



**First Eagle Funds Global Value Team Conference Call
Semi-Annual Update & Market Commentary
January 19, 2010**

John Arnhold:

Good afternoon and thank you all for joining us for the First Eagle Funds semi-annual conference call for our Global Value team. My name is John Arnhold and I'm the president of First Eagle Funds and the chairman and CEO of First Eagle Investment Management, formerly known as Arnhold and S. Bleichroeder Advisers, which is the adviser to the Funds.

Today we will share our current investment thinking with you and provide an update on the funds managed by our Global Value team. At the end of the call, we will answer questions that we have previously received from our shareholders.

We are fortunate to have Matt McLennan, Abhay Deshpande and Rachel Benepe here with us as well as Jean-Marie Eveillard, as he continues in his role as a senior adviser.

Before I turn the call over to the team, I want to highlight a few of the events that have occurred since our last call. On December 7th, 2009, Arnhold and S. Bleichroeder Advisers renamed itself First Eagle Investment Management. The primary reason for the change in our name is the result of our having sold the rights to the S. Bleichroeder name to Natixis in 2002 with the sale of our investment banking and brokerage business. The agreement to continue to use the name expires in 2010.

We selected First Eagle Investment Management as the name of First Eagle Funds' adviser in order to unify the name of the funds with the firm. This change will not have any impact on our clients, employees or shareholders.

Over the past few months we've expanded the Global Value team with the addition of two research analysts, Giorgio Caputo and Manish Gupta. Giorgio will primarily focus on the energy and distribution company sectors, while Manish will spend the majority of his time researching chemicals and technology. Both bring a great deal of relevant experience to the team and have the temperament of true value investors.

I want to thank you for your continued support and we look forward to many rewarding years ahead. As you know, we are invested alongside of you and share your goals of long-term capital preservation.

Now I will turn the conversation over to Matt.

Matt McLennan:

Thank you, John. As we reflect back on the last year and the last six months, we've no doubt experienced an environment that was different from that which many imagined, with extremes both on the upside and the downside. But throughout the turbulence of this environment, our response and our approach to investing has remained largely the same.

One big observation we would make, is that as valuations have recovered from very distressed levels earlier in the year to levels that we would see as being more consistent with a more normal valuation backdrop -- we feel that we are in an environment that is characterized as neither bargains nor bubble -- the focus of the team has to be as resolute as possible on the search for bottom-up opportunities at the security-by-security level. If the market is not mispriced as a whole, you have to look for mispricing at the individual security level, which is, indeed, what we've focused on doing historically.



If you look at the path that we've followed over the last couple of years, when markets were at higher levels and when business sentiment was far more ebullient, we carried higher cash levels in the funds than we do today. And when markets became distressed and valuations were depressed at the beginning of 2009, we got to a fairly fully invested position with a mid-single-digit level of cash at that point in time.

Today we're between those two extremes. We have some deferred purchasing power if the unexpected should happen. We always have to be prepared for that. In a world where there's no strong valuation signal, the markets can be tipped in either direction by the evolution of fundamentals. We're at a tricky point in the evolution of the recovery of the economies around the world as we transition from a period of stimulus to a period of economies having to grow out of their own organic forces.

Given that, we're happy to have a little bit more cash but we're still reasonably fully invested for the long-term. Equities, for us, are the least-worst alternative today and we think that the stocks that we own trade at a discount to intrinsic value and thus should provide returns consistent with the preservation of real purchasing power over time.

With that, I'm going to turn it over to Abhay to talk a little bit about our allocations in a more specific sense.

Abhay Deshpande:

Thank you, Matt. I'm going to focus on the Global and Overseas Funds.

You'll find, first of all, that there's been very little change from this time last year in terms of our overall allocation. Our cash levels are around 10% for both funds. Our largest international exposure remains in Japan, where we continue to find interesting ideas. Our U.S. position in the Global Fund is about 26%. Gold is around 11-12%, including gold bullion and gold stocks. These weightings are very similar to what they were last year, which is very consistent and what you would expect with a low turnover strategy such as ours.

John Arnhold:

Let's start the questions with one for Jean-Marie. We've received many questions this time that focus on the macro environment. Again, we are bottom-up investors, but we must be very aware of global events.

Jean-Marie, what steps do you feel the U.S. government needs to take to right the ship? Is it possible for them to do so or are we looking at the gradual decline of the U.S. empire?

