

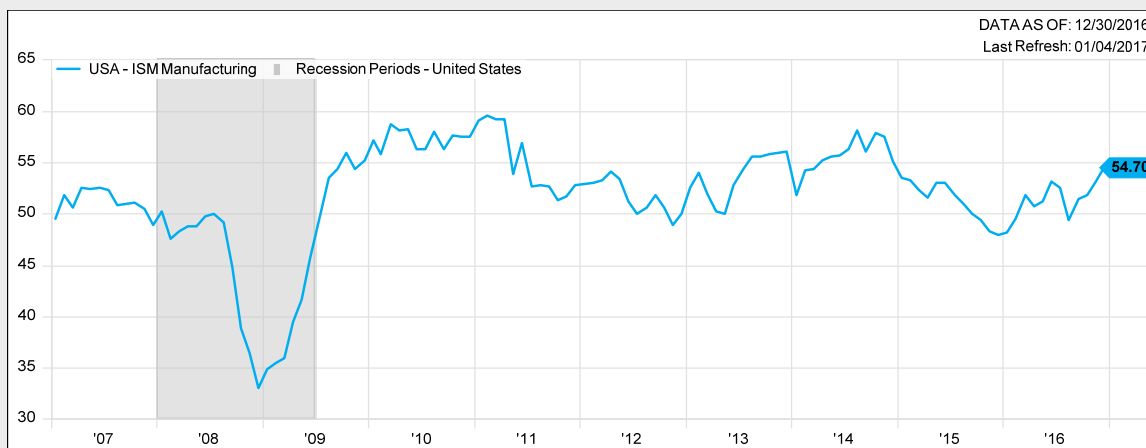
EGA U.S. Equity

From the EGA Portfolio Management Team

The dual prospects of a Donald Trump presidency (lower taxes, deregulation and fiscal stimulus) and further interest rate increases triggered a rally in the U.S. equity markets, led by the financials sector, which rose 21% in the fourth quarter. The S&P 500 Index returned +3.82% for the quarter while international equity markets, represented by the MSCI EAFE Index, returned -0.71%. For the year, the S&P 500 has returned +11.96% versus MSCI EAFE at +1.01%. Interest rates increased sharply during the quarter, leading to negative returns in fixed income.

Economy: *Underlying domestic economy remains solid*

Q3 real GDP was revised up to a 3.5% annual rate from 3.2%, the fastest pace in two years, and above consensus estimate of 3.3%. Growth had averaged 1.9% in the first half of 2016, slightly below the 2.1% annual growth in the current expansion. The upward revision to real GDP growth stemmed mostly from stronger capex, consumer spending, and state and local (S&L) government spending.

