



First Eagle News

Gold: First Eagle's Hedge Against Extreme Outcomes

At First Eagle, gold serves as a potential hedge against unforeseen events. Throughout the 1990s and this decade, we grew concerned with the Federal Reserve's (the Fed's) policies during Mr. Greenspan's tenure as chairman. The Fed's easy money policies were one of the reasons we started our Gold Fund in the fall of 1993 and maintained a position in gold and gold related equities in all of our other Global Value Team mutual fund portfolios.

We look to gold to provide protection against the unintended consequences of government interventions, bank bailouts, long-term trade imbalances and currency crises. There are other potential hedges — TIPS (Treasury

Inflation-Protected Securities), oil, other metals, natural resources and real property, but we feel gold enjoys significant advantages over these alternatives.*

Advantages of Gold

First, unlike TIPS and other inflation-protected bonds, gold has global standing as a store of value, although it is not a U.S. government obligation like TIPS. It is not denominated in any particular currency or dependent on the solvency of any particular government. Second, gold has very limited industrial uses. Its price is determined largely by the existing stock of gold above ground and the demand for that stock. Unlike oil, base metals and real property, it is not tied to the business cycle. In fact, gold has generally held its value as the global economy deals with the unwinding of the credit bubble that was 25 years in the making. Thus, we believe it is prudent to consider holding a small amount of gold, not as an absolute return investment or as a trading opportunity, but as a potential hedge against unsettled economic conditions.

*Investment in gold and gold related equities is speculative and involves risk.



Store of Value

Gold's appeal as a monetary instrument can be linked to its many unique characteristics. While its natural beauty first attracted ancient cultures, its malleability led Croesus to make it a medium of exchange in 6th Century B.C. The characteristics that define its value (i.e., purity and weight) are completely measurable and well understood around the globe, and it is fungible. Gold never loses its luster. An ounce of gold mined 4,000 years ago in Egypt looks the same as an ounce of gold mined last year in Quebec. Gold is virtually indestructible. It is one of the densest real assets and its costs of storage are favorable versus alternative commodities. Also, gold cannot be counterfeited — alchemy remains a myth today. These traits are why central banks around the world have maintained gold inventory in their vaults despite the metal's reduced role in monetary policy after 1971.

The value of gold relative to a basket of commodities and intermediate products in the world's five most developed economies (U.S., U.K., Germany, France and Japan) has been roughly constant over a long period of time (Chart 1). As a result, when investors look for risk-averse assets they have a choice for mattress money. They can hold either cash or gold in a vault but must recognize that the U.S. dollar has lost more than 95% of its value against that global basket and 94% of its purchasing power within the United States (Source: www.measuringworth.org). Gold is currently priced above trend, but we are in an environment of extreme risk. Furthermore, as measured in 2008 dollars, gold has not peaked to the levels we saw in the late 1970s and early 1980s.

During the commodities boom, gold benefitted from an "all boats will rise" mentality. After the events of September 11, 2001, the price of gold picked up a little. As investors became focused on China, India and emerging market industrialization, the likely effect of these developments on demand meant that base and bulk metal prices soared. The price of gold may have increased during this period, but, on a relative basis, it did not keep pace

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with the historical trend. At the same time, with the global economy in full swing for most of this decade, investors ignored the dangerous consequences of cheap credit.

We at First Eagle took a different view. Since the collapse of Long Term Capital Management, when the Fed demonstrated a willingness to fix problems at any cost, the value of gold as protection against the unanticipated consequences of these interventions has risen sharply.

Throughout its history, gold status has flip-flopped between an article of adornment and a monetary instrument. However, it is when gold is viewed as potential protection against inflation or as a possible substitute currency that its price increases. This became evident in the late 1990s when heavy central bank selling depressed the price of gold below the \$300-per-ounce level, its marginal cost of mining at the time. In this period, investors focused on jewelry demand and mining supply as the biggest drivers of price. However, jewelry demand growth during the 1990s had very little effect on the price. Rather, gold's role as an investment vehicle (both through central bank and individual ownership) tends to overwhelm all other supply-and-demand factors. Therefore, it appears that the price of gold is determined by how willing owners are to part with the above ground stock. Almost every ounce that has ever been mined is still in existence, so the price of the metal is determined by the float.