Jean-Marie Eveillard:

I think there are two questions there. Let me try and answer the first. The U.S. government has already taken major, indeed unprecedented, steps in order to get the economy going again; steps both on the monetary side and on the fiscal side. Incidentally, it's not just the U.S. government, but Europe and Japan as well, that have taken similar monetary and fiscal steps.

I would characterize these policies as Keynesian, possibly ultra-Keynesian. It is possible that the authorities will be able to lever up the system once more and do it in a non-inflationary way. In other words, it's possible that the authorities will be successful. It is also possible that the economic recovery in the U.S. and elsewhere will peter out at some point this year or next year.

The second question has to do with the so-called gradual decline of the U.S. empire. I think from a very long-term standpoint, it's probably true that the West is declining and the East is rising. At the same time, one should be aware that if, indeed, the East is rising, there will be bumps,



possibly major bumps, along the road, number one. And number two, even if the East is rising, it does not mean that there will be no investment opportunities in the U.S., Europe and Japan.

John Arnhold: How is the equity market going to react when the Fed starts to raise interest rates?

Matt McLennan: Well, the short answer to the question is we don't know. Our crystal ball is foggy, at best. What I can say, though, is that the reason it's an unclear relationship is that when interest rates go up, it's typically a sign of the economy recovering and that the recovery is getting traction, which means that the earnings performance of companies, by and large, will be on an improving trajectory, whereas the P/E ratio may be going down.

So there's a tug of war between valuation forces and the underlying earnings power of the market, which means that equity markets have often tended to sort of grind it out in the early stages of a recovery. We tend to worry most about the policy backdrop later on in the cycle when you have an extended period of interest rate increases, and if you think of the major bubbles that we've likely avoided over the last three decades, whether it was Japan in the late '80s, or tech in the late '90s or the financial services in 2008, each of those bubbles really unwound after a period of quite tight late-cycle policy.

John Arnhold: Moving on to the East, China and India, you've mentioned that one of our concerns in China and India is the bank balance sheet growth, which is growing in excess of 20% a year. Are these loans being received mostly by businesses or consumers? And how leveraged are the consumers in China and India compared to consumers here in the U.S.?

Matt McLennan: Well, I think it's fair to say that the actual penetration of leverage in these economies is quite low relative to the developed economies. And I think this underscores Jean-Marie's earlier observation that over time there is a latent consumption potential in these economies with consumers being less levered than they are, perhaps, in the more developed economies.

On the other hand, what we've observed, over time, is that some of the most dangerous areas to invest have been areas where there's been rapid credit growth. If you think of it, credit growth is often a sign that there are expectations of complacency. People who borrow money are those who are willing to pre-pledge future income and people who lend money are people who believe in the income-generating potential of assets.

And so when we see entire economies where the bank balance sheets are growing at 20% per year, we do worry about the expectations of complacency. We worry about the potential for malinvestment and we worry about the medium-term inflationary consequences of that.

If you look at the composition of credit growth in places like China and India, a large part of the credit growth is going towards funding infrastructure projects. On the one hand, this is positive as it fuels the infrastructure required for those economies to grow long-term. On the other hand, it's arguable that fixed investment levels in many of these economies are above trend and, therefore, susceptible to a slowdown when stimulus stops.

One other point I will make as we look at these economies is that we see rapid growth, but rapid growth is not always the best sign of investment opportunity. I remember in the late 1990s we had the Old Economy and the New Economy and it certainly made a lot more sense to invest in the Old Economy at that point in time because the valuations were so high in the New Economy. And it's one of the things that one has to be aware of, when you have high valuations and rapid credit growth.