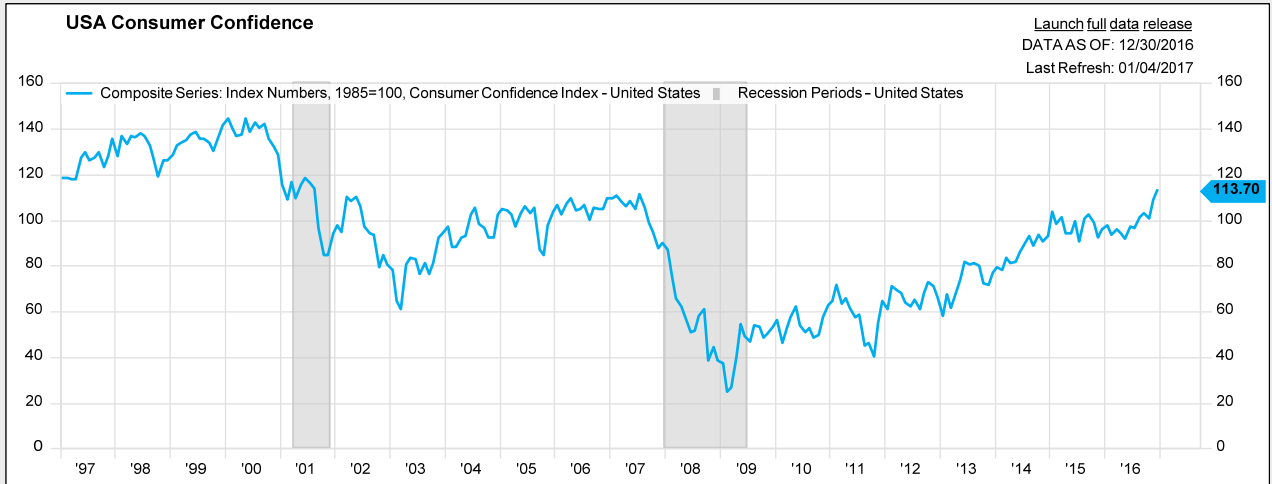


Source: ISM Report, Factset

The ISM Manufacturing Index rose 1.5 points to 54.7 in December, its fourth gain in a row, and to the highest level in two years, as factory activity continued to strengthen at year-end. The ISM estimates that the latest reading corresponds to 3.6% real GDP growth annually. The increase was led by a 7.2-point surge in new orders, the most since August 2009, to 60.2, while production rose 4.3 points to 60.3. Both new orders and production were at their highest levels since November 2014. The pickup in the ISM Manufacturing Index positions the manufacturing sector for a healthy start in 2017.

The NFIB Small Business Optimism Index jumped 3.5 points in November to 98.4, the highest level in nearly two years, and the second highest since January 2007, as respondents felt decidedly better about the outlook for the economy and demand for their products. It was the biggest gain in optimism since April 2009, and in line with other gauges of business confidence, e.g., Wells Fargo/Gallup Small Business Index and Duke University/CFO Magazine Business Outlook Survey, reflecting expectations for pro-growth and more business friendly policies from the incoming Trump administration.

The Conference Board's Consumer Confidence Index jumped 4.3 points in December to 113.7, its highest reading since August 2001. There was a wide disparity among the age of respondents. Confidence among those age 55 and over jumped 14.8 points, while those under 35 plunged 19.6 points. Those in the middle improved 2.6 points.



Source: The Conference Board, Factset

The housing market had a mixed quarter. Gain in existing home sales was offset by a decline in pending home sales due to higher mortgage rates. Existing home sales picked up 0.7% in November, its third straight gain, to a 5.61 million unit annual rate, the highest level since February 2007. However, pending home sales index fell 2.5% in November to its lowest level since January 2016, and contrary to the consensus expectation for a 0.5% gain. The National Association of Realtors attributed the decline to higher mortgage rates, rising prices, and tight inventory. Additionally, housing starts fell 18.7% in November, the second most on record, to a 1.090 million unit annual rate, reversing some of the 27.4% gain in October. The S&P/Case-Shiller U.S. National Home Price Index for October rose 5.6% from a year ago to a record high. However, mortgage rates rose in November and home prices have appreciated faster than median wage growth, which is likely to put pressure on affordability and the pace of appreciation in 2017.

Unemployment rate dropped from 4.9% in October to 4.6% in November as a large number of workers left the labor force. The participation rate fell back to 62.7% from 62.8%, just above the cycle low of 62.4%. If the jump in consumer confidence is any indication, the participation rate should rebound in the coming months. The broader measure of unemployment which includes people working part-time dropped to 9.3%.

