



Words from Jean-Marie Eveillard
Our Senior Adviser

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A Recent Trip to China

Recently Jean-Marie traveled to Shanghai with Portfolio Manager Abhay Deshpande and Senior Analyst Alan Barr to visit companies held in the First Eagle Funds portfolios, as well as to attend an investment conference and learn more about the management and operations occurring in China. We took this opportunity to interview Jean-Marie about his experiences and share his thoughts on investing in China today.

Q. What led you to visit China?

As someone who's been involved with global investing for nearly 31 years, I'm curious about China—both as a phenomenon and as a potential arena for investment. I had visited Singapore and Hong Kong in the past, but never mainland China, so this trip was overdue. Of course, one does not need to go to China to recognize the collective ambition of the Chinese people to restore the place they had in the world hundreds of years ago. Even so, I felt it was important to get a firsthand view.

After a single week in China I'm hardly a China expert, but I did carry away some vivid impressions. In Shanghai, where I attended a three-day conference, individual ambition is a palpable force. People seem to be in a perpetual hurry to get ahead. They bump into you on the sidewalk more often than even New Yorkers do. The Chinese have a drive to acquire bigger, better material things, such as cars and homes, and they exude confidence that they will succeed.

The city itself is impressive. Most of the construction is new, and the Shanghai skyline is quite beautiful. The architecture reminded Abhay of Chicago. But when we traveled outside Shanghai, we saw dusty towns that were much less prosperous. I'm told that

further west, in rural China, conditions are even worse. This helps explain why so many people leave the Chinese countryside every year to seek their fortunes in the cities.

Q: You have said that the East is rising and the West is declining. Did the trip confirm your view?

The trip affirmed my feeling that the East is rising, but also that it will not rise without a few bumps in the road. The authorities in China recognize that as long as the economy is doing well, the people will back the government. China's economy is built around exports, and because of the recession in the developed world and the constraints facing the U.S. consumer over the next few years, their model will need to be tweaked. To help offset the decline in exports, China will need to boost its domestic consumption. With the rapid growth in China's middle class, the potential for domestic consumption is extraordinary. Wages are already increasing in a major way, and this will ultimately help. The authorities have yet to do much, but they understand that they have to encourage domestic consumption, and they are sure to become more active in this area over the next 5–10 years. Mind you, this transition from exports to domestic consumption won't necessarily be easy to achieve.

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Q: Are you concerned about a property bubble in the Chinese economy?

In the short term, China does face a real estate bubble. At the conference, I got a sense that the authorities knew that a problem was brewing and took steps to avoid a crisis. China has had booms before, which damaged banks in a major way, and they were able to make the necessary adjustments. They have a ton of foreign exchange reserves, which can be used to bail out the banks. Real estate prices will go down for a while, but the future remains uncertain as to the odds of how big a downside there may be over the next year or two. Of course, one never knows for sure.

Q: What are your thoughts about investing in China?

Historically, we’ve always been careful in our investments, and this will continue. We have to find businesses we understand and like, with management we trust and a valuation that’s reasonable. There have been scandals in the United States and Europe, and we always have to be wary of management and make sure people aren’t embellishing the facts. We analyze companies in China the same way we look at companies in the rest of the world. It is our bottom-up analysis and our comfort with each investment that will drive our investments there rather than a set time horizon or specific event. At the conference, I was able to speak to the management of Chinese companies. Some were impressive, but others left me feeling less than comfortable.

Much of our exposure to China comes through our indirect investment in many companies listed in either Japan or Europe. We are able to gain access to the growth in China through companies we know, understand and trust. Some of the companies we have invested in are listed in Hong Kong because accounting regulations and insider-trading rules are more reliable there. In the long term, we want to be in China, but we have to be extra careful to be sure we really understand what we own. For now, the majority of our exposure will come through our indirect investments.

Jean-Marie Eveillard

Senior Adviser, Portfolio Management

Born in Poitiers, France in 1940, Mr. Eveillard is a graduate of Écoles des Hautes Études Commerciales, an esteemed French graduate school for economic studies. He started his career in 1962 with Société Générale until he relocated to the United States in 1968. Two years later, Mr. Eveillard began as an analyst with the SoGen International Fund. In 1979, he was appointed as the portfolio manager of the Fund, later named the First Eagle Global Fund. He then went on to manage the First Eagle Overseas and First Eagle Gold Funds at their inception in 1993 as well as the First Eagle U.S. Value Fund in September 2001. After managing the Funds for more than 30 years, Mr. Eveillard now serves as Senior Adviser and member of the Board of Trustees for First Eagle Funds and as a Senior Vice President of First Eagle Investment Management, LLC.

Mr. Eveillard was named Morningstar's International Manager of the Year in 2001, and in 2003 received a Lifetime Achievement Award from Morningstar for building one of the most successful long-term records in the investment business.

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.

The commentary represents the opinion of Jean-Marie Eveillard as of July 2010 and is subject to change based on market and other conditions. Performance for periods prior to January 1, 2000 occurred while Mr. Eveillard was affiliated with another firm. 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 First Eagle Investment Management, LLC. The opinions expressed are not necessarily those of the firm. First Eagle Investment Management, LLC (FEIM) became investment adviser to the Funds commencing January 1, 2000. **These materials are provided for informational purposes only.** These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any statistics contained herein 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.

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