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Separately Managed Accounts (SMA):

Value
All Cap Value

SMA Representative Holdings

International Business Machines
Citigroup
Goodrich
Occidental Petroleum
Ameriprise Financial
Aetna
Honeywell International
Dover
JPMorgan Chase
ENSCO

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

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Market Overview

The first quarter of 2012 continued the strong market rally that began in the final quarter of 2011. Signs of improving economic growth, especially in heretofore lagging employment measures, seemingly removed fears of a double-dip recession.

The Russell 1000 Value Index was up more than 11.1 percent for the quarter while the Russell 3000 Value Index was up nearly 11.2 percent. For both value indices, the best first-quarter investments were in cheaper stocks. That held true when broken down by price-to-book, price-to-cash flow as well as price-to-earnings (both trailing and forecasted) bases. Eagle's Value and All Cap Value portfolios tend to be a little higher-quality than the Russell Value indices, which was a slight headwind as the cheapest stocks had a little bit better run during the quarter. On the other hand, stocks with better projected-growth profiles – the kinds of stocks we prefer to have in the portfolio – also ran up during the quarter, which helped to cancel the outperformance of cheap, low-quality stocks.

Portfolio Review

Eagle Value portfolios outperformed (on a gross basis) the benchmark Russell 1000 Value Index in large part due to stock selection within the healthcare sector as well as an underweight position in the lagging utilities sector. Our utilities picks had positive performance but the main benefit within the comparative sectors came from our being moderately underweight the sector. In healthcare, we had solid performance from Zimmer Holdings, Aetna and Covidien. On the other hand, our technology picks – particularly Hewlett-Packard and Xerox – lagged the performance of the benchmark technology sector. Our industrials picks, particularly Union Pacific and Goodrich, also lagged on a comparative basis. The good news is that during such a bull market, only three of our stocks had negative absolute performance. We sold one – Verizon – during the quarter on valuation concerns.

All Cap Value portfolios outperformed (on a gross basis) the benchmark Russell 3000 Value Index during the quarter. The biggest source of outperformance was our stock selection within the energy sector. The sector was actually a laggard within the benchmark, which meant our overweight position detracted from relative performance. However, our energy holdings had double-digit returns that were nearly triple the benchmark sector's returns. The biggest standouts were Oceaneering International and Lufkin Industries. Like our Value portfolios, our All Cap Value portfolios benefited from an underweight position

in the lagging utilities sector. All Cap Value also benefited from stock picks such as healthcare holdings Zimmer Holdings and Aetna.

Outlook

It would not be too surprising to us to see some consolidation or correction given the rally stocks have experienced since last fall. The upcoming earnings season is likely to show mixed results as comparisons with last year are more difficult and some margin pressure is likely given the rise in many input prices. Gasoline prices seem to be ticking up almost weekly and likely will act as a governor on consumer spending. Looking further ahead, there is a tsunami of higher taxes slated for Jan. 1, 2013. We expect (or hope) the political process will work in the post-election period to head off some of those but there can be no guarantee. Finally, international issues likely will rear their heads, with an expected slowdown in China's growth rate and the ongoing fiscal melodrama in Europe taking center stage from time to time.

However, we should not lose sight of the bigger picture, which we judge to be favorable for equity investment:

- 1) The U.S. economy is growing, if only slowly, and the corporate sector remains in excellent condition with respect to balance sheets, profit margins and earnings levels.
- 2) Central banks all around the world are providing liquidity, which inevitably finds its way into asset markets.
- 3) Valuations for equities at 13-14 times this year's earnings look good to us on an absolute basis but, relative to fixed-income alternatives, are at generational lows.
- 4) Tremendous amounts of cash are on the sidelines, held by both individual investors and acquisition-minded corporations. That cash is available to move stocks higher as confidence returns.

Value investing is based on the potential for a company's stock price to rise based upon anticipated changes in the market or within the company itself. Value stocks have historically been sensitive to economic cycles and investor sentiment that can affect volatility and risk.