

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Investing In Gold



RACHEL BENEPE is a portfolio manager with First Eagle Investment Management, LLC, and manages the 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 in 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 responsible for covering retail, gold, metals and mining industries, steel and coal, and automobiles.

TWST: Would you begin with an overview of First Eagle Funds, including some highlights from your history and a bit about your role there?

Ms. Benepe: I am the Co-Portfolio Manager on **First Eagle Gold Fund** (SGGD). We started the fund in 1993, and we often joke we were 15 years too early, but we've always viewed gold as a potential hedge against those systemic macro risks that you can't forecast. So we've always felt that gold holds a role in a portfolio. In our diversified funds, we have Global, Overseas and U.S. Value products. In all of those products we typically hold around 10% of those portfolios in gold. We haven't just started looking at gold because we've recently become worried. In our view, we are bottom-up stock pickers. We're more value investors by nature, and in our view, gold is able to help us hedge potential risks, these macro risks that we can't forecast. So we're always worried about the downside, and that's hopefully our ultimate downside protection.

TWST: In the Gold Fund, you've got about an 81% position in stocks and 14% in gold bullion. Would you give us some insight into why you've chosen that asset allocation and also how the two work together in your mind?

Ms. Benepe: We've always looked at gold in combination. We'll go and find the cheapest ounces possible, so we tend to be agnostic if the ounces are above ground or

below ground, above ground being the bullion and below ground being the mining companies. But our goal is to buy the cheapest ounces possible. Now gold bullion is obviously free and clear of mining risk because it's already out of the ground, but that isn't always the cheapest way to access that gold. We use a proprietary gold mining model that's based off of the spot price of gold, and it looks at the gold mining companies' proven and probable reserves and the cost to extract those reserves. If that is cheaper, if the company's stock appears to be cheaper based on that kind of metric versus where it's trading at a significant margin of safety, we invest in the company. Over the last couple of years, there's been much more opportunity in companies, so we've been increasing our investment in the below ground just because they are cheaper. I think it's because the ETF has made it very simple for people to go out and buy gold bullion, and they just don't think about it. We don't forecast the price of gold. We understand why people might just go and do that because they want to have the protection, but they are cheaper. You can buy leveraged plays, which would be the gold mining stocks.

TWST: Within that 81% allocated to equities, would you tell us a bit about the kinds of stocks you've chosen?

Ms. Benepe: We tend to run a very conservative gold fund, and there are products that differentiate us from other gold funds. We tend to only buy when companies are in

preproduction; that's the early stage. So we would buy all the way up through the senior producers, and we tend to like those senior producers with long-lived assets that operate in geographies all over the world. Those tend to be the kind of companies we favor, so we have larger allocations in those companies. Then we make smaller allocations to companies in the earlier stage, which, as I said, are companies that have a mining plan in place, proven and probable reserves that are defined and that are operating in countries that we understand but have not started producing yet. And we tend to not go with a much earlier stage than that.

Many of our competitors will go with earlier stage companies, starting with exploration plays. We don't do that because we view gold as a potential hedge, and in our view when you're going with that early stage, you're viewing gold as a speculation. The other thing that's different, I think, about our portfolio is that we view gold as the potential hedge, and so the gold fund is a gold fund. We do have a little bit of silver exposure through a company called **Fresnillo** (FRES.L), but other than that we really tend to focus on gold and gold ounces. When our companies produce other metals in association with gold, we assign very low values to these other base metals. So we're trying to buy gold companies not copper companies that are masking themselves as gold companies, because we don't want to have that kind of exposure. Part of why we think gold is an effective hedge is because it's not tied to the business cycle, and it's not tied to the credit cycle, whereas base metals are tied to the business cycle, and other kind of hedges might be tied in other ways to the credit cycle.

TWST: Your stocks are from all over the globe. Would you tell us some of the geographies and specific names you've chosen for the fund?

Ms. Benepe: One geography where we've historically been active is South Africa, and that's something that I think, again, kind of differentiates us. We like many of the companies that operate there because they have long-lived assets and there is — even though it seems like it's in question — an established mining culture and history within the country and the risks are well known. In addition, because the larger companies are trying to reduce their exposure to South Africa, they have been very active in increasing their portfolios outside of South Africa. And the companies have not been getting credit for those assets outside of their South African portfolio. We think they look

attractive in part because they're naturally hedged. But if there actually were any kind of supply disruption in South Africa they would probably do well, because they have exposure to other parts of the world and the gold price could possibly move to the upside on that kind of event.

The majors — that would be **Barrick** (ABX), **Newmont** (NEM) and **Goldcorp** (GG) — have tended to be overlooked recently because many investors have wanted to get exposure to smaller names that they view as potential takeout candidates. In our view, the large-cap names are attractive right now in terms of versus the spot price. I think people expect that the market's going to rapidly consolidate and that the big guys are going to be buying the small guys, so all the small guys have been bid up in price and many of them look pretty expensive, whereas the large caps are being punished for actions they haven't taken yet. So they actually look pretty attractive, and they have demonstrated discipline to not go out to buy something just to own it for growth's sake. They have cash flow,

and this is a good environment obviously for them given the prices of gold.