- John Arnhold: If the global markets continue to rise and become over-valued, how do you protect against the next U.S. or global equity bubble/double-dip recession?
- Matt McLennan: Well, I think the most important thing to preservation of capital is to maintain a firm discipline to your underwriting. And when I talk about underwriting, I mean the investment decision-making process.
- First and foremost, the best way to avoid permanent impairment of capital if another bubble were to arrive is to avoid those areas of the market that have the highest valuation. The second thing to do is to avoid those areas of the market that have the greatest leverage and the third thing is to avoid those management teams that embody too much new-era thinking, too much stretch, too much unbridled ambition.
- So from a bottom-up standpoint, by making a series of disciplined underwriting decisions, we hope to avoid the worst consequences of a bubble and from a top-down standpoint, we look to keep one eye on the macroeconomic backdrop to make sure that we are less exposed to some of the more ebullient areas of the world.
- John Arnhold: Under the "Things We Learned" heading in the aftermath of the recent extreme downdraft in the marketplace, would it not toll the death knell to "single asset" focused funds such as large value, large growth, et cetera?
- Matt McLennan: Well, when we look at the way in which capital has been allocated around the world in many funds, there has been a tendency to lock yourself into certain sub-categories of investment, but a long part of the history of our fund has been the willingness to invest flexibly across the market cap spectrum, across global geography, the willingness to hold cash if we can't find good companies at good prices, and the willingness to hold some gold. And so we think that flexibility is at the heart of the ability to preserve capital over time. You have to be willing to be out of big sectors of the market in order to preserve capital.
- But also at the heart is being open minded to where the opportunities are. I think if you try to rigidly categorize yourself as one particular style or market cap investment product, then you miss those opportunities and you risk a permanent impairment of capital in certain states of the world.
- John Arnhold: What areas, if any, have been trimmed, given the huge rally since March?
- Abhay Deshpande: Well, there has been a huge rally since March. Back in March it was easy to find ideas, stocks, in discounted, depression sort of conditions. And as the year has progressed, stocks no longer, obviously, have those discounted, depression conditions. In fact, they are beginning to require some sort of durable expansion to justify the prices.
- On the way down, we found ideas in varied areas such as **ADP**, **Omnicom** in advertising, **Cincinnati Financial** in insurance. On the way up, we've been trimming as well, and it's been similarly not focused in any one particular area. Many stocks together have gone up and it seems like the junk-ier stocks have gone up more, as Matt has mentioned, the dash to trash in the beginning of the year.
- So there's been no real theme in our trimming. Mostly stocks remain somewhat undervalued in our portfolio. So the trimming we have done we have done judiciously. We've done it prudently. We've done it cautiously to the point that our cash level has now gone from 3% or so in March to about 10% today.

John Arnhold: Abhay, I assume you're still searching for Buffett and/or Graham-type stocks. Which are you finding more of and do you have a percentage of intrinsic value or fair value that you look for in each style? If so, what is it?

Abhay Deshpande: To define the two, a Graham stock is one that is a statistically cheap stock where the value doesn't necessarily grow and maybe even shrinks over time. A Buffett stock is sort of the opposite of that. It's a business with some sort of franchise where the intrinsic value tends to grow over time. In that case, we require different discounts, depending on what kind of a business it is.

If it's a Graham-type stock, we tend to be out at intrinsic value and we tend to require a larger discount to intrinsic value. If it's a Buffett-type stock, we tend to acknowledge that the growth in intrinsic value is worth something in itself and will require less of a discount to intrinsic value; and, we're not necessarily selling our entire position at intrinsic value with a Buffett-type stock.

The vast majority of companies are somewhere in between. It takes quite a bit of judgment to determine where on the spectrum these companies lie.

Over time, it's always easy to find a Graham stock, because it's statistical analysis. The Buffett-type of company where there's a lot of judgment involved takes time and requires a lot of analytical effort and we have great analysts to do that work. And, for the most part, over not just the last year but over five to ten years, the portfolio has shifted more towards Buffett-type companies from Graham-type companies. It's a trend that probably will continue into the future.

One exception is in Japan where we're able to find an abundance of both. So whether it's **Shimano** or **SMC** or **FANUC** or something like **Chofu Seisakusho**, which is a boiler company that trades at net cash, or even **Japan Wool and Textile**. In Japan it's easier to find both Buffett and Graham-type stocks.

John Arnhold: We have a number of questions on gold, as you might expect. Jean-Marie, you've mentioned the Weimar Republic in some of your past presentations. At what point do we get to that?

Jean-Marie Eveillard: Well, with the Weimar Republic, when the Kaiser was forced out of Germany at the end of World War I, the new regime was the Weimar Republic and Weimar today is code for a government that follows a highly inflationary route. Now I certainly did not indicate or assume that the U.S. was following the path of the Weimar Republic in the 1920s.

Indeed, I mentioned the Weimar Republic, à propos an anecdote which shows that when governments follow a highly inflationary route, investors, individuals, institutions try to protect themselves by looking for hard assets. And because the Weimar Republic government was making it difficult for the Germans to look for traditional hard assets, the anecdote has to do with the fact that some wealthy farmers in Germany ended up buying Steinway grand pianos. Even though nobody played the piano in the family, there were seven or eight Steinway grand pianos in the barn.

My own impression is that today the fact that we have a position in gold is because gold is the best hard asset one can find and even though back in the '30s Franklin Roosevelt made the ownership of gold illegal for American citizens, I think it would be very hard, indeed, for today's government to imitate Franklin Roosevelt.