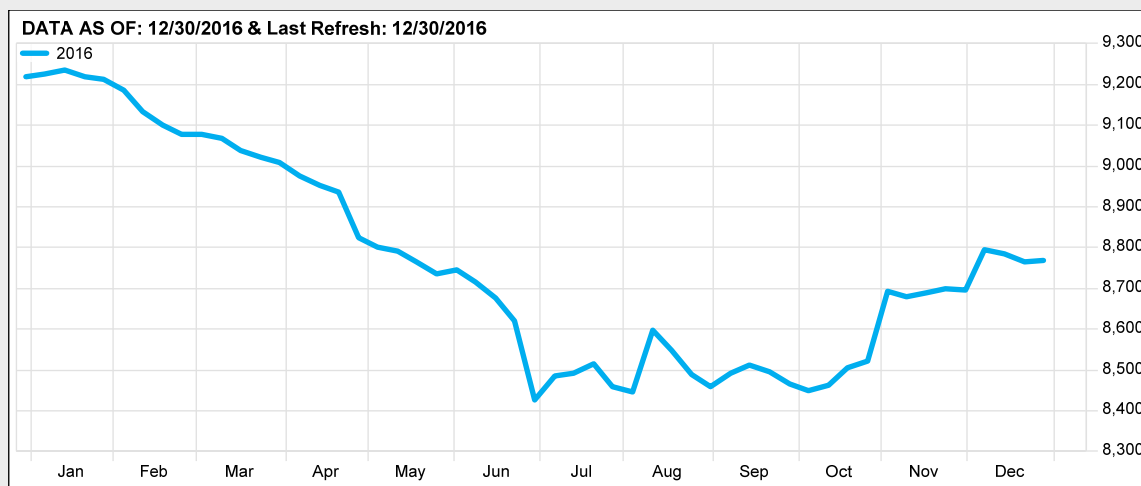
The incoming administration has instilled optimism in the U.S. equity markets, with major indices scaling to new highs amid expectations of deregulation, tax reform, manufacturing revival and fiscal stimulus. However, it brings with it some concerns related to appreciation of the U.S. Dollar and its impact on

exports, impact of proposed trade policies on consumer purchasing power and the risk of trade war, impact of higher interest rates on large ticket purchases and the impact of higher budget deficit on government spending in the future. Against this backdrop and bearing in mind the complications of new policy implementation, we remain cautiously optimistic about global economic activity.

Oil: *Recovering, but concerns remain*

WTI crude oil prices surged 11% during the quarter as OPEC and non-OPEC producers surprised the market by pledging to cut almost 2% of global production. Two years ago the opposite had happened when OPEC announced it would defend market share against rising non-OPEC production (primarily in the U.S.) and began to put additional barrels of oil into an already saturated market. The issue for OPEC is that production cuts become self-defeating if they raise prices enough to incentivize other producers to increase production. The increase in oil prices is already having a positive impact on U.S. shale production, evidenced by a material ramp up in U.S. crude oil production in the fourth quarter. Citigroup estimates that if prices rise toward \$60 a barrel in 2017, U.S. production would climb back to 9.2 million barrels per day by December and to more than 10 million by 2018. The cuts take effect from January 1, 2017 and will last for six months. In the past, OPEC has suffered significant compliance problems. Traders will monitor oil-tanker traffic to ascertain deal compliance. However, they cannot monitor Russia's pledge to cut 300,000 b/d of production, because much of its production moves by pipeline.

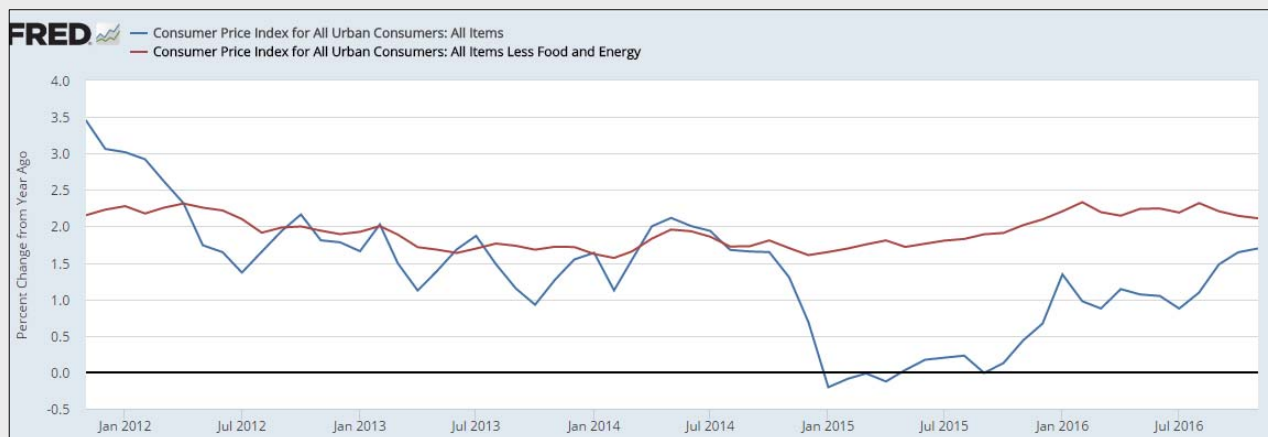
U.S. Crude Oil Field Production (000 bbls/day)



