

WHY FIXED-INCOME REMAINS AN IMPORTANT ALLOCATION

Uncertainty about interest rates doesn't diminish the value of bonds in portfolios but may, in fact, increase the need for professional management.

EXECUTIVE SUMMARY

- There is growing concern among investors that the U.S. economy may face a high-inflation, high-interest period as it did in the late 1970s and early 1980s.
- Our belief is the Federal Reserve is focused on ensuring the economy gets back on track — and stays on track — and consequently will keep rates where they are into the second half of 2010.
- We may be entering a longer period of interest-rate volatility, however, which we believe increases the potential benefits of having a professional fixed-income manager.
- Bonds — historically a way to lower a portfolio's overall volatility by counterbalancing equity returns — remain an important part of a well-allocated portfolio.

This has been a remarkable time in the investment arena. The question now is, Where do we go from here? We believe fixed-income vehicles should remain an important part of an investor's asset-allocation mix and a transparent, investment-grade bond fund may be a particularly good choice for many investors.

Eagle's Fixed Income team believes the economy will see slower growth, continued "deleveraging" on the part of businesses and individuals and greater regulation. This likely translates to a more volatile investment environment going forward and a climate in which an investment-grade fixed-income mutual fund may be a way to produce consistent, stable long-term returns. We are focused on being nimble and flexible to exploit opportunities in fixed-income securities when they occur.

Inflation concerns

It has become apparent in our conversation with financial advisors and their clients that there is becoming a consensus view that the U.S. economy faces near-term higher inflation and interest rates. We remind ourselves how often that what everyone "knows to be certain" has turned out to be wrong or, more frequently, the market already has priced itself for that outlook.

Many investors have clear recollection of the high double-digit interest rates and inflation of the late 1970s and early 1980s. The many economic-stimulus plans currently in place (in addition to funding two war efforts and potentially a new federal healthcare system) must be paid for sometime; however, the real question is, When?

The answer may not be "now," as some people fear. We don't believe the Federal Reserve will raise interest rates soon. Our belief is that when the Federal Open Market Committee says it plans to keep interest rates around zero percent for some time, it means any rate moves – if there are any at all – won't happen until well into 2010. The economy is showing signs of recovery but we believe

Federal Reserve Chairman Ben Bernanke, a student of the Great Depression, will demonstrate the same deliberation in removing the stimuli (not the least of which, of course, are interest rates between zero percent and 0.25 percent) as he demonstrated alacrity in putting those programs in place.

Further, it's important to have some perspective on what prospective rate increases may mean. The long-term average for the Fed funds rate, which was instituted in 1954, is 5.53 percent, according to data from the Federal Reserve Bank of St. Louis. A 200 basis-point increase in the overnight rate would still be less than half the historical average. There's no guarantee the Federal Reserve wouldn't increase rates more dramatically but our belief is that Bernanke and others are more concerned about ensuring the economy is solidly on its feet than the distant rattling of hyperinflation.

What we may see, though, is increased volatility in interest rates as the Fed balances keeping the economy moving forward in a slow-growth environment while trying to ensure individual asset classes don't become hyper-inflated.

Investing in bonds today

Some investors have asked if investment-grade fixed-income assets still make sense, generally and in light of this year's tremendous recovery in risk assets and markets. Our answer is yes on both counts.

There are, of course, many reasons to invest in fixed income and we believe those reasons are every bit as valid today as they were two years ago or 10 years or 20 years ago. Bonds are an integral part of an asset-allocation mix. They historically have produced higher returns than cash while generally exhibiting less volatility than equities. Further, bonds may lower a well-allocated portfolio's overall risk by providing returns that may serve to mitigate negative returns on stocks (or vice versa) should these asset classes move inversely.

And, it is true we have enjoyed an extraordinary rally in bonds paying higher returns than Treasuries since the beginning of the year. Ten- and 30-year Treasuries suffered their worst performance ever in 2009. Nevertheless, we believe certain fixed-income asset classes still offer value from a historical perspective.

The benefit of professionally managed fixed income

It is finding those particular bonds – to say nothing of navigating what may be a volatile interest-rate environment over the next several years – where professional fixed-income management really pays dividends. Laddering bonds may have worked in the past, but debt vehicles have grown more complicated and market events clearly have changed the bond business. There are increasingly fewer bonds available to retail investors, thus hampering the ability to construct an effective ladder.

In today's world, most clients would not buy a stock solely on an analyst's rating nor should your client invest in a bond issue that hasn't been vetted by

an independent source. Rating a bond has become increasingly difficult and requires skills not unlike that of an equity analyst. Professional portfolio managers leverage their knowledge and technology to research the creditworthiness of bond issues and evaluate market information prior to making investment decisions.

Today's fixed-income market offers greater opportunities, as well as greater risks. Our goal is to actively mitigate exposure to market risk and protect the safety of investors' principal. Our research emphasizes structural analysis to capitalize on perceived inefficiencies in the bond market; further, a professional fixed-income manager offers access to bonds not readily available to individuals, often at advantageous prices through block trading; opportunities to capture capital gains; and the ability to skillfully reposition holdings as market conditions change (e.g., interest-rate trends, economic outlook, Federal Reserve policy and sector valuations).