Chart 1: Purchasing Power of Gold vs. Purchasing Power of the U.S. Dollar for a Basket of Commodities, 1791 - 2009

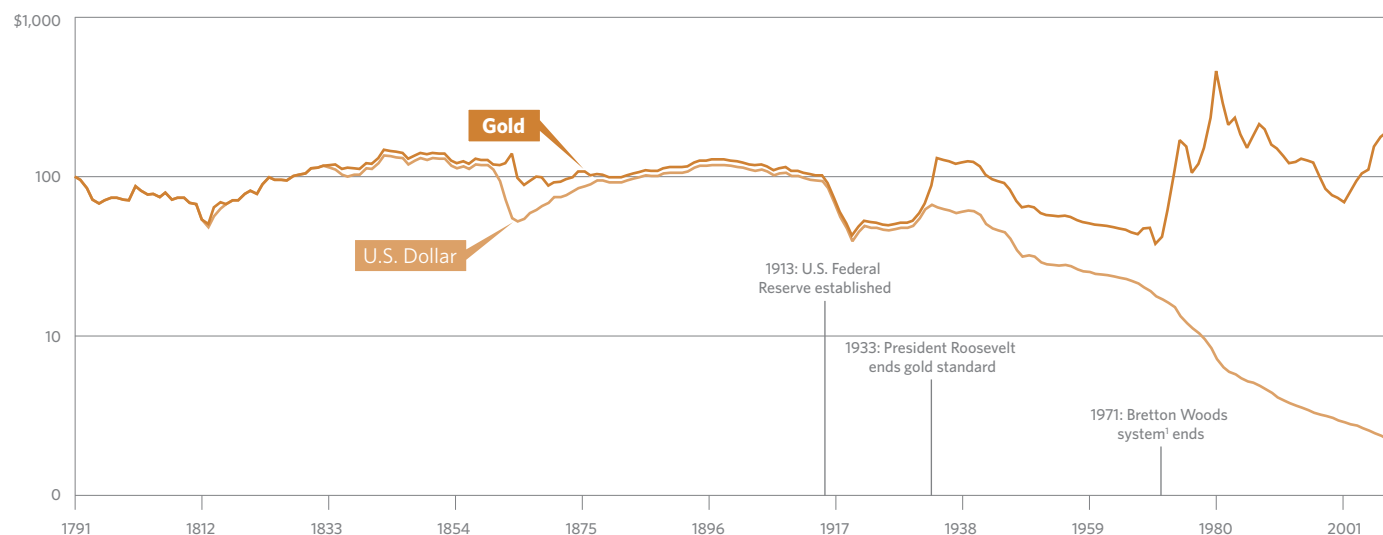


Chart: Log Scale
Source: www.measuringworth.org

Central bank selling and lower investment demand can pressure the gold price lower, but conversely, as fewer tonnes hit the market from these sources and if mining supply continues to decline, the gold price could strengthen as investors use gold as a potential hedge against uncertainty. In the current environment, central banks may be reluctant to reduce their gold holdings, and thus selling in the near-term could be well below the 400 tonnes allowed by current global agreements. While we believe this should help tighten the market for gold, we do expect some near-term volatility in the price.

Rising Gold Price

We do not forecast the gold price at First Eagle. Since we view it as a potential hedge, we evaluate the cost on a spot basis versus alternatives. Our preference is to own gold bullion because it is free and clear of the risks associated with mining. We realize, however, that bullion is not always the cheapest way for us to gain our exposure to gold. Therefore, when making a decision to buy or to add to our gold allocation, we evaluate the price of bullion versus gold mining stocks.

When evaluating gold mining stocks, we apply the same discipline we would apply to any stock in any of our portfolios — we want what we feel is safe and cheap. Therefore, we tend to focus on miners with proven and probable reserves operating in regions where mining is widely accepted or where the political environment is fairly stable. When comparing gold mining stocks to bullion, we tend to think of

ownership as a call option on the ounces in the ground. Gold mining stocks have leverage to the gold price and tend to move at least twice the price of bullion. This relationship, however, tends to work on both the upside and the downside. Therefore, we have tended to keep a greater percentage of bullion in our non-gold funds versus gold stocks because we want some stability from our hedge and we recognize that the gold mining stocks' performance is inextricably linked to the price of gold. To the extent that irrational exuberance appears in the gold market, we believe it may be more pronounced for mining stocks than for bullion.

