

Words from Jean-Marie Eveillard

JULY 2009

Value investing: it makes sense and it works—over time.

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2008 was a poor year for value investors.

Does it matter that it was and if so, what should they do about it?

But first, value investing makes sense. Anybody who reads Benjamin Graham's *The Intelligent Investor* can see that it's not about complex mathematical models; it's all about common sense. As well, Warren Buffett's letters to shareholders are also about common sense.



Second, value investing works over time. Back in 1984, Warren Buffett wrote a piece in Columbia Business School's magazine, where he took his own record, together with the records of another nine value investors, and showed that all ten of them had done much better than average over time. Twenty years later, in 2004, the late Louis Lowenstein updated the Buffett piece. Louis took ten funds—including the First Eagle Global Fund—and again showed that the ten had done much better than most over time.

Now, if value investing makes sense and if it works, why are there so few value investors? The late Bill Ruane figured out that only about 5% of professionally managed money in the U.S. was invested on a value basis. So why so few? The answer is mostly psychological. If you're a value investor, you're a long-term investor, so by definition you don't try to keep up with your peers or with the benchmark in the short-term. So you know in advance that every now and then, you will lag (indeed, our own funds lagged badly for several years in the late 1990's). And, to lag is to suffer, not just psychologically but also financially: loss of bonus, of clients, of job, maybe. And, human nature shrinks from pain. So, for value investors, there has to be a willingness to take short-term pain, an understanding that the rewards come over time. But after all, we should not expect to feel good all the time. In life, everything worthwhile comes hard.

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Now, what happened to value investors in 2008?

A short answer is: hey! It's only one year and value investors try to do well over time (fair enough, but the arithmetic can be hard if you're down 40% or more in any given year). Another answer has to do with Martin Whitman's key distinction between temporary unrealized capital losses and permanent impairment of capital. Fair enough again.

Anyway, the real problem may be elsewhere. Historically, for more than half a century, value investors have seen themselves as bottom-up investors, period. They looked carefully at the numbers side of a business and if satisfied (with the footnotes too...) they tried to figure out the major strengths and weaknesses of a business. They ignored the top-down and that served them well. Until it didn't in 2008 when the top-down intruded in a brutal way.

We at First Eagle have always been at heart bottom-up investors but we have also worried that the intrinsic values we establish for businesses in which we own (or consider owning) did not assume several years of unusually harsh economic and financial circumstances by post-World War II standards.

And, we saw the crisis coming. We said so publicly. We paid attention to the teachings of the Austrian School of Economics in the 1920's. In short, the Austrians said that monetary authorities should be careful not to let a credit boom go on too long and be too strong because a bust would follow the boom, just as night follows day. And the Austrians further warned that attempts to patch things up in the short-term ran the risk of negative unintended consequences in the medium-term. Unfortunately, the bottom-up investor in me did not listen closely enough to the top-down investor in me. So our Global and Overseas Funds were down about 20% in 2008, which was only half as bad as other funds, but still quite disappointing.

The key question today is this: has the post-World War II financial and economic landscape changed for the worse as a result of the worst financial crisis since the Great Depression, or not? I for one do not pretend that I know the answer to that question. As Ben Graham used to say: the future is uncertain. So my advice, for what it's

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worth, to value investors is as follows: you're right that value investing makes sense and that it works over time but you were mauled last year, so don't just assume that the muddle through world will be back soon. Be bottom-up all you want, but pay attention to the top-down.

Jean-Marie Eveillard

Senior Adviser, Portfolio Management

Born in Poitiers, France in 1940, Mr. Eveillard is a graduate of Ecoles des Hautes Etudes Commerciales, an esteemed French graduate school for economic studies. He started his career in 1962 with Societe Generale 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 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 over 30 years, Mr. Eveillard now serves as Senior Adviser and Board Trustee to First Eagle Funds and as a Senior Vice President of Arnhold and S. Bleichroeder Advisers, 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 09/30/2009:

	YTD	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Global Fund – Class A (w/o sales charge) (SGENX)	20.31%	7.49%	9.69%	12.86%	1.14%
First Eagle Global Fund – Class A (w/sales charge) (SGENX)	14.29	2.11	8.57	12.43	
First Eagle Overseas Fund – Class A (w/o sales charge) (SGOVX)	19.92	11.51	10.30	13.13	1.15%
First Eagle Overseas Fund – Class A (w/sales charge) (SGOVX)	13.92	5.93	9.18	12.70	

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 or by calling 800.334.2143. The average annual returns for Class A Shares "with sales charge" of First Eagle Global and Overseas 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.

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, Senior Adviser, as of June 30, 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 Fund's 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.

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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	

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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 investments present certain risks, and returns on gold related investments have traditionally been more volatile than investments in broader equity or debt markets.

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