

# EAGLE BOSTON SMALL CAP CORE VALUE

Second Quarter 2010

EAGLE | Asset  
Management

**Market Review** | The second quarter saw the equity markets give back all of the gains achieved during the first quarter – and then some – as the small-cap Russell 2000 Index dropped 9.9 percent. That followed the first quarter's 8.5 percent gain and brought the year-to-date total return figure to -1.95 percent. For comparison purposes, the large-cap S&P 500 Index dropped 11.4 percent for the quarter and is down 6.7 percent for the year-to-date period.

**Portfolio Review** | Eagle Boston Small Cap Core Value portfolios outperformed the benchmark Russell 2000 Index for the quarter. Contributors included SonicWALL, which makes internet-security appliances. The stock appreciated on an announcement it was being acquired by private-equity buyers. We continue to hold the position because we believe additional suitors may bid for the company. Canadian-based gold producer IAMGOLD rose on news the company plans to begin operations at a new mine earlier than anticipated. Southwest Bancorp, an Oklahoma-based commercial bank, raised capital to strengthen what we viewed as an already healthy balance sheet in anticipation of growth and acquisitions. Psychiatric Solutions announced it was being acquired by a competitor. We subsequently reduced – but didn't sell out of – our position to see what happens between now and when the deal closes. FTI Consulting reporting first-quarter results that indicated demand for its services was beginning to rebound after an economically induced downturn.

Detractors include Oceaneering International, a provider of offshore equipment and services to the oil and gas industry. It dropped as a result of investor concern about its fundamental outlook following the announced deepwater-drilling moratorium in the Gulf of Mexico. Temporary-employee company On Assignment saw its stock drop on concerns about the continued weak employment situation. Benchmark Electronics, which provides electronic design and manufacturing services, dropped despite meeting first-quarter earnings estimates and raising its second-quarter guidance, in our view simply because of overall market weakness and not Benchmark's fundamentals. Similarly, engineering firm URS dropped despite raising guidance for 2010 with its first-quarter earnings release. In all four cases, we believe the long-term fundamentals of the companies are intact and we have maintained our positions. Finally, title-insurance company Stewart Information Services fell as a result of continued disappointing fundamental results. We continue to believe the stock is undervalued relative to its earnings potential and so we have maintained the position.

**Outlook** | The market's weakness during the second quarter followed four consecutive quarters of positive gains that yielded a 116 percent climb from the lows realized in March 2009 to the high achieved this April. In the context of this near-historic climb, it shouldn't have come as a significant surprise that the market has receded almost 18 percent from the that April 23 high-water mark. A falling market is never a pleasant experience but, in the long-term, we believe this pullback might actually "set the table" for a healthy, fundamentally driven move higher over the next several years.

The issue for us going forward is whether the pullback is a healthy retracement or the start of another bear market. We will continue to focus on building a portfolio with our bottom-up approach rather than try to forecast any of the myriad factors, including macroeconomic and political issues, that may influence the markets for the remainder of 2010 and then construct a top-down portfolio based on those assumptions. Our focus on controlling the risk of the portfolio with our disciplined approach to stock-picking leads us to company-specific fundamental analyses as opposed to making top-down bets.

*Investing in small-company 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. Investments in value stocks are subject to the risk that their true worth may not be fully realized by the market. This may result in the value stocks' prices remaining undervalued for extended periods of time. The fund's performance also may be affected adversely if value stocks remain unpopular with, or lose favor among, investors.*

## Dave Adams, CFA

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### Separately Managed Accounts:

Small Cap Core Value

### Mutual Fund:

Small Cap Core Value Fund

### Representative Holdings

SonicWALL

IAMGOLD

John Wiley & Sons

Syniverse

Silgan

Merit Medical Systems

Herbalife

Signature Bank

Parametric Technology

Rosetta Resources

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*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.*