## How We Think About Risk: Part I

> *We at First Eagle define risk as the danger of permanent impairment of investor capital.*

Since the 1960s, when the work for which Harry Markowitz and John Lintner won the Nobel Prize became widely accepted, portfolio variance, also known as changes in the value of a portfolio over time compared to its average, or more commonly referred to as standard deviation, has been the dominant measure of financial risk. We at First Eagle define risk differently: as the danger of permanent impairment of investor capital. Our definition departs from portfolio variance in two important respects. First, variance encompasses both temporary and permanent fluctuations in portfolio values. But, because we have a long-term focus, we are concerned only with permanent changes in value. Second, variance treats upward and downward movements in value equally. We regard risk as being related to losses, not unexpected gains; thus, we are primarily concerned with downward movements only.

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The challenge we face in using our alternative definition of risk is to translate a qualitative concept, like minimizing the chance of permanent loss of capital, into a course of action. In retrospect, we can measure how successful we have been at managing risk according to our definition. In market downturns, we expect our portfolios to perform better than those of other investors. And, when losses occur, we expect our portfolios to recover more rapidly than others. By both measures, First Eagle has been notably successful. Losses arising from the bursting of the tech bubble of the late 1990s were minimal. And, even in the catastrophic circumstances of the last two years, First Eagle has suffered losses which are far smaller than those of many other funds. Our approach to risk management and, in turn, minimizing the likelihood of significant permanent impairment of capital is based on five principles.

**First Principle: Margin of Safety**

First and foremost, we attempt to not overpay for assets. If you pay $100 for an asset that is worth $50, then half of your money is gone for good. We look for what we believe is a significant margin of safety between the price we pay and our estimates of value. This means that we do everything we can to not get involved in potential bubble investments like Japanese stocks in the late 1980s, or tech stocks in the late 1990s or emerging markets today. At the same time, we are careful when calculating our estimates of value. We seek to pay for sustainable earnings levels, not peak earnings, and look for them to be protected by either the value of underlying net assets or what we believe are sustainable franchises with reliable moats. If we think we are paying for growth, we believe that the growth will create value — i.e., that the return on capital invested exceeds the cost of capital — and we do so at conservative estimates of sustainable growth rates. If earnings are reinvested we carefully attempt to ensure that the reinvestment process creates, or at least does not destroy, value.

*We try to build portfolios that are balanced. We invest in fixed income and cash and cash equivalents, which we expect will do well in the event of extended deflation.*

**Second Principle: Diversification**

Nevertheless, we cannot guarantee that our estimates of value will always be right. Thus, our second principle is to be widely diversified across businesses, industries and countries. Unanticipated events that lead to permanent impairments of capital tend overwhelmingly to be specific to particular companies (failed new products, difficult recalls, painful strikes) or to particular industries (newspapers destroyed by the Internet or mini computers displaced by PCs) or to particular countries (national meltdowns or political upheavals). In a portfolio of ten or fewer stocks, one or two such events can lead to a significant impairment of capital. In a fifty-plus stock portfolio that is widely diversified across industries and countries, even three meltdowns may result in more limited losses and may be offset by favorable developments elsewhere.

**Third Principle: Avoidance of High Leverage**

Our third principle is to avoid situations with high leverage, which can leave companies vulnerable to catastrophic failure in even moderately adverse circumstances. For example, First Eagle did not invest in Freddie Mac during the second half of 2008, when it was touted as a bargain and its price dropped substantially. In the case of Freddie Mac we believe that its leverage was so high that a 7% decline in the value of its portfolio of mortgage securities would have wiped out the entire value of its powerful franchise.

**Fourth Principle: Balanced Portfolio**

Fourth, we try to build portfolios that are balanced. We invest in fixed income and cash and cash equivalents, which we expect will do well in the event of extended deflation. We purchase real asset businesses to offset an environment faced with inflation. And, the majority of the positions we own are what we believe to be good businesses trading at attractive prices. A portfolio constructed in this way should be broadly protected against the macroeconomic threats of both inflation and recession.