Highlights

Rachel Benepe provides an overview of the First Eagle Gold Fund and its strategy for investing in gold as a hedge against potential macro risk. She discusses the fund's allocation of 14% gold bullion and 81% stocks, favoring more senior companies with long-lived assets that operate worldwide. She says larger-cap names are attractive at the moment, having good cash flows and the ability to make acquisitions. Ms. Benepe also discusses what specific geographies the fund is active in and the dynamics of central banks' gold reserves.

Companies include: Fresnillo plc (FRES.L); Barrick Gold Corporation (ABX); Newmont Mining Corp. (NEM) and Goldcorp Inc. (GG).

1-Year Daily Chart of Newmont Mining Corp.



Chart provided by www.BigCharts.com

TWST: This has been a big year for gold with many people turning to gold as a safer investment during the recession. But what are the key risks people should be aware of when investing in gold?

Ms. Benepe: All the gold that's ever been mined is still in existence, and so on one level, that makes it extremely valuable. Central banks want to own it because you can't destroy it. You can throw it in a vault and it will look the same

500 years from now as it looks the day you put it in that vault. Gold becomes attractive when you have large buyers or if there are governments or institutions buying it and putting it in that vault. This is because the above-ground float is basically

Ms. Benepe: Like I said, we tend to be very conservative so we don't use leverage or options, and we're really just a straight fund trying to give the cheapest — and I don't want to say safest — but a conservative measured view

“There may be forced sellers of gold, but I don't think you're going to see anyone that's a willing seller of their gold, and by anyone, I mean central banks. But if central banks decide that their fiat currency systems are in order, and that they're holding a 'useless' asset that doesn't yield anything, then they could begin selling.”

shrinking, and so there is a scarcity but that can reverse. So if central banks become sellers as they were in the 1990s, that would be very bad for gold. I would say we're currently in a political environment where it would be difficult for central banks to sell gold by choice. And I say “by choice” because if there was a real crisis, part of why they hold gold is the same reason we hold gold. It's so they can use that gold to repair their balance sheet quickly.

So there may be forced sellers of gold, but I don't think you're going to see anyone that's a willing seller of their gold, and by anyone, I mean central banks. But if central banks decide that their fiat currency systems are in order, and that they're holding a “useless” asset that doesn't yield anything, then they could begin selling. That would be bad for gold. If all of a sudden alternatives, like the dollar or euro, start yielding something, that might be bad for gold. Right now, the opportunity cost of holding gold is not the same as it's been in the past because bonds aren't yielding anything. But in a typical environment, gold is competing against instruments with yields, and you have to pay for storage. So it has two things against it — it yields nothing and it costs to store. But I think the real drivers in terms of big price movements to the upside or to the downside are the central banks. So in the 1990s, when central banks were such heavy sellers of gold, the price couldn't move up; it didn't matter what jewelry demand was, and it didn't matter what individual investment demand was. Central banks' needs can really overwhelm the market in either direction — whether they are buying or selling.

TWST: How has your gold fund performed this year?

into gold. We're not looking to be speculative of the upside, and we're trying to limit our volatility on the downside. We're hoping we don't go down as much as other people do when it goes the other way. We are trying to give investors exposure to what we view is a potential hedge against systemic risk. We're trying to offer a measured kind of performance, but we're steady. We're not trying to be volatile and all over the place. It's hard to do that in a gold fund because it's going to be volatile by nature, but we're trying to offer a conservative approach.

If you're looking to use gold as a hedge, we are the fund for you. If you're looking for gold because you want to speculate on the gold price, we're not the right gold fund. We have a philosophy that we view gold as a potential hedge. We don't forecast the gold price. We're not gold bugs. We really are just trying to provide that little bit of a hedge so if our clients are using it within their diversified portfolio, it is to hedge that systemic macro risk that's difficult to do otherwise.

TWST: Thank you.

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Average Annual Returns as of 12/31/2010	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Gold Fund - Class A (w/o sales charge)(SGGDY)	34.64%	34.64%	19.20%	27.58%	1.26%
First Eagle Gold Fund - Class A(w/sales charge)(SGGDY)	27.91	27.91	17.98	26.93	

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 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.

Investment in gold and gold related investment presents 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 December 31, 2010: Gold bullion 12.82%, Fresnillo PLC 3.16%, Barrick Gold Corp. 4.66%, Newmont Mining Corp 3.31%, Goldcorp Inc. 5.02%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

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Average Annual Returns as of 09/30/2011	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Gold Fund – Class A (w/o sales charge) (SGGDY)	-6.33%	3.45%	15.06%	22.92%	1.22%
First Eagle Gold Fund – Class A (w/ sales charge) (SGGDY)	-11.02	-1.72	13.88	22.29	

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The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Gold Fund as of September 30, 2011: Gold bullion 17.37%, Fresnillo PLC 3.21%, Barrick Gold Corp. 4.16%, Newmont Mining Corp 4.77%, Goldcorp Inc. 5.34%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

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