

# SMALL/MID CAP CORE

First Quarter | 2012

# EAGLE SMALL/MID CAP CORE

## Top 10 Holdings

Amphenol	2.84%
IAC/InterActiveCorp.	2.80%
Allied World Assurance	2.56%
Wyndham Worldwide	2.39%
Pall	2.31%
J.B. Hunt Transport Services	2.31%
Avnet	2.18%
Graphic Packaging	2.17%
Aspen Technology	2.08%
Avago Technologies	2.08%
Total % in top 10 holdings	23.72%

## Statistical Information

Trailing Price/Earnings	18.42x
Forward Price/Earnings	16.68x
Price Earnings/Growth	1.16x
Price/Book	2.58x
Price/Sales	1.53x
Price/Cash Flow	9.07x
Long-term Growth Rate	14.23%
Long-term Debt/Capital	36.39%
Return on Equity	15.38%
Median market cap	\$4.11 B
Wtd. average market cap	\$5.30 B
Avg. number of positions	50-70
Annual portfolio turnover	less than 150%

## Managers:

Todd McCallister, PhD, CFA  
Stacey Serafini Pittman, CFA  
Scott Renner

Eagle's Small/Mid Cap Core program employs a thorough, bottom-up stock-selection process to identify growing small companies that are reasonably priced. Many of these companies are selling innovative goods and services that are transforming the way we live and work, and are found in a wide range of industries.

## Features

- Equity objective offering small- to mid-cap stocks
- Weighted-average (dollar-weighted) market cap: \$5.30 billion
- Current research focus: consumer discretionary, information technology, financials and healthcare

## Growth and Value

- Conservative accounting
- Earnings-per-share growth greater than 15%
- Reasonable price-to-earnings ratio relative to growth rate
- High or expanding return on equity
- High or expanding operating margins relative to peer group

## Competitive Advantage<sup>1</sup>

- Strong management
- High barrier to entry
- Recurring revenue stream
- Low-cost production
- Industry consolidation

## Sell Disciplines

- Deterioration of the company fundamentals or failure of original thesis
- Slowing of earnings growth
- Appreciation of price above sustainable level
- Position size becomes too large relative to total portfolio

The driving force behind each investment decision is to look beyond price-to-earnings multiples and stated growth rates to buy companies that have sustainable competitive advantages that will allow them to outperform over the long term. Eagle's Small/Mid Cap Core team seeks to gain a thorough understanding of a company's management, business plan, financials, real rate of growth and competitive threats and advantages.

The Eagle Small/Mid Cap Core team places its focus on companies that are low-cost producers; those with high barriers to entry; those with strong management teams; those that use technology in a way that is superior to their peers; those with recurring revenue streams; and those with conservative accounting.

The Eagle Small/Mid Cap Core team seeks to ensure the portfolio is well-diversified by maintaining sector weightings generally within five to seven percentage points of the benchmark. The team speaks to the management of prospective companies to discuss their business plans. They then will call the company's clients and competitors, as well as any analysts who might cover the company independently, to try to get a complete understanding not only of the company but also its prospects going forward. Many times, the process will involve an on-site visit.

In short, the Eagle Small/Mid Cap Core team's view is a company must be worth buying in its entirety if one is to buy stock in it. Only after completing this comprehensive fundamental research and analysis will the team consider purchasing a company for the portfolio.

## Performance<sup>2</sup> as of March 31, 2012

		First Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (July 1, 1997)
Eagle Small/Mid Cap Core	Gross	13.42%	13.42%	-2.22%	21.33%	3.19%	9.93%
Eagle Small/Mid Cap Core	Net	13.02%	13.02%	-3.57%	19.62%	1.68%	8.03%
Russell 2500 Index		12.98%	12.98%	1.33%	28.41%	3.02%	8.06%

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	Seven Years	10 Years	Since Inception (July 1, 1997)
Eagle Small/Mid Cap Core	Gross	21.35%	22.79%	19.55%	18.63%	19.18%
Eagle Small/Mid Cap Core	Net	21.26%	22.72%	19.48%	18.58%	19.13%
Russell 2500 Index		24.73%	26.17%	22.58%	22.29%	22.85%

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

## Manager Outlook

We continue to see a good value in the stock market with an average earnings yield still above the historical average and in spite of two consecutive quarters of double-digit returns. Furthermore, with an average 8 percent free-cash-flow yield for stocks and a 2 percent 10-year Treasury, we believe it's possible to invest in the skepticism of the market and earn a healthy return. In some regards, skepticism regarding the health of the companies that we invest in surprises us since pre-tax margins are at 40-year highs, according to Empirical Research. Barring an unexpected event that would shock the system, we don't see the trend of high margins subsiding as the globalization of our economy continues.