John Arnhold: The second part of that question is a somewhat difficult one to answer: how do you determine whether gold is attractive or not?

Rachel Benepe: The need for gold, in our view, is as necessary at today's price of around \$1150 as it was when we started the last decade at \$289. So even though the price may have risen, the uncertainty remains and as governments around the world continue to deal with the crisis, we continue to worry about those kinds of potential unintended consequences of the current monetary policy. So we hold gold to protect our portfolio against the potential negative impacts these things could have.

So, although the probability is low, if the negative impacts were to occur, gold, we hope, should at least partially protect the portfolio. And if we are able to extract ourselves without negative consequences, we would expect equities to perform well in that environment. So our view is that an allocation of gold remains as important in 2010 as it was pre-crisis.

John Arnhold: What is the weight now of gold in the Global and Overseas portfolios and do you have an outlook for 2010 as to whether that will increase or decrease?

Rachel Benepe: Well, in Global and Overseas we have a 12% allocation to gold and gold related investments, and that has really been more of a function of gold bullion and gold mining stocks appreciation combined. So we would not necessarily tweak the underlying components of that allocation, but we would expect that it's going to move based on what equities do versus gold.

So, in that environment if we were to see something negative happen, we would expect gold to become a larger percentage of the portfolio, but on the flip side, if we are able to get through this crisis period without seeing any of those kinds of unintended consequences, we would expect it to become a smaller percentage on its own, because we would expect that equities would be performing well.

John Arnhold: Your discipline involves thinking about what can go wrong and buying at a price that buffers that outcome, should it occur. Given your attraction to Japanese companies, what can you see going wrong there that might be worse than it already looks?

Abhay Deshpande: Well, it's true that one would think that after a 20-year bear market with deflation and the problems that they've had over those last two decades that it would be right to ask what else could possibly go wrong. But there's plenty to worry about in Japan, in particular the government's balance sheet.

It's mostly top-down macro things that could go wrong. From the bottom-up, it's interesting. In the '90s, corporate buy-back activity totaled about 2 trillion yen a year and recently they've been close to 7 trillion in a year. There's been quite a bit of change. Each new cycle has a new high in terms of M&A, buy-back activity, et cetera.

Corporate behavior is changing. We recently took a trip to Japan and we heard several cases where companies admitted they had enough cash and free cash flow that they would be returning to shareholders in the way of dividends and share buy-backs. So it's been slow; it's been incremental, but the change is reaching a sort of a tipping point there. It's been sort of the mid-cap and large-cap companies, so we're optimistic that we don't have to wait for another 20 years for these companies to make us money.

But in the event that something on the macro side does go wrong, let's say a debt problem or inflation or the currency comes under fire, you should remember that in our portfolio, we have 20-25% in Japan, but that's in a globalized world, and it's a little misleading. **Shimano**, for instance, has 90% of its business outside of Japan, yet, it's listed in Japan. But if there's a currency problem, a decline in the yen, they are going to benefit.



SMC, FANUC, many of our top Japanese holdings in fact, have 60-70% plus, of their revenues outside of their home country. So the fact is, these companies are listed in Japan, but sometimes they're really no more Japanese than **3M** is an American company, for instance.

John Arnhold: Let's get back to the Weimar Republic. Is Japan the next Weimar as Ambrose Evans-Pritchard recently asserted?

Jean-Marie Eveillard: Over the past 20 years, Japan's economic growth has been, on average, 1% a year as Japan has sort of digested the bust that followed the tremendous real estate stock market boom of the 1980s. And what Mr. Evans-Pritchard, I think, is alluding to -- he's a journalist for the Telegraph newspaper -- is the possibility that the only way out of economic stagnation in Japan is inflation and that's why he's talking about Weimar, because after 20 years of economic stagnation, there is a very high level of public debt in Japan. Yes, it's possible that the only way out for Japan is inflation.

John Arnhold: Rachel, can you give us a few words on the relative valuations between gold bullion and gold mining shares?

Rachel Benepe: As people who have been long-term clients know, when we look at allocating to gold related investments, we use a proprietary gold mining company model to determine if the gold miners are cheap versus the bullion. As we've been in a rising bullion market, it seems that the miners are not fully reflecting this \$1150 price, so we continue to see opportunities within the mining stocks vis-à-vis the bullion. And that is across the entire spectrum from junior producers to some of the larger cap companies.

So we continue to basically allocate to the miners in the Gold Fund, specifically, versus gold bullion and we continue to monitor that. They do not seem to be pricing in the gold price.

John Arnhold: What keeps you awake at night? What are the potential events that you fear most over the next year?

