

# First Eagle News

OCTOBER 2009

## One Year Later: A Look Back

### Q&A with Portfolio Managers Matt McLennan and Abhay Deshpande

**As portfolio managers during the collapse of Lehman Brothers, the first money market fund to “break the buck,” the collapse of Fannie Mae and AIG and an overall global financial crisis, how did the events of the past year affect your approach to managing the portfolio?**

**Matt McLennan:** At First Eagle we are and always have been most concerned with the downside risks that could face our portfolios. Our goal is to preserve the real purchasing power of capital over time for our clients regardless of the market environment. We do this primarily through the ownership of undervalued enterprise, where we attempt to avoid permanent impairment of capital. The first question we ask ourselves is “What can go wrong?” This approach to value investing enabled us to sail a steady course through this unprecedented global economic crisis. As bottom-up investors we sought to uncover businesses with prudent management and minimal to no use of leverage that were available at low prices.

We have always viewed market volatility as our friend and that remained true over the past year. We did not attempt to zig and zag in an effort to predict market movements, and as a result we were able to take advantage of the volatility by planting valuable seeds for the long term.

**Abhay Deshpande:** When we think about our performance during this economic crisis or any others that have occurred during our 30-year history, we attribute much of our success to our acts of omission.

*“Our goal is to preserve the real purchasing power of capital over time for our clients regardless of the market environment.”*

*— Matt McLennan*

Years ago, banks used to operate as simple businesses, but over time and through the invention of numerous financial instruments, banks became more complicated and the risks accumulated and compounded. Their balance sheets became opaque. At First Eagle we are not willing to invest in businesses we do not understand, and therefore we were not invested in the “black-box” financials that crumbled over the past year, just as we weren’t invested in the tech stocks in the ‘90s or Japanese stocks in the ‘80s.



Picture: from left to right: Abhay Deshpande and Matt McLennan

**Abhay, having worked on the team both as an analyst and as a portfolio manager over the past 10 years, can you discuss how First Eagle's approach to portfolio management has changed, especially as it relates to today's economic environment?**

**AD:** Our style of portfolio management has not changed. The approach that enabled us to achieve success over the last 30 years is still in place today. There remain a number of eclectic, smaller cap securities in the portfolio from years ago, and we have invested in several larger cap names more recently because this is where the most attractive opportunities have been.

As I mentioned before, much of our success can be attributed to our acts of omission. We have been able to avoid many of the market calamities by looking at the downside risks first, having a deep understanding of the businesses we invest in and calculating conservative estimates of intrinsic value — the price an investor would pay in cash for the entire business today.

The flexibility we have at First Eagle to invest without restrictions in terms of asset class, sector or geography, provides us with the ability to find the pockets of value and invest with the goal of achieving positive returns over time without being exposed to an undue amount of risk.

**Jean-Marie has said that the analysts are truly the heart of our operation. Can you describe the strengths of the Global Value Team today?**

**MM:** Over the past year we have had the opportunity to further invest in the Global Value Team. We have been strategic in the sense that the disruption in the financial industry afforded us the option to add tremendous strength to our team. In January, we welcomed Kimball Brooker. Prior to joining our team, Kimball was successful as the CIO and Managing Director of Corsair Funds, a spin-off from JP Morgan.

*“The approach that enabled us to achieve success over the last 30 years is still in place today.”*  
— Abhay Deshpande

In May 2009, we welcomed back Elizabeth Tobin. Elizabeth brought with her not only decades of experience, but relevant experience, as she had previously worked with Jean-Marie for nearly 15 years. In fact, she was his first hire back in 1986 and grew to become the Associate Portfolio Manager of the Global and Overseas Funds alongside Jean-Marie.

The team we have in place today is stronger than it has ever been, with 11 analysts, two dedicated traders, Bruce Greenwald as the Director of Research and Jean-Marie as our Senior Adviser — Abhay and I are truly fortunate to have such a deep bench. I am confident we have the individuals to carry us into the future and to preserve the legacy that Jean-Marie began 30 years ago.

