SPECIAL FIXED

Third Quarter | 2017

EAGLE Asset Management

AN AFFILIATE OF CARILLON TOWER ADVISERS

EAGLE SPECIAL FIXED

Portfolio Characteristics

Average Duration (years)	4.14
Average Maturity (years)	4.70
Average Coupon	3.90%
Current Yield	3.61%
Yield to Maturity	2.05%
Tax Equivalent Yield*	2.67%

Sector Diversification

Treasuries	8%
Agencies	6%
Mortgages/ Asset-backed Securities	9%
Corporates	27%
Commercial Mortgage-backed Securities	0%
Municipals	46%
General Obligations	*7%*
Revenue Bonds	*39%*
Pre-Refunded	*0%*
Cash	3%

Managers:
James Camp, CFA
Sheila King, CFA

*Assuming 39.6 percent tax bracket

The Eagle Special Fixed Income portfolio relies on the expertise of a professional, experienced fixed-income team to seek tax-optimized benefits, stable income and total return for high-net-worth clients. With a combined 100-plus years of experience, the portfolio managers and analysts provide a wealth of bond expertise and have a track record of successfully managing fixed income through all market environments.

Features

- Portfolios take into account clients' objectives and tax circumstance, including state of residence as well as current and future income needs
- Value-oriented, strives to capture incremental return through pricing inefficiencies and overweighting undervalued sectors
- Portfolios may include: U.S. Treasury and government agency bonds, investment-grade corporate and municipal bonds, investment-grade mortgage-backed securities (MBS) and asset-backed securities (ABS), high-yield corporate bonds or bond funds, convertible securities and preferred stocks, up to client restrictions or client specifications.

Investment Process[1]

Asset allocation is based on the client's tax situation, including federal and state income taxes, as well as current and future income needs.

Client Assessment

- Establish client risk profile through a comprehensive interview
- Assess client's income needs and tax issues, including federal tax bracket, state of residence and exposure to the Alternative Minimum Tax (AMT)

Relative Valuation

- Evaluate taxable and tax-free markets based on tax-equivalent yield and the current municipal yield to Treasury yield ratio
- Higher ratios call for higher allocation to tax-free bonds

Sector Allocation

- Allocation of taxable and tax-free bonds based on relative value across their respective sectors
- Analyze outlook of various sectors on a supply/demand basis

Yield-Curve Positioning

- Evaluate the yield curve of the tax-free market in relation to the yield curve of the taxable market as well as within each of the markets

Security Selection

- Determine relative value on an issuer basis and credit rating, as well as bond structures

Sell Discipline

- A bond no longer meets current portfolio maturity profile
- Credit quality has a significant negative change
- Other sectors become relatively more attractive
- Capital gains can be taken without compromising long-term income returns
- A bond is called

Performance[2] as of Sept. 30, 2017

		Third Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (Jan. 1, 1993)
Eagle Special Fixed	Gross	0.72%	3.49%	0.73%	2.88%	2.27%	5.23%
Eagle Special Fixed	Net	0.51%	2.85%	-0.12%	2.02%	1.43%	4.39%
60% BB Int. Gov't./Credit/ 40% BB Seven-Year Municipal		0.67%	3.29%	0.50%	2.38%	2.00%	5.05%

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance information, please call your financial advisor or visit eagleasset.com.

Trailing Standard Deviation as of Sept. 30, 2017

		One Year	Three Years	Five Years	Since Inception (Jan. 1, 1993)
Eagle Special Fixed	Gross	3.87%	2.62%	2.65%	2.68%
Eagle Special Fixed	Net	3.87%	2.62%	2.64%	2.68%
60% BB Int. Gov't./Credit/ 40% BB Seven-Year Municipal		3.84%	2.57%	2.38%	3.23%

Source: Callan; standard deviation is not statistically relevant for periods less than three years

Manager Outlook

Investment-grade corporate bonds, as measured by the Bloomberg Barclays U.S. Corporate Bond Index, gained 1.34 percent during the third quarter and outperformed duration-matched Treasuries by 0.87 percentage points. Improved economic data, diminished geopolitical apprehension and optimism for a reflation-trade comeback spurred by tax-reform headlines were the key drivers behind the solid performance. Financial conditions remain favorable and the theme of easy-money and a firm risk appetite is well intact. However, as mentioned in our previous commentary, easy-money and risk appetite can keep corporate-credit spreads moving tighter for a while but the longer-term consequences aren't always so rewarding. The market's focus should now turn to the third-quarter corporate-earnings season. Corporate-credit spreads could still tighten further but valuations are stretched and downside risks are still very much present. Our base case is for spreads to continue moving sideways-to-tighter due to positive earnings-growth expectations and a generally productive economic backdrop. We will maintain what we view as our high-quality bias and only opportunistically add issues that fit our risk-return criteria.

