

**Todd McCallister,
PhD, CFA**

Managing Director
and Portfolio Co-manager

**Stacey S. Thomas,
CFA**

Portfolio Co-manager

**Separately Managed
Accounts:**

Small/Mid Cap Core

Mutual Fund:

Mid Cap Stock Fund

Representative Holdings

Crown

Hasbro

Whiting Petroleum

Hospira

IHS

Waste Connections

Fiserv

IntercontinentalExchange

Amphenol

Quest Software

The information provided above should not be construed as a recommendation to buy, sell or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice.

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 | Junk stocks performed poorly in the second quarter after their record-breaking relative performance last year and into the beginning of 2010. The low-quality rally came to a screeching halt this quarter as the lowest return-on-equity (ROE) quintile returned -16 percent. Why the sudden break in performance patterns? We believe the market's worry this quarter was that the economy will fall back into a recession. We believe this may mark a turn in the markets we have discussed for some time.

Portfolio Review | Eagle Small/Mid Cap Core portfolios outperformed the benchmark Russell 2500 Index this quarter. We are never happy to report negative absolute returns; however, we believe our outperformance in quarters such as this will benefit our long-term clients.

The strongest relative performance came from the materials and industrials sectors. Containers and packaging as well as metals outperformed. Rock-Tenn traded higher after the company reported earnings at the end of April. The company continued to increase operating efficiencies while still seeing dramatic swings in the cost of some of its cardboard-making materials. Silver Wheaton, which we bought at the beginning of the quarter, buys the rights to purchase silver at a fixed cost from high-quality mines. It traded up on news of two significant purchases and we took the opportunity to sell the stock at a profit. Industrials benefitted from commercial services and professional services. We believe Stericycle was the benefactor of potential cleanup efforts from the BP oil spill, yet company management indicated it should be immaterial. We will monitor the position closely as it nears what we believe is a full valuation. IHS was up after beating earnings-revenue estimates through a mixture of acquisitions and sales growth.

We underperformed in utilities, a part of the benchmark that held up better than others, because we didn't have any holdings there. The energy sector was also a source of underperformance following the tragic spill in the Gulf of Mexico. We sold Oceaneering International because we believe the stock prices of these companies could be cut even more severely with the uncertainty surrounding the moratorium on new drilling in the Gulf. This would be especially evident in a company such as Oceaneering, which makes and operates underwater remote-operated vehicles. Noble Energy also lagged but we believe the company will fare better due to its diversification (e.g., they have global onshore operations), a strong balance sheet and a solid orders backlog.

Outlook | We had long argued that the stock market seemed to be pricing in a V-shaped recovery through the second half of 2009 and the first part of 2010. We were puzzled to some extent by the market's rush into what we viewed as risky, very pro-cyclical areas that we avoided. Our hypothesis is that the economy would experience a short-term V-shaped recovery sparked by inventory replenishment (one half of the first quarter's real gross domestic product growth was due to inventory adjustments), after which the economy would resume a slow-growth path. What makes this recovery different? The most significant thing, in our view, is housing. Housing is a key engine for economic recovery and growth in terms of jobs, demand for consumer goods and local tax revenues. However, we are not seeing those things now due to the huge overhang of existing inventory.

Perhaps the second quarter's poor market performance accounts for realigned expectations. The good news, in our view, is that the market is nowhere near the panic it experienced in the fall of 2008. Our view is that free-cash-flow yields and earnings yields are near all-time highs, both on an absolute basis and relative to Treasury rates. We prefer to own stocks that we believe will be able to sustain their free-cash-flow levels in a slow-growth economy and, perhaps, grow a little faster than their peers. Our returns, by sticking to this long-term strategy, had been weak while the market was fixated on low-return, cyclical stocks. However, we believe the market may be turning its attention to the types of stocks we prefer to own in light of last quarter's returns and low bond yields.

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.