**AD:** Elizabeth and I worked together previously. She has not only the temperament of a value investor but the experience that few have. We also very recently hired Giorgio Caputo. Giorgio, too, is a talented analyst with more than 13 years of experience and has the foundation of a true value investor. I would agree with Matt in saying that the team is stronger today than it has ever been.

**How does the team work together and, in particular, how do you collaborate on investment ideas and portfolio construction?**

**MM:** Jean-Marie has always said that the analyst team is the “heart of the operation,” and that belief continues with both Abhay and me today. We are all sounding boards for one another, bouncing ideas off each other and discussing them in an open and collaborative environment. This open dialogue allows us to flush out inconsistencies and challenge each other’s thinking.

The team is complemented by our Director of Research, Bruce Greenwald, both an intellectual and practical resource for the analysts. In addition to his role with us, he is a professor of finance and economics at Columbia University Business School, where he is the Director of the Heilbrunn Center for Graham and Dodd Investing.

**What has Jean-Marie’s role been since transitioning to Senior Adviser?**

**AD:** Jean-Marie’s involvement in the team and the firm has not changed significantly since his transition to Senior Adviser. He is in constant communication with the Global Value Team and often is in the office collaborating with Matt and myself. He continues to be a priceless resource to each and every one of us.

It is important to remember that Jean-Marie began working as an analyst on the Global Fund in 1970. He was the Portfolio Manager for more than 30 years and now serves as a Senior Adviser and member of the Funds’ Board of Trustees, a role that will continue indefinitely. He has a tremendous sense of fiduciary responsibility, commitment and dedication to the Funds and their success. In addition, his interests are aligned alongside our clients, as he is also one of our largest shareholders.

**MM:** Jean-Marie’s wisdom, experience and character have been invaluable to us all at First Eagle as we have faced the current economic environment. Having the chance to work with and learn from him has been a privilege for all of us. We will continue to benefit from his unique historical perspective and experience.

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**Matthew McLennan, CFA**

Matt McLennan joined First Eagle in September 2008 as Portfolio Manager and Global Value Team Lead. Most recently, Matt worked for Goldman Sachs Asset Management in London, where he served as founder and Co-Portfolio Manager of Global Equity Partners. This portfolio used an absolute return, value-driven approach that emphasized low turnover and downside protection. During Matt’s 14 years at Goldman, he held the positions of Small Cap Research Analyst, Portfolio Manager of U.S. Small Cap Value and Mid Cap Value Strategies and Managing Director. He holds the Chartered Financial Analyst (CFA) designation.



**Matt, after spending 14 years at Goldman Sachs, how have you enjoyed working at a smaller, closely held firm?**

**MM:** I was attracted to First Eagle because of our similarities in approach, our emphasis on capital preservation and our focus on the long term. The freedom to invest across the capital structure, globally and in a variety of non-equity assets such as gold and cash, were all appealing attributes beyond philosophical resonance.

Furthermore, the tradition and heritage of the Adviser to the Funds, Arnhold and S. Bleichroeder Advisers, were appealing as they have been in the advisory business for more than a century and have the ability to attract fellow value investors based on the purity of their investment-centric culture.

There were periods of time in my life when I felt I was under pressure for being a value investor and, for example, not investing in the stocks of the TMT bubble. But to be a successful value investor, one has to have the willingness to be short social acceptance and to invest where opportunities live, regardless of market trends. We are part of a firm that is totally supportive of that value mindset.

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**Abhay Deshpande, CFA**

Abhay Deshpande has been a Portfolio Manager of the First Eagle Funds since 2007. He joined First Eagle Funds in 2000 as a senior member of the research team, where he covered energy, base metals, retail, media and technology, among other industries. Prior to joining, Abhay spent three years as a research analyst with Harris Associates, advisers to the Oakmark International Fund and other international and global products. He was also an analyst for Morningstar. A graduate of the University of Louisville, Abhay holds the Chartered Financial Analyst (CFA) designation.