The domestic municipal-bond market (as measured by the Bloomberg Barclays Municipal Bond Index) posted positive returns (up 1.1 percent) during the third quarter and is up 4.66 percent on a year-to-date basis. Value remains in the longer part of the curve (15-plus years) where the municipal-to-Treasury ratio is in the high 90s to low 100s. The U.S. was bombarded this quarter by hurricane (Harvey) after hurricane (Irma) after hurricane (Maria). Harvey and Irma caused significant damage to parts of Texas and Florida while Maria was catastrophic for Puerto Rico. Importantly, Moody's reports that natural disasters have not caused a single default in U.S. municipal-bond history. There was a slight uptick in bond yields for those areas impacted by the hurricanes. We will continue to monitor our portfolios as it relates to areas impacted by the storms as cost assessments become more concrete. We do not own any Puerto Rico bonds. The key takeaways of President Trump's tax-reform proposal include increasing the standard tax deduction to $24,000 for married taxpayers filing jointly and $12,000 for single filers; consolidating the current seven tax brackets into three brackets; and eliminating the alternative minimum tax (AMT). A reduction in the top tax bracket might lead one to believe the demand for municipal bonds would decline but studies have shown there is no correlation between municipal yields and the top marginal tax rate. We continue to prefer the dedicated revenue sector over state and local general-obligation bonds. We are currently overweight Florida and Washington based on their improving fiscal positions and demographics. We are underweight in states such as Pennsylvania, Illinois and New Jersey because of their financial struggles and large, underfunded pension liabilities.

For more information, visit eagleasset.com

* Yields would be higher on a tax-equivalent basis for clients having municipals, based on their tax bracket and residence.

[1] Not every investment opportunity will meet all of the stringent investment criteria mentioned to the same degree. Trade-offs must be made, which is where experience and judgment play a key role. Accounts are invested at the discretion of the portfolio manager and may take up to 60 days to become fully invested.

[2] Performance Disclosures

Income earned from investments in municipal bonds, while exempt from federal taxes, may be subject to state and local income taxes. All capital gains, as well as income earned from other sources, are subject to taxation. Income from municipal securities may also be subject to the Alternative Minimum Tax. Municipal securities typically provide a lower yield than comparably rated taxable investments in consideration of their tax-advantaged status. Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Please consult an income-tax professional to assess the impact of holding such securities on your tax liability.

Past performance does not guarantee or indicate future results. No inference should be drawn by present or prospective clients that managed accounts will achieve similar performance in the future. Investment in a portfolio, investment manager or security should not be based on past performance alone. Because accounts are individually managed, returns for separate accounts may be higher or lower than the average performance stated. Individual portfolio/performance results may vary due to market conditions, trading costs and certain other factors, which may be unique to each account. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Investing involves risk and you may incur a profit or a loss. Investment returns and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Diversification does not ensure a profit or guarantee against a loss.

All performance data is shown on a time-weighted and size-weighted basis and is shown before (gross) and after (net) the deduction of management fees, custodial fees and miscellaneous charges to client accounts; all performance is shown after transaction costs. Calculations include reinvestment of all income and gains. Performance figures include all internal, retail Special Fixed accounts of Eagle Asset Management, a St. Petersburg, Florida-based firm. A client's return will be reduced by the advisory fees. Eagle's fees are set forth in Eagle's Form ADV, Part II. Over a period of five years, an advisory fee of 1 percent could reduce the total value of a client's portfolio by 5 percent or more. Investing in equities may result in a loss of capital. Current performance may be lower or higher than the performance information quoted.

All composite performance data through 2016 have been verified by an internationally recognized accounting firm. Performance data for the current year have not been audited and subject to revision. Thus, the composite returns shown here may be revised and Eagle will publish any revised performance data. Eagle believes that the performance shown is reasonably representative of its management style and is sufficiently relevant for consideration by a potential or existing client.

Risks Associated with Fixed Income Investing

Many investors consider bonds to be "risk-free" investment vehicles. Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, there are many factors which may affect the risk and return profile of a fixed-income portfolio. The two most prominent factors are interest-rate movements and the creditworthiness of the bond issuer. The risk of a change in the market value of the investment due to changes in interest rates is known as interest-rate risk. Interest-rate risk is subject to many variables but may be analyzed based on various data (e.g., effective duration). The risk that the issuer may default on interest and/or principal payments is often referred to as credit risk. Credit risk is typically measured by ratings issued by ratings agencies such as Moody's and Standard & Poor's. Bonds issued by the U.S. Government have significantly less risk of default than those issued by corporations and municipalities (see below for a discussion of the risk associated with convertible securities). However, the overall return on Government bonds tends to be less than these other types of fixed-income securities. Finally, reinvestment risk is the possibility that the proceeds of a maturing investment must be invested in a lower yielding security, all other things held constant, due to changes in the interest-rate environment. Investors should pay careful attention to the types of fixed-income securities which comprise their portfolio, and remember that, as with all investments, there is the risk of the loss of capital.

Index Descriptions

The benchmark for Special Fixed Income accounts is a blend of 60 percent Bloomberg Barclays Intermediate Government/Credit Index and 40 percent Bloomberg Barclays Seven Year Municipal Index. The Bloomberg Barclays Intermediate Government/Credit Index represents the intermediate component of the U.S. Government/Credit Index. The Bloomberg Barclays Seven Year Municipal Index is the seven-year component of the Municipal Bond Index. The index is referred to for comparative purposes only and the composition of an index is different from the composition of the accounts included in the performance shown. Indices are unmanaged and one cannot invest directly in the index.

Standard Deviation is a measure of the dispersal or uncertainty in a random variable. For example, if a financial variable is highly volatile, it has a high Standard Deviation. Standard Deviation is frequently used as a measure of the volatility of a random financial variable.

EAGLE | Asset Management

AN AFFILIATE OF CARILLON TOWER ADVISERS

eagleasset.com

880 Carillon Parkway | St. Petersburg, FL 33716 | 727.573.2453 | 800.237.3101