Looking out across the market, we also feel better as daily correlations among stocks have come down from record highs. That should cause stock selection to be rewarded, particularly in investments that are seen as growth names that still offer good risk/return profiles. In a lot of ways, stocks with typically stable earnings and dividends seem to be very expensive to us and should be invested in with caution. These stocks tend to be in sectors like utilities, real estate investment trusts (REITs), telecommunication services and some consumer staples.

Consumer discretionary and information technology are the portfolio's largest overweight sectors. In consumer discretionary, we continue to be overweight media holdings, which tend to favor unique businesses that are very hard to replicate, such as John Wiley's publishing business or Dish Network's valuable subscriber base and government-granted wireless spectrum. Information technology is another sector that we are overweight since nearly the entire sector has been generating robust free-cash flow. Software stands out to us and we own companies (e.g., Aspen Technology and Monotype Imaging) that we believe have attractive outlooks.

We continue to maintain a market-weight position in energy, while we expect oil prices to act as a governor on domestic gross domestic product (GDP) growth. In light of the volatility of the underlying commodities in energy, we believe it is best to own what we believe are high-quality exploration-and-production (E&P) companies (e.g., Rosetta Resources and Pioneer Natural Resources). Regarding energy services, we like our holdings with technological barriers to entry (e.g., Tesco with its top drives) or key geographic locations for oilfield workers in remote areas (e.g., Oil States International).

Overall, we are underweight in financials, while maintaining a market weight in what we view as low-beta (i.e., risk) insurance companies (e.g., Allied World and ProAssurance) and choose to underweight banks and REITs, mostly due to valuation. In banks, we own First Horizon, First Financial Bancorp and First Republic Bank of California. In REITs, we look to a barrier-to-entry urban-hotel name such as LaSalle Hotel Properties because we continue to believe it offers rare franchise value. Also, we maintain a holding of Rayonier, a timber REIT whose investments in high-end pulp have allowed it to increase its dividends with essentially a call option when timber prices recover.

We continue to believe the utilities sector is expensive even with recent underperformance. ITC, a non-traditional utility that owns power-transmission grids, is our only holding in the space. It has what we view as a better-than-average growth rate and ITC will do even better if interest rates move off their historic lows.

For more information, visit [eagleasset.com](http://eagleasset.com)

<sup>1</sup> 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.

#### <sup>2</sup> Performance Disclosures

The calculation of the performance data includes reinvestment of all income and gains and is depicted on a time-weighted and size-weighted average for the entire period. Performance is shown after deduction of transaction costs and both "gross" (before the deduction of management fees) and "net" (after the deduction of management fees). Performance figures include all internal, retail managed Small/Mid Cap Core accounts of Eagle Asset Management, a St. Petersburg, Florida-based firm. All composite performance data through 2010 have been verified by an internationally recognized accounting firm. Performance data for the current year have not been audited and are subject to revision. No inference should be drawn by present or prospective clients that managed accounts will achieve similar investment performance in the future. Past performance does not guarantee future results. Because accounts are individually managed, returns for separate accounts may be higher or lower than the average performance stated in the charts. Investing in equities may result in a loss of capital.

#### Descriptions and Definitions

The Russell 2500 Index is made up of the 2,500 smallest companies in the Russell 3000 Index, representing approximately 17 percent of the Russell 3000 total market capitalization. The Index figures do not reflect any deduction for fees, expenses, trading costs or taxes.

Indices are unmanaged, and one cannot invest directly in an 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.

#### Risks Associated with Small/Mid Cap Core Investing

Investing in small and mid-sized companies is based on the premise that relatively small companies will increase their earnings and grow into larger, more valuable companies. However, as with all equity investing, there is the risk that a company will not achieve its expected earnings results, or that an unexpected change in the market or within the company will occur, both of which may adversely affect investment results. Historically, small- and mid-cap stocks have experienced greater volatility than other equity asset classes, and they may be less liquid than larger-cap stocks. Thus, relative to larger, more liquid stocks, investing in small- and mid-cap stocks involves potentially greater volatility and risk. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

**EAGLE** | Asset  
Management

[eagleasset.com](http://eagleasset.com)

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

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