Source: EIA, Factset

Inflation: *Ticking up*

The Consumer Price Index (CPI) rose 1.7% in November over the prior year. Excluding food and energy, prices were up 2.1%, largely driven by shelter costs. Rate of inflation is expected to accelerate in 2017 with higher energy prices and minimum wage increase in 19 states for about 4.3 million low-wage workers at the start of the year.



Source: Bureau of Labor Statistics

Corporate Profits: *Profits expected to rise sharply*

According to Starmine “Smart Estimates”, earnings for the S&P 500 Index will grow (versus a year ago) by 6.4% in the fourth quarter of 2016, driven by a projected increase of 15% in Financials, 12% in Real Estate, 10% in Utilities and 8% in Information Technology. Industrials and Telecom Services are the only two sectors with negative projected growth rates. With the S&P 500 Index currently near 2270, the Price-to-Earnings Ratio of the market is around 17 times 2017 mean earnings estimate (compiled by Factset). That is slightly above its long-term average. According to Factset, S&P 500 earnings are expected to grow a solid 12% in 2017.

Interest Rates: *Federal Reserve indicated three hikes in 2017*

As widely expected, the FOMC raised the target range for the Fed Funds rate by 25 bp to 0.50% to 0.75%, or a median 0.63%. After eight consecutive declines for 2017 and four straight declines for 2018, the median values of the “dot plot” increased by 25 bp in each of those two years and for 2019. That implies three hikes in 2017, three in 2018, and three in 2019. The median longer run value edged higher by 0.13% to 3.00%. The increase in the median dots suggests greater confidence in the economic and inflation outlooks.

International

The big question for Europe in 2017 is whether fragile economic growth and unprecedented central bank stimulus will be overtaken by populist politics. If the populist candidates triumph in coming votes (in France, Germany and the Netherlands) the prospect of a Eurozone breakup could return to markets. Meanwhile, the diverging monetary policies of the ECB and Federal Reserve will continue to put downward pressure on the value of the euro. A weaker euro is in the interest of the Eurozone as it makes their goods more competitive for export. That may have already been reflected in the recent

PMI report. IHS Markit's 2016 manufacturing Purchasing Managers' Index for the Eurozone registered 54.9 in December, the highest level since April 2011. German manufacturing growth reached its highest level in almost three years, driven by rising demand from Asia and the United States. French manufacturing hit a 5.5 year high, and Italian manufacturing activity grew at its fastest rate since June. In China, Caixin's composite PMI covering the manufacturing and services sectors rose to 53.5 in December from 52.9 in November as activity and new work expanded, giving a final quarter lift to the country's economy. But, the stability of the yuan is back at the center of attention. The rising dollar is exacerbating capital outflows and tightening liquidity. Chinese bond markets plunged in reaction to the Federal Reserve's interest rate hike in December. China's central bank has had to drain \$300bn of its reserves in the first three quarters of 2016, more than it spent in all of 2015, as it fought to slow the yuan's decline against the dollar.