We recognize that in recent months our potential hedge has become more costly as the price of gold has risen, but given the current uncertainty in the market, we are not surprised. Just as the cost of your homeowners insurance may increase if a hurricane were to devastate your neighborhood, the current storm in the financial markets has increased the price of certain "safe haven" investments like gold. While gold typically shows a negative correlation with the U.S. dollar, this relationship tends to break down when investor risk aversion to currency increases. We saw this phenomenon occur in 1993 and 2005 and we are beginning to see it again today. While the gold price may appear high today (as of February 2010), as the current marginal extraction cost is roughly \$700 per ounce, it is not excessively so when compared to various historical relationships. Given the outlook for business profits or yields, the cost of owning gold in terms of earnings foregone is, in our view, relatively low.

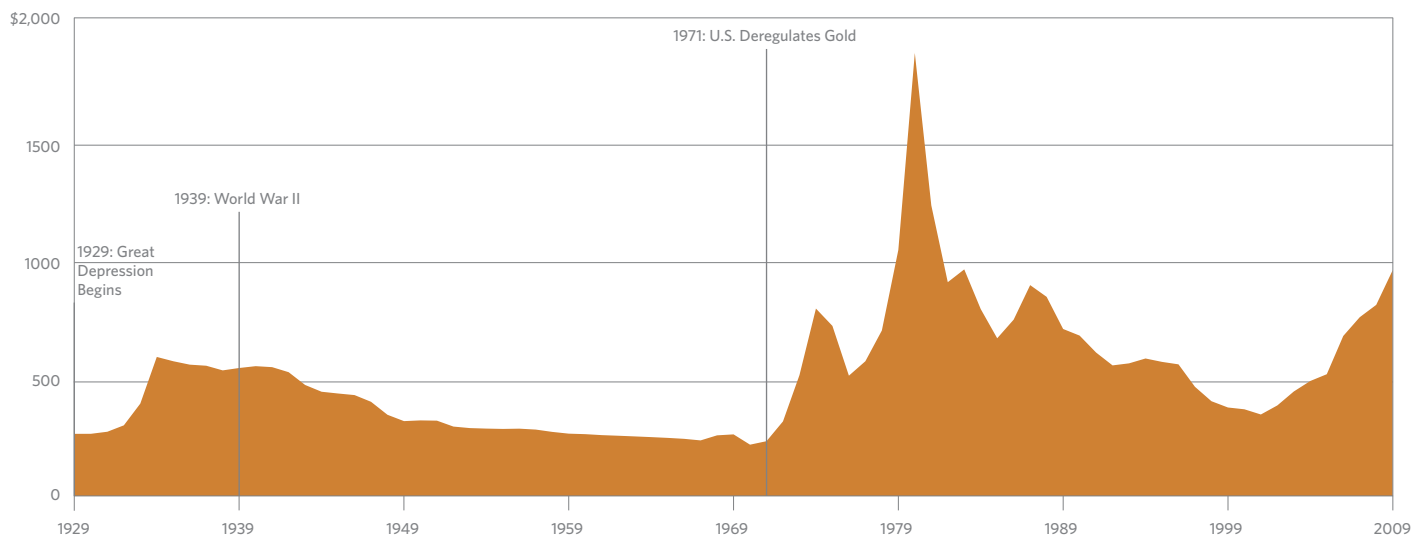
¹The Bretton Woods system, enacted in 1946, created a system of fixed exchange rates that allowed governments to sell their gold to the United States treasury at the price of 35 U.S. dollars per ounce. The system required international central banks to maintain fixed exchange rates between their currency and the U.S. dollar by intervening in foreign exchange markets.

The fact that the U.S. dollar quoted gold price has not hit the highs seen in March 2008 is not surprising to us. When asset bubbles burst, investors face forced liquidations and panic selling, typically leading to an accumulation of cash, at least in the short run. Additionally, gold held up well versus other assets when the market hit its roughest patch in the fall of 2008. We think investors used gold as a source of liquidity in this time period. This experience highlights one of the reasons that we feel investors should consider owning gold as part of an overall asset allocation. Even in times of panic, gold has historically been able to be converted into other assets. In the medium term, we believe investors may seek to diversify their U.S. dollar holdings particularly if worries shift from deflation to inflation. The Fed is using the full might of its balance sheet to try to solve the problem. With an accommodative monetary policy and the current Fed chairman's long-held desire to avoid a Japanese-type deflationary environment, we think owning a possible hedge against the potential of inflation makes sense.

