

Eagle Growth & Income Fund

FIRST QUARTER | 3/31/11

Management

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Thornburg Investment Management
Portfolio Co-manager

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Portfolio Co-manager

Characteristics

Total net assets (millions)	\$249.88
Number of holdings	57

Top Holdings

Comcast
Coca-Cola
US Bancorp
Microsoft
Pfizer
McDonald's
Philip Morris
Sysco
Ensco
Foster's

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

Company specific fundamentals and valuation are very attractive, but the external environment has taken a turn decidedly for the worse. Quantitative easing is ending, fiscal policy is likely to become less supportive and could become a drag, and political unrest in North Africa and the Middle East has caused oil prices to rise sharply. The market's continued rise appears surprising in the face of mixed economic results, tensions in the Middle East, the Japanese earthquake, and rising commodity inflation.

Low market valuations partly explain this continued strength. Current 2011 consensus estimates for the S&P 500 are 13.1x, well below its 10-year average of 18.1x. Arguments for continued multiple expansion can be made as consensus expects mid-teens earnings-per-share growth for the next two years. If consensus expectations prove correct and the forward multiples continue to expand, this could bode well for future results. A major concern is that inflation continues to work its way through the value chain, thus pressuring margins and inhibiting economic expansion. The continued sovereign debt issues in certain European markets could weigh on future results as well.

Economic indicators were mixed in the first quarter. Capacity utilization continued to increase for the sixth consecutive quarter reaching 77 percent, near its previous peak in fourth-quarter 2007 at 81 percent. Total vehicle sales decreased slightly in the first quarter, but remain strong relative to the past year. Employment decreased to 8.8 percent from the peak rate of 10.1

percent. Most of the concerns are related to inflationary pressures. Manufacturing PMI (Purchasing Manager's Index) continued to rise and is now at previous peak levels last reached in 2004. Consumer confidence reversed its gains and declined during the first quarter. CPI increased 2.1 percent year over year, reflecting the rising import and manufacturing prices.

Portfolio Review

The Fund underperformed the benchmark S&P 500 Index in the first quarter. Energy was the top contributor to performance on an absolute basis. Canadian Oil Sands benefitted from the continued rise in oil prices despite weaker-than-expected production results. Enel, the Italian based utility, benefitted from strengthening electricity prices in Europe. Enel only had one quarter of its 2012 generation hedged so the higher prices should have a positive impact on future earnings. ConocoPhillips was another benefactor of the higher oil prices. The company has also undergone a restructuring in which they have sold off some of their assets which has reflected positively in the stock. Healthcare also supported performance as Pfizer had an impressive quarter with a 17 percent total return as the new management continues to communicate its plans to enhance shareholder value. These include divesting non-pharmaceutical business units and restructuring its research-and-development processes to improve the pipeline. In addition, Baidu, the leading Chinese language search engine, also contributed significantly to the fund's performance. Baidu continues to benefit from the world's largest and still growing internet population, where only one-third of China's population

is online.

Detractors to performance over the quarter included Microsoft, Qwest Communications, United States Steel and Sysco. Microsoft was the largest detractor to performance as the company faced several issues in the quarter: excitement over tablet PCs continues to concern investors; the PC refresh cycle remains weak; and the expected interruption of demand related to the Japanese earthquake all pressured Microsoft's stock price. The company remains an industry leader that is trading at a 30 percent discount to the S&P 500's price-earnings ratio. The PC refresh cycle should improve as the average computer age has been extended due to the weak consumer and enterprise spending over the past two years. An uptick in demand should provide an expansion in operating margins as the company continues to focus on reducing costs under the new CFO. Qwest Communications is being acquired by CenturyLink and the risk/reward for continuing to own both companies became imbalanced as the market fully valued the expected synergies of the pending merger and we decided to sell the security. United States Steel, a top contributor last quarter, detracted from performance over this first quarter of 2011. In general, steel producers were weak performers in the quarter with demand yet to materialize. There were no company specific fundamental reasons for United States Steel's underperformance.

Sysco suffered from higher input costs in meats, poultry and dairy, which comprise one-third of its sales mix. Due to the speed at which these input prices rose, Sysco was unable to capture sales-price increases quickly enough. As a leader in food distribution, Sysco remains well-positioned in its industry for the long term.

Outlook

There are reasons for optimism, including reasonable valuations and a continued expansion in corporate earnings as the economies continue to improve. These are all buoyed by accommodative monetary policies that have kept interest rates low. Several concerns persist, most importantly inflationary pressures globally. Most commodities including energy, metals and food products are putting strong upward pressures on costs. This is resulting in margin pressures across most industries. Those with pricing power should fare better in this environment. As a whole, the global economies face the risk of inflation driving a decrease in end-user demand.

A limited portion of the Fund's net assets may be invested in foreign securities. Investments in foreign securities involve greater risks than investing in domestic securities. International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards and potential political and economic instability.

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Benchmark Index:
The Standard & Poor's 500 Index (S&P 500) is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

Thornburg Investment Management is the subadviser to the Eagle Growth & Income Fund.

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