Eagle's experienced fixed-income team constantly analyzes current and expected economic data to determine future inflation risks and dollar concerns for 2010 and beyond. We are not wedded to a particular scenario or outcome. Consequently, we could quickly and aggressively restructure our holdings if our forecast for inflation and/or interest rates changes.

Eagle Investment Grade Bond Fund

Eagle has created an investment-grade bond fund that will launch March 1, 2010. We have done so in response to the growing concern – on the part of financial advisors and clients – over the uncertainty associated with the fixed-income market. Advisors who were impressed by the Eagle team's discipline and results in moving separately managed account clients through the last few tumultuous years had requested a vehicle that would allow those who don't

meet the individual-account minimums to enjoy the potential benefits of Eagle's active fixed-income management. And some advisors and clients simply requested a fixed-income fund designed to offer a stable income stream – without huge volatility in principal – that has higher yields than cash investments.

The fund will focus largely, but not exclusively, on the intermediate, investment-grade bond market, which we believe offers investors a compelling combination of limited risk and attractive returns in today's volatile investment climate. We will seek to construct a fund – one benchmarked to, but not tied to, the Barclays Capital Intermediate Government/Credit Index – with lower sensitivity to interest rates. We likely will limit exposure to securities maturing in more than 10 years and use securities (e.g., floating-rate notes and TIPS) designed to protect investors from rising interest rates and inflation.

Eagle will use the same comprehensive investment process as our separately managed accounts. Our investment objective will be to provide total returns consistent with investments in intermediate, investment-grade bonds while outperforming our benchmark and peer groups through active portfolio management. One distinguishing feature of the new fund will be the very limited use of “synthetic” structures and derivatives (i.e., we want our investors to understand what we own in the fund) so that it has greater transparency than its peer group.

Eagle's team of portfolio managers and analysts provides a wealth of fixed-income experience and has an outstanding long-term track record. Our overarching investment philosophy revolves around the notion of receiving appropriate compensation for the risk we take in holding certain fixed-income securities.

Conclusion

Confusion and uncertainty have become the buzzwords among many as it relates to how fixed-income investing fits into investors' asset-allocation plans during a period in which the U.S. economy likely faces slower-than-average growth. Eagle believes this environment does nothing to diminish the value of bonds in investors' portfolios but perhaps increases the need for the professional management of fixed-income securities.

We are launching March 1, 2010, the Eagle Investment Grade Bond Fund designed to offer a compelling risk/reward opportunity for investors. We believe this fund will offer clients – including those who previously could not meet the minimum investment for an Eagle separately managed account – a stable, high-quality and transparent investment tool that provides a reliable income stream in what may be a volatile investment environment.

Investing in bonds involves risks that may adversely affect the value of your investment, such as – among others – inflation risk, credit risk, call risk, interest-rate risk and liquidity risk.

Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Contact Eagle Fund Services at 1.800.421.4184 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.

GLOSSARY OF FIXED INCOME TERMS

Basis point – One basis point equals one one-hundredth of a percentage point (i.e., 1 basis point = 0.01 percent). A 200 basis-points (sometimes written as “bps”) increase would equal 2 percentage points.

Fed funds rate – This rate, set by the Federal Open Market Committee, is the interest rate banks charge to loan each other money they have on reserve with the U.S. Treasury. The loans typically are made and paid back between business days; therefore, the Fed funds rate is also known as the “overnight rate.” The Fed funds rate does not directly affect individuals or companies but many loan and/or interest rates are tied to the Fed funds rate.

Floating-rate note (also called a floater) – This is similar in concept to adjustable-rate mortgages. A floating-rate note is one with a variable interest rate. The rates re-adjust at set times (twice a year is common) and are tied to a money-market index. They are designed to protect against a rise in interest rates. The “price” for that protection is that floating-rate notes typically have lower yields than similar, fixed-rate notes.

“Laddering” bonds – This is a passive style of fixed-income investing whereby an individual buys bonds with different maturities. The notion is that by spreading out the maturity dates, one lessens the odds that all the bonds will mature in an interest-rate environment detrimental to an investor who plans to sell entirely or reinvest in the fixed-income market.

TIPS – Treasury Inflation-Protected Securities (TIPS) are U.S. Treasury notes designed to provide protection against inflation. The principal of a TIPS note increases with inflation and decreases with deflation (as measured by the consumer price index, or CPI). Investor are paid the adjusted principal or original principal, whichever is greater, at maturity.

TIPS pay interest twice a year at a fixed rate, which is applied to the adjusted principal; consequently, interest payments rise with inflation and fall with deflation just as the principal does.

Barclays Capital Intermediate Government/Credit Index – This is an unmanaged index based on all publicly issued intermediate government and corporate debt securities with maturities of one to 10 years. It index represents assets that are subject to risk, including loss of principal.

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

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