Conclusion

As former chairman Greenspan once said, "Fiat money in extremis is accepted by nobody. Gold is always accepted."² While we hope we don't enter an environment where the U.S. dollar has collapsed along with other major global currencies, we certainly sleep better at night knowing we are somewhat hedged with our gold holdings. When financial markets are stable, the Keynesian view that gold is a "barbaric relic" takes hold, whereas in times of uncertainty, gold once again emerges as an alternative to other monetary instruments. We think the prudent investor should always think about the downside when looking at an investment and we believe gold offers the potential downside protection for those events where we have no ability to forecast.

Chart 2: Gold's Worth 1791 - 2009



Adjusted for inflation, price per ounce in 2009 dollar
Source: www.measuringworth.org

²Alan Greenspan in a speech to the Senate Banking Committee in May 1999

First Eagle Gold Fund's Portfolio Managers

Abhay Deshpande, CFA

Portfolio Manager – First Eagle Global, Overseas, U.S. Value and Gold Funds



Mr. Deshpande joined First Eagle Investment Management, LLC in 2000 and has been a member of the Portfolio Management team since 2007.

Mr. Deshpande, a graduate of the University of Louisville, holds the Chartered Financial Analyst (CFA) designation. He spent three years as a Research Analyst with Harris Associates, advisers to the Oakmark International Fund and other international and global products, and was also an Analyst for Morningstar. Mr. Deshpande was a senior member of the research group of the First Eagle Global Value Team and covered the energy, base metals, retail, media and technology industries during his tenure. In March of 2005, Mr. Deshpande left the Global Value Team to manage a separate account, funded primarily by firm assets, in a style substantially similar to the First Eagle Global Fund.

Rachel Benepe

Portfolio Manager – First Eagle Gold Fund



Ms. Benepe is a graduate of the University of Pennsylvania and received her MBA from Columbia Business School in 2003. Before attending business school, she worked for Prudential Securities as an Investment Banking Analyst and at Lehman Brothers as an Equity Research Associate focusing on Basic Industry, Metals and Mining. After completing her MBA, Ms. Benepe researched

Beverages for three years at both Gabelli and Company and Citigroup and was also an Investment Analyst at Artemis Advisers, focusing on Consumer, Retail, Media and Industrials. Ms. Benepe is a Portfolio Manager of First Eagle Gold Fund and is responsible for covering base metals, consumer products, gold/precious metals, mining, services and steel as well as Asia, Australia, New Zealand, South Africa and Japan.

Jean-Marie Eveillard

Senior Adviser



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, one of France's largest banks, until relocating 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 SoGen International 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, which began in September 2001. After managing the Funds for over 30 years, Mr. Eveillard now serves as Senior Adviser and member of the Board of Trustees to 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.

Average Annual Returns as of 03/31/2010

	YTD	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Gold Fund – Class A (without sales charge) (SGGDX)	-2.36%	24.27%	18.19%	22.70%	1.26%
First Eagle Gold Fund – Class A (with sales charge) (SGGDX)	-7.24	18.06	16.99	22.23	

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 Gold Fund 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.

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. *Investment in gold and gold related investments present certain risks, including political and economic risks affecting the price of gold and other precious metals, like changes in U.S. or foreign tax, currency or mining laws, increased environmental costs, international monetary and political policies, economic conditions within an individual country, trade imbalances and trade or currency restrictions between countries. The price of gold, in turn, is likely to affect the market prices of securities of companies mining or processing gold, and accordingly, the value of investments in such securities may also be affected. Gold related investments as a group have not performed as well as the stock market in general during periods when the U.S. dollar is strong, inflation is low and general economic conditions are stable. In addition, 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 Gold Fund as of March 31, 2010: Gold bullion 17.88%, U.S. Treasuries 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 February 2009 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 Fund 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 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 FEF Distributors, 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 investment objectives, risks, charges and expenses carefully, which are detailed in our prospectus and summary prospectus and may be obtained by asking your financial adviser, visiting our website at firsteaglefunds.com or calling us at 800.334.2143. 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.**

Average Annual Returns as of 06/30/2010:	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Gold Fund - Class A (w/o sales charge) (SGGDY)	10.07%	33.21%	21.14%	24.16%	1.26%
First Eagle Gold Fund - Class A (w/ sales charge) (SGGDY)	4.57	26.55	19.90	23.52	

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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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