

Eagle Large Cap Core

FIRST QUARTER | 3/31/12

EAGLE | Asset Management

Richard Skeppstrom II

Managing Director
and Portfolio Co-manager

Craig Dauer, CFA

Portfolio Co-manager

Jay Jordan, CFA

Portfolio Co-manager

Rob Marshall

Portfolio Co-manager

Andrew Wessel

Portfolio Co-manager

Separately Managed Accounts (SMA):

Large Cap Core

SMA Representative Holdings

Apple
Lowe's
Pfizer
EMC
Google
UnitedHealth Group
ExxonMobil
Capital One Financial
Walt Disney
INVESCO

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.

Not FDIC Insured, May Lose Value,
No Bank Guarantee

E3242

Market Overview

Major indices posted their strongest first-quarter gains in more than a decade as encouraging economic data with rising consumer confidence offset worries over euro-zone sovereign debt, rising gasoline prices slowing growth in China and other global concerns.

Portfolio Review

Eagle Large Cap Core portfolios outperformed (on a gross basis) the benchmark S&P 500 Index during the first quarter despite the drag of cash reserves in an unusually strong market. Outperforming portfolio sectors included: underweighted telecommunication services due to both low allocation in a weak market sector and stock selection (e.g., Sprint Nextel); overweighted information technology, primarily due to a high allocation in a strong market sector that included particular strength in Apple and EMC holdings; market-weighted healthcare (e.g., St. Jude Medical and UnitedHealth Group); market-weighted consumer discretionary (e.g., Lowe's); underweighted utilities due to low allocation in a weak-performing market sector; slightly underweighted financials (e.g., Capital One Financial and Invesco); and market-weighted energy (e.g., Apache). On the other hand, the only underperforming sector was slightly underweighted consumer staples (e.g., Kraft Foods and PepsiCo).

The strongest stock contributors to performance were Apple, EMC and Lowe's. Apple reported excellent December-quarter results, particularly for iPhone shipments, that were well above Wall Street consensus estimates. Also, after producing an astonishing \$50 billion of free-cash flow in 2011, Apple's management confirmed it is considering a regular dividend payment to shareholders. EMC reported solid fourth-quarter results confirming ongoing secular-storage growth trends associated with virtualization and "big data." Management guided 2012 revenue and earnings-per-share (EPS) targets to \$22 billion and \$1.70, which was in-line with Wall Street expectations. Lowe's had solid quarterly earnings, benefiting from unseasonably warm weather in January and February. Second-quarter year-over-year comparisons are easy due to very poor weather last spring; further, the company has a number of major initiatives under way that appear to be going reasonably well.

Performance detractors included Google, Dominion Resources and PepsiCo. Google reported confusing fourth-quarter numbers. "Click" growth was very strong at 34 percent but "price per click" declined by 8 percent: the first decline since the recession. Management said the decline was the result of tweaks to the search algorithm and foreign currency, and expenses were also high. We generally believe clicks and click pricing should be considered together and, in this light, revenue growth remains robust. We will be watching the first-quarter results closely with the belief they will add some clarity to the issue. Dominion Resources and its high-yield utilities peers were the most out-of-favor sector. PepsiCo's management lowered its guidance slightly; further, consumer staples stocks are defensive by nature and don't fully participate in "risk-on" market moves.

Portfolio Review

Corporate profit growth has been impressive and high cash levels still provide encouragement for capital-investment growth, new-job potential and consumer-spending growth if business leaders gain confidence in a sustainable recovery. But aggregate profit-margin expansion has likely peaked, income growth is slowing and longer-term confidence levels are being tested by domestic and global concerns.

Investor sentiment obviously shifted to a "risk-on" trading response in the first quarter but today's unpredictable global macroeconomic/political environment could easily produce heightened market volatility as investors react to unexpected news events. Improving economic data have raised confidence in sustainable, but sluggish, domestic growth with a lack of excesses that would help cushion the risk of recession. But confidence levels could be tested later this year as investors begin to focus on 2013 prospects with the added uncertainties of higher taxes, political gridlock and slowing earnings growth. With stocks attractively priced relative to bonds and cash, we remain cautiously optimistic but sensitive to macroeconomic developments and market volatility that would warrant re-positioning the portfolio to enhance return potential.

The risks associated with Large Cap Core investing are based on the expectation of positive price performance due to continued earnings growth or anticipated changes in the market or within the company itself.