All this speaks to 2017's unusual uncertainty as political and economic systems respond to many years of growth that has been too low and insufficiently inclusive. To sustain the rally in equity prices globally, it requires the largest trading blocs to overcome the headwinds of political fluidity while pursuing pro-growth structural reforms.

Investment Strategy

Domestic Equity: *U.S. equities outperform*

Eagle domestic equity portfolios outperformed the S&P 500 Index during the fourth quarter. Individual portfolio returns may differ due to cash flows, tax management, and other factors. Stock selection, primarily in Health Care and Materials drove the outperformance. Sector allocation was also positive, driven by our strategy of being underweight in Utilities, Consumer Staples and Real Estate, and overweight in Financials. Our largest overweight allocations are in Financials, Industrials and Information Technology. Consumer Staples, Utilities and Real Estate are the largest underweights. During the quarter we increased our exposure to Information Technology, Financials and Materials while reducing our exposure to Health Care, Consumer Discretionary and Utilities. Top performers for the quarter: Suntrust, Alaska Air and Micron Technology. Disappointments for the quarter: Hanesbrands, CVS and Transdigm. New buys/additions during the quarter: Alphabet, Amazon.com, Micron Technology, CF Industries, CVS, Qualcomm, Facebook, Ingersoll-Rand and Newfield Exploration. New sells/trims: Aetna, Hess, Huntington Ingalls, Hewlett Packard Enterprises, Starz and Visteon.

International Equity: *International equities decline*

Eagle international equity portfolios performed in line with the MSCI EAFE Index. Positive stock selection in Industrials was offset by negative selection in Information Technology, Financials and Consumer Discretionary. Country allocation was negative due to an overweight in Belgium and Hong Kong and a lack of exposure to Italy. Positive stock selection in Hong Kong, Netherlands, Japan and Belgium was partially offset by challenging stock selection in the U.K., Switzerland and Spain. We increased the portfolio's exposure to Industrials, Materials and Energy while decreasing exposure to Health Care and Consumer Staples. Top performers: ING, Suncor and AXA. Disappointments: Seven & I Holdings, Shire and Cap Gemini. New buys/additions during the quarter: AP Moller, Cemex, Arkema, Kingfisher, Nippon Telegraph and Petrochina. New sells/ trims: Cap Gemini, Nissan Motors, Ono Pharma and Sanofi.

Fixed Income: *Higher rates expected*

Following Trump's victory in November, interest rates jumped on expectations for faster economic growth and higher inflation. Before year end the 10-year Treasury yield had topped 2.60%, rising steadily from 1.86% on election day. This rise in interest rates led to a sharp sell-off in the bond market, particularly for longer maturities. Eagle fixed income portfolios had a much better fourth quarter and 2016 than the benchmark bond indices for several reasons. First, we maintained shorter maturities than the benchmarks which lessened the impact of rising rates. Second, we maintained an overweight to corporate bonds which outperformed as credit conditions improved and third, we invested in floating rate funds which not only protected against rising rates but actually posted strong returns for the year and positive returns for the quarter unlike other sectors of the bond market. With the prospects for a stronger economy going forward, we would expect credit spreads to tighten further and for corporate bonds to continue to outperform and will therefore maintain our overweight position. We will also maintain a duration shorter than the index in anticipation of further rate hikes. How many hikes this year is uncertain as President-elect Trump's economy-boosting proposals which will put upward pressure on interest rates must still pass Congress. On December 14th the Federal Reserve did raise the federal funds rate as expected for the second time this decade and predicted three quarter point rate hikes in 2017 compared with the once-a-year pace in 2015 and 2016. But they also acknowledged that a "cloud of uncertainty" existed as it weighted the possibility of tax and spending changes and the impact that those changes in fiscal policy would likely have on their interest rate policy. The Fed also worried that a stronger dollar could re-emerge as a risk factor. One positive development is that the bump in interest rates is making bonds more attractive investments than they have been for a while. We will be looking for the right opportunity to take advantage of higher rates when the time comes but will maintain our cautious stance in the meantime.