**Fifth Principle: Protection Against Extreme Outcomes**

Finally, we aim to keep a portion of our portfolio in assets such as gold, which we believe may act as a form of protection in times of disorder and adverse macroeconomic circumstances. This provides both a potential hedge against dramatic declines under negative conditions and liquidity to take advantage of the opportunities that such markets present.

Together these five elements have resulted in First Eagle's ability to minimize significant permanent loss of capital for our investors over time. Since Global Fund's inception, it has been our allegiance to managing our definition of risk that has enabled us to generate a cumulative return of 7,964% (for the time period 01/01/1979 to 03/11/2011), and why we believe we will continue to help our clients achieve their investment goals.

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**Average Annual Returns as of 03/31/2011**

| | YTD | 1 Year | 5 Years | 10 Years | Expense Ratio |
|---|---|---|---|---|---|
| First Eagle Global Fund – Class A (without sales charge) (SGENX) | 3.36% | 16.61% | 7.70% | 13.31% | 1.16% |
| First Eagle Global Fund – Class A (with sales charge) (SGENX) | –1.80 | 10.78 | 6.60 | 12.73 | |
| First Eagle Overseas Fund – Class A (without sales charge) (SGOVX) | 2.07 | 16.62 | 7.07 | 13.88 | 1.17% |
| First Eagle Overseas Fund – Class A (with sales charge) (SGOVX) | –3.02 | 10.78 | 5.98 | 13.30 | |
| First Eagle Gold Fund – Class A (without sales charge) (SGGDX) | 0.15 | 38.10 | 16.02 | 27.01 | 1.22% |
| First Eagle Gold Fund – Class A (with sales charge) (SGGDX) | –4.86 | 31.19 | 14.84 | 26.36 | |
| | YTD | 1 Year | 5 Years | Since Inception 09/04/01 | Expense Ratio |
| First Eagle U.S. Value Fund – Class A (without sales charge) (FEVAX) | 5.33% | 14.50% | 6.16% | 9.75% | 1.24% |
| First Eagle U.S. Value Fund – Class A (with sales charge) (FEVAX) | 0.06 | 8.77 | 5.07 | 9.17 | |

**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 firsteaglefunds.com or by calling 800.334.2143. The average annual returns for Class A Shares "with sales charge" of First Eagle Global, Overseas, Gold and U.S. Value Funds 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. Investment in gold and gold related investment presents certain risks, and returns on gold related investments have traditionally been more volatile than investments in broader equity or debt markets.* The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Global Fund as of March 31, 2011: Freddie Mac 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 as of September 2009 and is subject to change based on market and other conditions. 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 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 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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| Average Annual Returns as of 06/30/2011 | Year to Date | 1 Year | 5 Years | 10 Years | Expense Ratio |
|---|---|---|---|---|---|
| First Eagle Global Fund – Class A (w/o sales charge) (SGENX) | 5.20% | 25.48% | 7.80% | 12.84% | 1.16% |
| First Eagle Global Fund – Class A (w/ sales charge) (SGENX) | -0.06 | 19.21 | 6.70 | 12.26 | |
| First Eagle Overseas Fund – Class A (w/o sales charge) (SGOVX) | 4.19 | 24.04 | 7.07 | 13.52 | 1.17% |
| First Eagle Overseas Fund – Class A (w/ sales charge) (SGOVX) | -1.01 | 17.82 | 5.98 | 12.94 | |
| First Eagle Gold Fund - Class A (w/o sales charge)(SGGDX) | -5.48 | 15.62 | 14.27 | 24.23 | 1.22% |
| First Eagle Gold Fund - Class A (w/sales charge)(SGGDX) | -10.21 | 9.84 | 13.10 | 23.59 | |
| | Year to Date | 1 Year | 5 Years | Since Inception 09/04/2001 | |
| First Eagle U.S. Value Fund – Class A (w/o sales charge) (FEVAX) | 6.49% | 22.30% | 6.13% | 9.62% | 1.24% |
| First Eagle U.S. Value Fund – Class A (w/ sales charge) (FEVAX) | 1.17 | 16.19 | 5.04 | 9.05 | |

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