding deals were easily absorbed by the strong demand, demonstrated by 30 weeks of consecutive inflows to municipal mutual funds. Many deals, especially for lower-rated entities, were increased to help meet demand as investors reached for yield.

That appetite for yield led securities with greater credit risk to outperform high-grade bonds. Given the spread compression, we do not believe this is the time to invest in lower-rated credits, especially as multiple-notch downgrades become more common at rating agencies. These “super downgrades” can have detrimental effects on the preservation of principal municipal bonds typically offer. Eagle remains committed to ongoing due diligence and strives to stay ahead of these rating-agency changes. We have taken advantage of tighter credit spreads to sell certain positions that we believe pose above-average downgrade risk throughout the quarter, especially local general-obligation bonds. Downgrade and headline risks remain elevated but, in our view, default risk is low. Another risk to the municipal market stems from political uncertainty.

In February, President Obama released his fiscal year 2013 budget proposal, which threatened municipal-tax exemption. The proposal caps the value of tax preferences at 28 percent, which would require higher yields to compensate investors. Eagle believes this proposal will, once again, be unable to gain traction and any tax reform will not occur until after elections. Municipal-market participants already have voiced concerns and are working together to educate Congress about the increased borrowing costs municipalities would require should the tax-exempt status of bonds be eliminated. We are monitoring the situation closely and will adjust portfolios if necessary. A heavy reinvestment period is on the horizon and with municipal-to-Treasury ratios near 100 percent, the asset class is — in our view — likely to attract continued demand.

For more information, visit eagleasset.com

* Yields would be higher on a tax-equivalent basis for clients having municipals, based on their tax bracket and residence.

¹ Not every investment opportunity will meet all of the stringent investment criteria mentioned to the same degree. Trade-offs must be made, which is where experience and judgment play a key role. Accounts are invested at the discretion of the portfolio manager and may take up to 60 days to become fully invested.

² Performance Disclosures

Income earned from investments in municipal bonds, while exempt from federal taxes, may be subject to state and local income taxes. All capital gains, as well as income earned from other sources, are subject to taxation. Income from municipal securities may also be subject to the Alternative Minimum Tax. Municipal securities typically provide a lower yield than comparably rated taxable investments in consideration of their tax-advantaged status. Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Please consult an income-tax professional to assess the impact of holding such securities on your tax liability.

Past performance does not guarantee or indicate future results. No inference should be drawn by present or prospective clients that managed accounts will achieve similar performance in the future. Investment in a portfolio, investment manager or security should not be based on past performance alone. Because accounts are individually managed, returns for separate accounts may be higher or lower than the average performance stated. Individual portfolio/performance results may vary due to market conditions, trading costs and certain other factors, which may be unique to each account. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Investing involves risk and you may incur a profit or a loss. Investment returns and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Diversification does not ensure a profit or guarantee against a loss.

All performance data is shown on a time-weighted and size-weighted basis and is shown before (gross) and after (net) the deduction of management fees, custodial fees and miscellaneous charges to client accounts; all performance is shown after transaction costs. Calculations include reinvestment of all income and gains. Performance figures include all internal, retail High Quality Tax-Free accounts of Eagle Asset Management, a St. Petersburg, Florida-based firm. A client's return will be reduced by the advisory fees. Eagle's fees are set forth in Eagle's Form ADV, Part II. Over a period of five years, an advisory fee of 1 percent could reduce the total value of a client's portfolio by 5 percent or more. Current performance may be lower or higher than the performance information quoted. Performance results through 2010 have been examined by an internationally recognized accounting firm. Performance data for the current year has not been audited and are subject to revision. Thus, the composite returns shown here may be revised and Eagle will publish any revised performance data. Eagle believes that the performance shown is reasonably representative of its management style and is sufficiently relevant for consideration by a potential or existing client.

Risks Associated with Fixed Income Investing

Many investors consider bonds to be "risk-free" investment vehicles. Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, 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 creditworthiness of the bond issuer. The risk of a change in the market value of the investment due to changes in interest rates is known as interest-rate risk. Interest-rate risk is subject to many variables but may be analyzed based on various data (e.g., effective duration). The risk that the issuer may default on interest and/or principal payments is often referred to as credit risk. Credit risk is typically measured by ratings issued by ratings agencies such as Moody's and Standard & Poor's. Bonds issued by the U.S. Government have significantly less risk of default than those issued by corporations and municipalities (see below for a discussion of the risk associated with convertible securities). However, the overall return on Government bonds tends to be less than these other types of fixed-income securities. Finally, reinvestment risk is the possibility that the proceeds of a maturing investment must be invested in a lower yielding security, all other things held constant, due to changes in the interest-rate environment. Investors should pay careful attention to the types of fixed-income securities which comprise their portfolio, and remember that, as with all investments, there is the risk of the loss of capital.

Index Descriptions

The Barclays Capital Seven Year Municipal Index is the seven-year component of the Municipal Bond Index. The Barclays Capital Seven Year Municipal Bond Index is an unmanaged index comprised of investment-grade municipal bonds with maturities of six to eight years. The index is referred to for comparative purposes only and the composition of an index is different from the composition of the accounts included in the performance shown. Indices are unmanaged and one cannot invest directly in the index.

Standard Deviation is a measure of the dispersal or uncertainty in a random variable. For example, if a financial variable is highly volatile, it has a high Standard Deviation. Standard Deviation is frequently used as a measure of the volatility of a random financial variable.

EAGLE | Asset
Management

eagleasset.com

880 Carillon Parkway | St. Petersburg, FL 33716 | 727.573.2453 | 800.237.3101

Not FDIC Insured

May Lose Value

No Bank Guarantee