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**Average Annual Returns as of 09/30/2009**

	YTD	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Global Fund – Class A (without sales charge) (SGENX)	20.31%	7.49%	9.69%	12.86%	1.14%
First Eagle Global Fund – Class A (with sales charge) (SGENX)	14.29	2.11	8.57	12.43	
First Eagle Overseas Fund – Class A (without sales charge) (SGOVX)	19.92	11.51	10.30	13.13	1.15%
First Eagle Overseas Fund – Class A (with sales charge) (SGOVX)	13.92	5.93	9.18	12.70	
First Eagle Gold Fund – Class A (without sales charge) (SGGDY)	31.83	32.99	16.13	19.50	1.21%
First Eagle Gold Fund – Class A (with sales charge) (SGGDY)	25.23	26.34	14.94	19.04	
	YTD	1 Year	5 Years	Since Inception 09/04/01	
First Eagle U.S. Value Fund – Class A (without sales charge) (FEVAX)	19.25%	-0.90%	5.47%	8.75%	1.21%
First Eagle U.S. Value Fund – Class A (with sales charge) (FEVAX)	13.29	-5.85	4.39	8.07	

The performance data quoted herein represents past performance and does not guarantee future results. Market volatility can dramatically impact the fund's short-term performance. Current performance may be lower or higher than figures shown. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Past performance data through the most recent month end is available at [www.firsteaglefunds.com](http://www.firsteaglefunds.com) or by calling 800.334.2143. The average annual returns for Class A Shares "with sales charge" of First Eagle Global, Overseas and Gold Funds give effect to the deduction of the maximum sales charge of 3.75% for periods prior to March 1, 2000 and of 5.00% thereafter. The average annual returns for Class A Shares "with sales charge" of First Eagle U.S. Value reflect the maximum sales charge of 5.00%.

There are risks associated with investing in funds that invest in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates. Funds whose investments are concentrated in a specific industry or sector may be subject to a higher degree of risk than funds whose investments are diversified and may not be suitable for all investors. The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Global Fund as of September 30, 2009: Lehman Brothers Holdings Inc. 0.00%, Fannie Mae 0.00%, AIG 0.00%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

The commentary represents the opinion of the Global Value Team Portfolio Managers as of October 2009 and is subject to change based on market and other conditions. Mr. Eveillard transitioned to Senior Adviser on March 26, 2009, a position he also held from January 2005 to March 2007, and continues to be a member of First Eagle Funds' Board of Trustees and a Senior Vice President of Arnhold and S. Bleichroeder Advisers, LLC. The opinions expressed are not necessarily those of the firm. **These materials are provided for informational purpose only.** These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Any statistics contained here have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. **The views expressed herein may change at any time subsequent to the date of issue hereof.** The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any fund or security.

The First Eagle Funds are offered by First Eagle Funds Distributors, a division of ASB Securities LLC, 1345 Avenue of the Americas, New York, New York 10105. **This collateral is not authorized for distribution unless accompanied or preceded by a prospectus. Investors should consider risks, charges and expenses carefully, which are detailed in our prospectus. Please read our prospectus carefully before investing. For further information about the First Eagle Funds please call 800.334.2143.** Investments are not FDIC insured or bank guaranteed, and may lose value.

**First Eagle Funds**

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Average Annual Returns as of 12/31/2009:	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Global Fund – Class A (w/o sales charge) (SGENX)	22.91%	22.91%	8.10%	12.36%	1.14%
First Eagle Global Fund – Class A (w/ sales charge) (SGENX)	16.76	16.76	7.00	11.93	
First Eagle Overseas Fund – Class A (w/o sales charge) (SGOVX)	20.64	20.64	8.12	12.30	1.15%
First Eagle Overseas Fund – Class A (w/ sales charge) (SGOVX)	14.61	14.61	7.02	11.87	
First Eagle Gold Fund – Class A (w/o sales charge) (SGGDGX)	39.18	39.18	17.68	21.42	1.21%
First Eagle Gold Fund – Class A (w/ sales charge) (SGGDGX)	32.22	32.22	16.48	20.96	
				Since Inception 09/04/2001	
First Eagle U.S. Value Fund – Class A (w/o sales charge) (FEVAX)	24.84%	24.84%	4.72%	9.08%	1.21%
First Eagle U.S. Value Fund – Class A (w/ sales charge) (FEVAX)	18.60	18.60	3.65	8.41	

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