Matt McLennan: Abhay and I are professional worriers. There are a lot of things that we tend to give reflection and thought. We tend to differentiate and distinguish between what is within our control and what is outside our control.

In terms of what is outside our control, we worry about a policy mistake in the world. We have seen in the developed economies, in response to the credit crisis, a great deal of unconventional responses, both in amount and in type. The unwinding of this policy mix is going to be a very nuanced exercise and conducted, by and large, by the same people who administered policy before the crisis. And so the economy itself is showing signs of stabilization and being on somewhat of an organic recovery path, but there are many things that can happen in the next couple of years from a policy standpoint that could complicate that.

In the emerging world, I think as well, that there is a great deal of complacency that's evolved around the ability of economies like China to grow at 8-10% a year, because of their central command control approach to policy. We worry about the fact that most centrally driven economies, over time, have found it difficult to sustain a healthy trajectory that results in a large misallocation of resources. We worry about what would happen if the assumption set that surrounded China were to become unhinged at some point in time.



When we think about things to worry about, policy around the world matters a lot. Argentina was one of the wealthiest countries in the world at the turn of the 1900s. On a per capita basis, it would have been in the top five. It certainly didn't end the century anywhere near there. And so one of the things we focus on a lot at the bottom-up level is making sure that we have good management, prudent entrepreneurs. Abhay and I worry, from a top-down level, about imprudent policy.

Now in terms of the things that are within our control, what we tend to worry about is the quality of our execution and the discipline with which we approach our underwriting. We want to make sure, from a team standpoint, that as markets recover here that we don't ever get lax in our approach to underwriting, that we don't start paying up to achieve exposure to certain areas, that we don't start to factor in higher growth expectations for a few years out or a management team that's got a new vision for things.

We want to make sure that the things that have kept us out of mischief in the past from a bottom-up investment standpoint remain in place and keep the discipline throughout the team. And that's a very important focus area for us.

John Arnhold:

Thanks, Matt, Abhay, Rachel and Jean-Marie. And thank you all for joining us. Once again, thank you all for your continued confidence and support.



| Average Annual Returns as of 06/30/2010 | Year to Date | 1 Year | 5 Years | 10 Years | Expense Ratio |
|---|--------------|--------|---------|--------------------------|---------------|
| First Eagle Global Fund - Class A (w/o sales charge)(SGENX) | -1.43% | 15.39% | 7.25% | 11.94% | 1.19% |
| First Eagle Global Fund - Class A(w/sales charge)(SGENX) | -6.35 | 9.62 | 6.16 | 11.36 | |
| First Eagle Overseas Fund - Class A (w/o sales charge)(SGOVX) | 0.15 | 14.69 | 7.46 | 11.91 | 1.20% |
| First Eagle Overseas Fund - Class A(w/sales charge)(SGOVX) | -4.85 | 8.95 | 6.37 | 11.34 | |
| First Eagle Gold Fund - Class A(w/o sales charge)(SGGDGX) | 10.07 | 33.21 | 21.14 | 24.16 | 1.26% |
| First Eagle Gold Fund - Class A(w/sales charge)(SGGDGX) | 4.57 | 26.55 | 19.90 | 23.52 | |
| | | | | Since Inception 09/04/01 | |
| First Eagle U.S. Value Fund - Class A (w/o sales charge)(FEVAX) | -2.29% | 13.95% | 3.85% | 8.26% | 1.26% |
| First Eagle U.S. Value Fund - Class A (w/sales charge)(FEVAX) | -7.18 | 8.25 | 2.79 | 7.63 | |

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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. 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, 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 June 30, 2010: Automatic Data Processing Inc. 0.46%, Omnicom Group Inc. 0.92%, Cincinnati Financial Corp. 1.12%, Shimano Inc. 1.46%, SMC Corp. 1.91%, Fanuc Ltd. 1.89%, Chofu Seisakusho Co. Ltd. 0.36%, Japan Wool Textile Co. Ltd. 0.00%, Gold bullion 7.11%. The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Overseas Fund as of June 30, 2010: Automatic Data Processing Inc. 0.00%, Omnicom Group Inc. 0.00%, Cincinnati Financial Corp. 0.00%, Shimano Inc. 2.78%, SMC Corp. 1.87%, Fanuc Ltd. 1.87%, Chofu Seisakusho Co. Ltd. 0.57%, Japan Wool Textile Co. Ltd. 0.59%, Gold bullion 7.95%. 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 Portfolio Managers as of January 19, 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 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 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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